SAP ANNUAL REPORT 2005

THE BEST-RUN BUSINESSES RUN SAP™

Win.Win.Win.

When SAP helps businesses innovate, everyone wins. Our customers win by becoming more productive, adaptable, and profitable. Their customers win by gaining better products and services. And SAP wins by generating continued growth in revenues and profits.

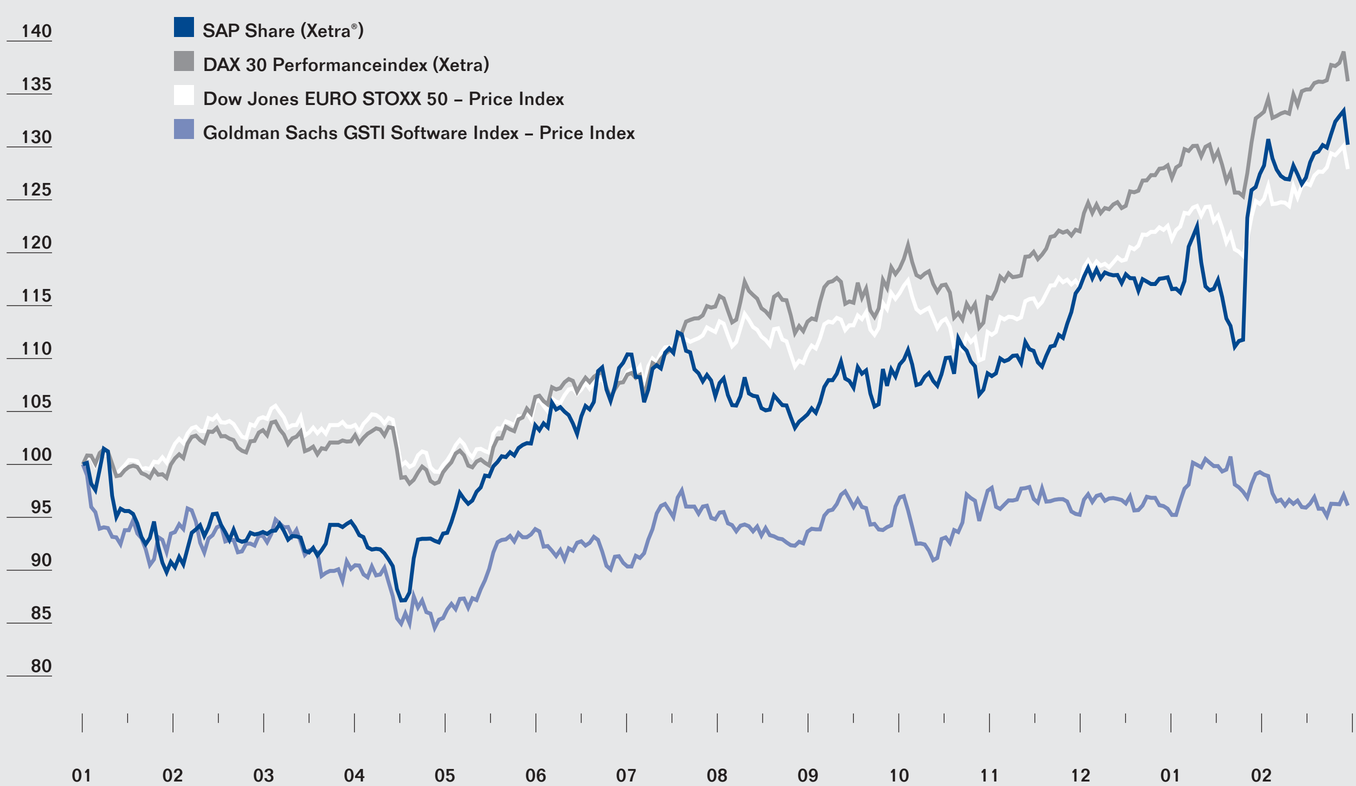
As the world's leading provider of business software, SAP has been creating win-win-win scenarios for more than three decades. Today, we serve a growing customer base that includes more than 32,000 organizations in 120 countries around the world. And we have built an unparalleled knowledge of the business processes that drive innovation in more than 25 industries.

But we have only just begun. In the years ahead, SAP will continue to demonstrate its leadership by making business software even more powerful, more flexible, and more accessible to organizations of all sizes. Because we believe this is the best way to help our shareholders win, too.

Financial Summary

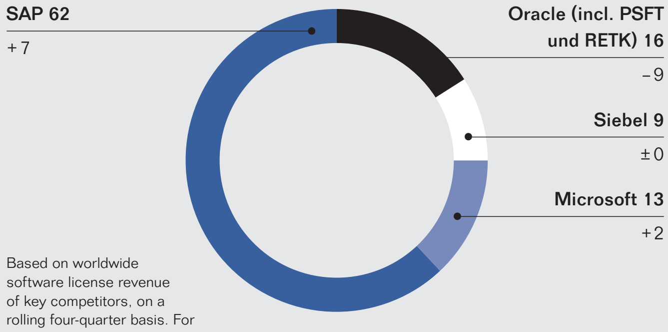
SAP share in comparison with the DAX®, the Dow Jones EURO STOXX 50®, and the GSTI® Software Index

January 1, 2005 to February 28, 2006 | in percent



Relative Peer Group Share

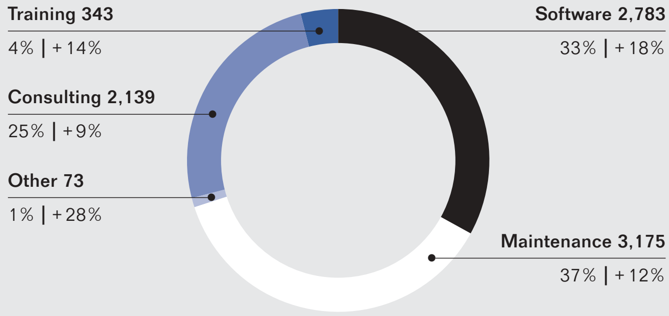
in percent | change since previous year in percentage points



Based on worldwide software license revenue of key competitors, on a rolling four-quarter basis. For Microsoft and Oracle business solutions only.

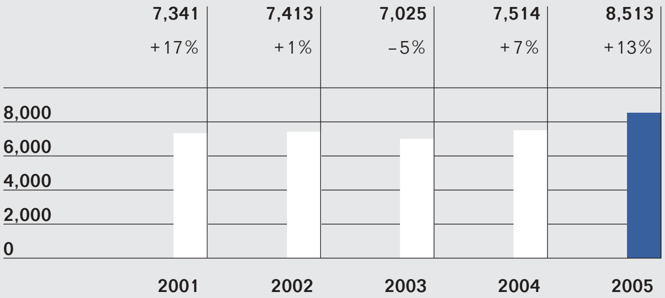
Revenue Breakdown – by Activity

in € million | percent | change since previous year



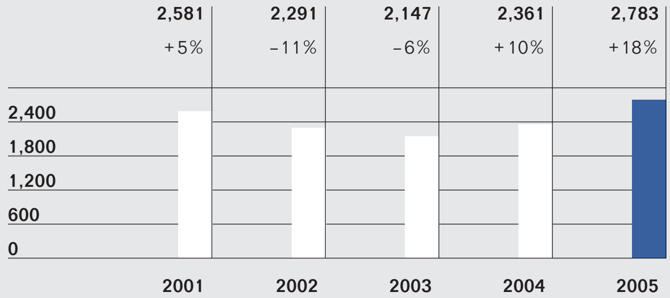
Total Revenue

in € million | change since previous year



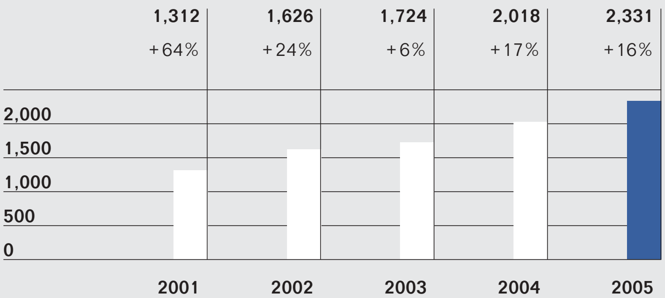
Software Revenue

in € million | change since previous year



Operating Income

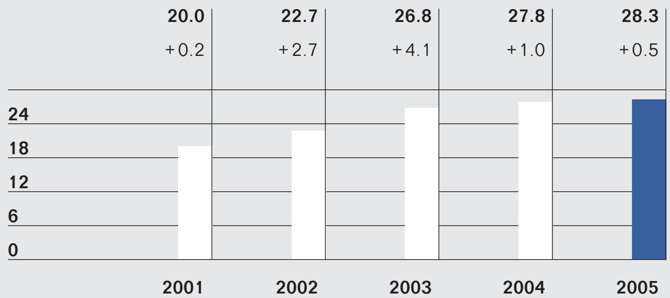
in € million | change since previous year



Pro-Forma Operating Margin

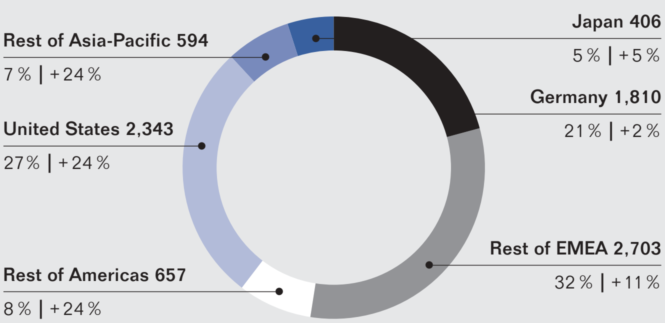
(before stock-based compensation and acquisition-related charges)

in percent | change since previous year in percentage percents



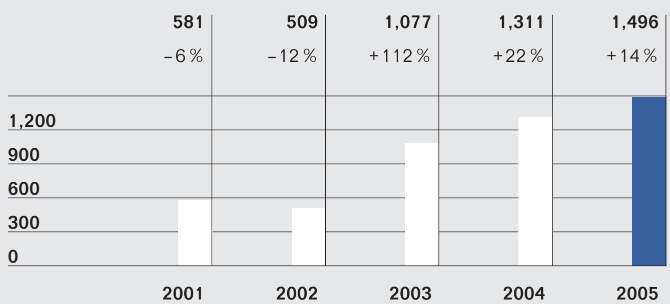
Revenue Breakdown – by Sales Destination

in € million | percent | change since previous year



Net Income

in € million | change since previous year



Contents

Dear Shareholders, Customers, Partners, and Colleagues,

2005 was another outstanding year for SAP. We demonstrated that organic growth is not only possible in our industry, but that it is also a successful strategy to benefit our customers, partners, and shareholders. Customer satisfaction is at an all-time high and we extended our peer group share more significantly than in previous years. Companies recognize SAP as a strong, reliable partner and trusted advisor for innovating business with IT. This is all reflected in the 17% increase of the SAP share in 2005, which outperformed the Goldman Sachs GSTI Software Index.

2006 will be another cornerstone year for the company as we invest in people, new products, and new sales channels to expand our addressable market to US$70 billion by 2010.

When I look back over the past year, I am pleased with what we have accomplished. In spite of the challenging environment, we significantly outperformed our direct competitors and the worldwide software market. In addition, we extended our leadership in the small and midsize enterprise segment. I attribute our continued success to three long-term, core SAP values: our customer-centric approach, the excellence of our product offering, and a clear focus on delivering on our promises to our customers.

HIGHLIGHTS OF 2005

In 2005, we proved we are very well positioned, with our investments in organic growth showing immediate return. We grew our software license revenue by 18% to €2.8 billion and the number of deals increased by 22%. Every region contributed to our success, most strongly in North America and Asia-Pacific. Our profitability rose by 0.5 percentage points to a pro-forma operating margin of 28.3%, while our pro-forma earnings per share were €5.01, an increase of 14%.

On the product side, we accelerated our progress toward enterprise services architecture (ESA), our leading vision for the next wave of computing now becoming a reality. We were the first software provider worldwide to develop and deliver our entire mySAP Business Suite solutions based on this new architecture, and more customers than expected are migrating to mySAP ERP.

By industry, we made significant gains throughout the year, with strong growth in process industries and a record increase of 63% in retail.

To support our delivery of business solutions, we are extending our worldwide development partner ecosystem. Using our technology, these companies are developing complementary solutions to our own. Through this process of co-innovation, customers have access to an even greater number of innovative solutions. Today, we have nearly 1,000 independent software vendors (ISVs) supporting our SAP NetWeaver platform, with 360,000 members in the SAP Developer Network. Three of the most significant partnerships that we announced in 2005 were our partnership with Microsoft on Project Mendocino, with Siemens on healthcare, and with Intel to offer a high-performance analytics packaged solution available on HP and IBM technology.

To round out our product offering for our customers, we made some small acquisitions (Triversity and Khimetrics in retail, Lighthammer in manufacturing, and TomorrowNow in maintenance and support of non-SAP systems). In cooperation with TomorrowNow, we signed nearly 200 customers for our Safe Passage program.

We also strengthened our dialog with our key shareholders. As in previous years, SAP set itself the highest objectives for transparency in our communication with the financial community. Investors around the world provided us with positive feedback on our long-term strategy.

Transparency is also a theme of SAP's corporate social responsibility initiatives. We believe that the most effective form of engagement is to draw on our own unique strengths and expertise. That is why, along with transparency, we are focusing on education, good governance, and community development.

Our results this year again demonstrate that companies are seeking a long-term partnership with a software vendor they can trust. In this Annual Report, you will find four examples of companies around the world that are innovating through SAP solutions to be more efficient, manage complex businesses, support high quality of products, and provide fast access to information.

I would like to emphasize that our success would not be what it is without the exceptional dedication and creativity of our employees. Located close to our customers in over 50 countries, they are the reason we can offer the best products of the highest quality. In 2005, we added to our diverse talent pool with more than 3,600 employees hired worldwide.

SAP'S WINNING FORMULA

SAP has always been at the forefront of business software, a market we created almost 35 years ago. To ensure we continue to deliver best-in-class products, we look not only at what our customers need today, but also at what they will need over the next five to ten years. Our research has shown that companies will increasingly need to be able to flexibly change their business models to gain a competitive advantage. This will only be possible through the right IT: a new generation of IT architecture we call ESA. This new architecture revolutionizes not only how software is developed but also how it is implemented and used.

2006: A CORNERSTONE YEAR FOR SAP

We have set high goals for ourselves over the next few years. SAP has a strong product pipeline and an excellent market position. In 2006, we will add new strategic products to make our offering more attractive for users in enterprises of all sizes. In essence, 2006 sets the foundation for our 2010 ambitions to expand our addressable market from US$30 billion to US$70 billion by 2010.

Due to the increased enthusiasm for our next-generation technology with over 300 customers in our ESA Adoption Program, we have expanded our product road map for 2006 with additional proof points. One focus this year will be to evolve our SAP NetWeaver platform into a Business Process Platform, the flexible IT environment required to support the business models of the future. We will also launch new products for the midmarket and continue to expand our ecosystem to involve ever more partners in our next-generation technology.

THANK YOU

In closing, I would like to say thank you to those who are accompanying us on our journey: our customers, partners, shareholders, and employees. We will continue to deliver high-quality business software that meets and exceeds the expectations of our customers, we are creating long-term value for our shareholders, and we are well positioned for the future. With IT that provides business model flexibility, we can enable companies of all sizes to reach new heights. Let us travel this road together.

Sincerely,
Henning Kagermann
Chairman and CEO, SAP AG

The SAP Executive Board: Business leaders with experience, vision, and a commitment to the success of our customers.

Henning Kagermann (Chief Executive Officer) joined SAP in 1982 and has been a member of the Executive Board since 1991. Mr. Kagermann has overall responsibility for SAP's Strategy and Business Development, Global Communications, Global Intellectual Property, Internal Audit, and sponsors SAP's Top Talent Management program.

"IT is moving from a driver of productivity to a driver of accelerated innovation, competitive differentiation and growth."

Werner Brandt (Chief Financial Officer) joined SAP in 2001 and has been a member of the Executive Board since 2001. He is responsible for Finance and Administration, Shared Services, and SAP Ventures.

Peter Zencke joined SAP in 1984 and has been a member of the Executive Board since 1993. He is responsible for Research and the Application Platform at SAP.

"Efficient risk and opportunity management are increasingly sources of competitive advantage."

"Our Business Process Platform is a breakthrough that empowers customers to seamlessly adapt best-practice processes and differentiate on top."

Shai Agassi joined SAP in 2001 and has been a member of the Executive Board since 2002. He is responsible for Product Development, Technology, Industry Solutions, and Product and Industry Marketing.

Claus E. Heinrich (Labor Relations Director) joined SAP in 1987 and has been a member of the Executive Board since 1996. He is responsible for Global Human Resources, Quality Management, Internal IT, and SAP Labs.

"IT has evolved beyond the role of supporting the business
to become a differentiating force
that provides the path for our customers and partners
to transform, adapt, and grow."

"Advancing technology
opens up new possibilities in business,
but it is still the employees
who determine the success
of a company's business model."

Gerhard Oswald joined SAP in 1981 and has been a member of the Executive Board since 1996. He is responsible for Global Service and Support and Custom Development.

Léo Apotheker joined SAP in 1988 and has been a member of the Executive Board since 2002. He is responsible for Sales, Consulting, Education, and Marketing.

"Long-term commitment to our customers is a core value that runs through the history of our company and is a foundation of our success."

"As the trusted advisor for businesses large and small, SAP is determined to help each and every customer become a best-run business."

The Executive Board appointed the following members of the SAP senior management team as Corporate Officers of SAP Group: **Bill McDermott, Jim Hagemann Snabe** (since February 6, 2006), **Marty Homlish, Peter Kirschbauer, Hans-Peter Klaey, Klaus Kreplin.**

AT KELLOGG, THE SPIRIT OF INNOVATION IS ALWAYS FRESH.

"mySAP CRM helps us provide customer service levels that are among the best in our industry."
A. D. David Mackay, President and Chief Operating Officer, Kellogg Company

"My IT staff has a deep appreciation for SAP because they're proud of what SAP has enabled us to do."
H. Ray Shei, Senior Vice President and Chief Information Officer, Kellogg Company

"Kellogg continues to shorten the path from the warehouse to the shopping cart."
Kelly Tobey, Ingredient Manager, Procurement, Kellogg Company

"With the new SAP portal, our vendors will readily know how much product we need, and when we need it."
Basobi Holm, Senior Category Growth Manager, Kellogg Company

"I know I can rely on Kellogg to consistently have high-quality products and great taste in every package."
Marci Cameron, Consumer

A TRADITION OF INNOVATION AND EXCELLENCE

Delivering high-quality, great-tasting cereal and breakfast foods comes with experience – and a lot of support. Most of the world had never even heard of breakfast cereal when W. K. Kellogg began producing toasted corn flakes in 1906. This was, of course, one of many firsts for Kellogg Company which, a century later, is the world's leading producer of cereal and a leading producer of convenience foods. Kellogg products are manufactured in 17 countries and marketed in more than 180 countries around the world. Behind this phenomenal record of product innovation is a strong set of business support processes including world-class business software from SAP.

A CORPORATE ASSET

As the former CIO of Keebler Foods Company and an early SAP customer, Ray Shei was instrumental in introducing Kellogg to SAP. "When Kellogg purchased Keebler in 2001," he explains, "they cited our technology – which was centered on SAP – as a key asset." Today, Kellogg is a leading SAP customer in the consumer products industry, using a full array of SAP solutions to help manufacture and market such well-known brands as Kellogg's Frosted Flakes®, Pop-Tarts®, Eggo®, Kashi®, Cheez-It®, Nutri-Grain®, Austin®, Morningstar Farms®, Famous Amos®, and Carr's®.

TIMELY DELIVERY

For Kellogg, business process innovation begins with suppliers, who will be able to log on to the company's SAP portal to ensure that ingredients and packaging materials are delivered to the manufacturing facility in time for production. "Our standard process," says Ray Shei, "meant that suppliers received multiple spreadsheets to inform them of what supplies were needed. With the new SAP portal, our vendors will always know what we need because the information is available online in real time. And that will mean we will receive the best possible service."

REAL-TIME PRODUCTION DATA

Once the raw ingredients reach any of Kellogg's worldwide manufacturing sites, mySAP Supply Chain Management helps ensure that they move through the production process as quickly as possible. "Supply chain management is critical," says David Mackay, President and Chief Operating Officer. "SAP will really help in the areas of inventory management and replenishment. We will be able to monitor our production on a shift-by-shift basis by looking at real-time data, and can take immediate corrective action if there's a problem."

Around the world, millions of people trust the quality of Kellogg Company, the world's leading cereal manufacturer and producer of convenience food. To help ensure that quality, this century-old US$10 billion company trusts SAP.

A WORLD-CLASS PARTNER

With the help of SAP, Kellogg strives to deliver the right amount of product for each retail customer's requirements, so that products go from warehouse to shopping cart in optimal time. "mySAP Customer Relationship Management helps us provide customer service levels that are among the best in our industry." says David Mackay. "When you can do that, it positions your company to be a world-class partner."

"SAP's vendor-managed inventory solution provides us with a big advantage," adds Ray Shei. "Where we previously had eight different reports on retailer inventory, we now have a single point of information and a common way of calculating data around the world. As a result, our order fill rate is close to 100%. It's been a good change."

Kellogg also mines its SAP data for a wealth of intelligence on thousands of retailers around the world. "We now have immediate access to a three-year rolling history of our retailers' orders," says Ray Shei. "With that information, we can track our trade and promotional spending all in one real-time system. The transactional data we get from our SAP solutions is phenomenal," Ray Shei notes. "And with SAP's analytical tools, we can slice and dice our transactional data and make business decisions based on the results of any promotional program." "My IT staff has a deep appreciation for SAP," he adds, "because they're proud of what the SAP solutions have enabled us to do."

Enterprise Services Architecture

The needs of our customers are evolving. And SAP's solutions and technologies are evolving with them. Through innovations in both business applications and platform technologies, our industry-leading family of business software is becoming more flexible, more adaptable, and more affordable to organizations of all sizes. These new solutions give our customers even greater agility, allowing them to rapidly adapt their IT landscapes to changing business models and processes.

CUSTOMERS WANT A BLUEPRINT FOR THE FUTURE

The world of business is changing at an ever-accelerating rate. Globalization continues to shrink distances and shorten time frames. New alliances form that break traditional boundaries. Mobile technologies and the Internet require businesses to operate around the clock and around the world. And new regulatory pressures increase the need for information and transparency.

In the face of these challenges, the role of technology is also changing rapidly. According to a study conducted by *The Economist*, businesses no longer view IT as merely a productivity tool. Fully 82% of respondents view technology as a critical factor in their ability to change their business processes and remain competitive in the years ahead.

In such a complex environment, organizations need multidimensional solution suites that can help them:

- **Ensure compliance:** The first goal of any management team is to remain compliant with current laws and regulations.
- **Consolidate the core:** At the core of any organization are its "virtual assets" – the information that defines an enterprise and its future. To optimize the value of these assets, an organization's information systems must work together seamlessly.
- **Optimize operational networks:** Customers need to optimize their operational networks – the physical assets required to conduct their business.
- **Manage relationships:** In a fully connected world, organizations need to manage their relationships with a diverse network of customers, suppliers, and business partners – often located around the world.
- **Enable new growth:** To generate revenue growth, organizations need to deliver a steady flow of new products and new business processes.
- **Manage performance:** Ultimately, an organization needs to measure and manage how well it is performing at a specific task – and in its overall operations.

SAP DELIVERS ENTERPRISE SERVICES ARCHITECTURE

New customer challenges require dramatically new technologies. In 2003, to meet our customers' changing needs, SAP introduced enterprise services architecture (ESA), its blueprint for the future.

Among its many advantages, ESA enables complex business processes such as vendor selection, purchasing, and payment to be represented as modular "enterprise services." These services can be quickly assembled to compose new applications and enable new business processes. As a result, they give customers the ability to change their business processes efficiently and flexibly.

And while the technology behind ESA is sophisticated, its effect is to simplify our customers' IT environments like never before, making them more open, flexible, and adaptable to the needs of today and tomorrow.

Our ESA blueprint is designed to help customers transition in relative ease, based on an evolutionary rather than revolutionary approach. This means that customers' existing investments are protected, and each step in the process builds in new capabilities as companies move toward modern solution architectures. The ESA blueprint is also well documented and predictable, enabling customers to plan their solution road maps with SAP for years to come.

Solution Portfolio

SAP NETWEAVER: THE PLATFORM THAT ENABLES ENTERPRISE SERVICES ARCHITECTURE AND THE SAP SOLUTION PORTFOLIO

Our ESA vision comes to life through the SAP NetWeaver platform. Based on the latest open technology standards, SAP NetWeaver allows the integration of both SAP and non-SAP solutions, so that customers and independent software vendors can combine processes and components with the assurance that they will fit together seamlessly.

This powerful, highly successful platform provides SAP customers with a wide range of benefits:

- **Innovative business processes** – SAP NetWeaver powers innovative, industry-specific software and allows companies to recompose existing systems to support innovative processes.
- **Flexible business strategies** – With SAP NetWeaver, customers have the flexibility, visibility, and control to effectively execute, monitor, and refine their corporate strategies.
- **Superior business value** – SAP NetWeaver minimizes the risk and cost of introducing new processes because existing systems remain unchanged while customers leverage them for end-to-end enterprise processes.
- **Improved business performance** – SAP NetWeaver helps customers aggregate and analyze information throughout the organization, so they can gain the insights needed to make the right changes.
- **Unmatched user experience** – Solutions built on SAP NetWeaver provide an efficient user experience through a role-based portal interface. With SAP NetWeaver, customers can extend business processes to all employees, suppliers, and customers.
- **Partner-developed solutions** – To date, more than 1,100 solutions, developed by over 650 independent software vendors (ISVs), have achieved “Powered by SAP NetWeaver” or “Certified for SAP NetWeaver” status.

CUSTOMERS WANT SOFTWARE THAT ENABLES CONTINUOUS INNOVATION. SAP DELIVERS ADVANCED SOLUTIONS FOR EVERY SIZE, INDUSTRY, AND BUSINESS PROCESS

SAP has become the world’s largest independent business software provider on the strength of its powerful and dynamic family of advanced solutions. This family is led by mySAP Business Suite and now includes a growing array of solutions for small and midsize enterprises.

mySAP BUSINESS SUITE: UNPRECEDENTED PERFORMANCE AND SUCCESS – BUILT ON SAP NETWEAVER

Businesses large and small have discovered that mySAP Business Suite is the world’s most comprehensive family of adaptive business solutions, providing best-of-breed functionality built for complete integration, unlimited scalability, and easy collaboration over the Internet.

Individually, mySAP Business Suite solutions help customers manage their most critical business processes. Collectively, they form a tightly integrated suite that adds value to every facet of an organization – and its external value chain.

The flagship of mySAP Business Suite is mySAP ERP. This industry-leading solution combines the world’s most complete, scalable, and effective software for enterprise resource planning (ERP) with a flexible, open technology platform that can leverage and integrate SAP and non-SAP systems. And, it provides end-to-end software functionality for enterprise management and support – plus support for systems management – all powered by the SAP NetWeaver platform.

Additional mySAP Business Suite solutions:

- mySAP Customer Relationship Management
- mySAP Product Lifecycle Management
- mySAP Supplier Relationship Management
- mySAP Supply Chain Management

mySAP ALL-IN-ONE AND SAP BUSINESS ONE: SOLUTIONS FOR SMALL AND MIDSIZE ENTERPRISES

Nearly two-thirds of SAP customers are classified as small and midsize enterprises (SMEs) with up to 2,500 employees.

To remain profitable and competitive day after day, quarter after quarter, SMEs must manage their operations efficiently and cost-effectively – while overcoming the unique challenges of today's global markets.

SAP and its partners understand these challenges. That's why we offer SAP Business One and prepackaged mySAP All-in-One solutions, which are designed specifically for SMEs.

SAP's affordable solutions for SMEs can be implemented quickly and easily. And they're scaled to grow as a business grows.

- **mySAP All-in-One** – Each qualified mySAP All-in-One partner solution is a prepackaged, industry-specific version based on mySAP ERP with built-in content, tools, and methodologies for cost-effective, turnkey implementation. mySAP All-in-One solutions offer out-of-the-box flexibility combined with the power of SAP's world-class business solutions. They are sold, deployed, and supported by a growing ecosystem of SAP channel partners.
- **SAP Business One** – SAP Business One is an easy-to-use business and operational management solution for companies ranging in size from ten to several hundred employees. It is simple yet powerful, allowing an immediate and complete view of business operations and customer activities. Developed by SAP, SAP Business One is delivered by SAP channel partners that provide local services and support.

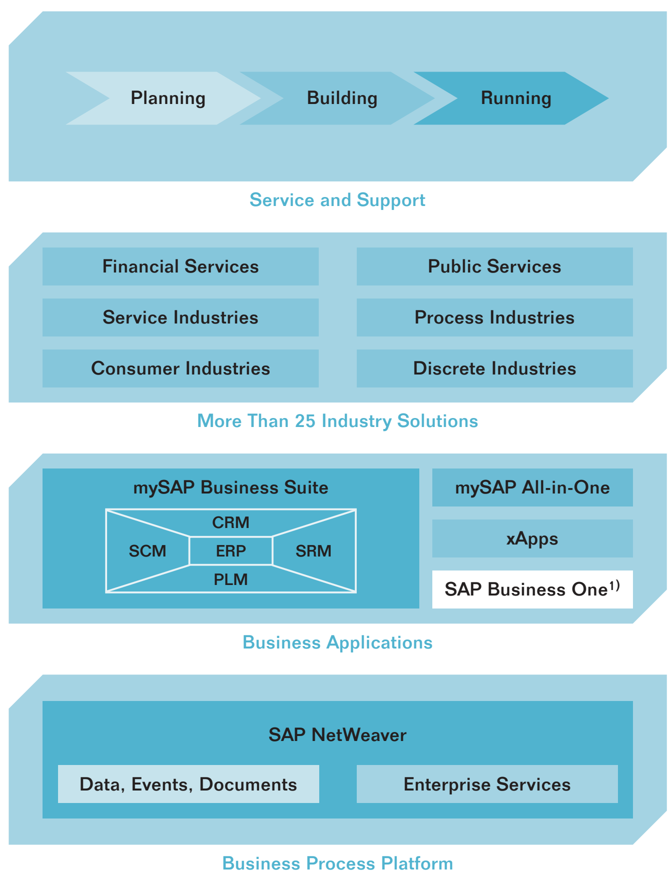
UNPARALLELED INDUSTRY EXPERTISE

Because every industry operates according to distinct processes and practices, SAP has developed tailored solutions for more than 25 industries in six industry segments – each supported by dedicated professionals who work exclusively with a single industry.

Our industry solutions fit the way our customers do business, delivering productivity-building tools and enabling best practices that we have developed with industry leaders, large and small.

Just as important, SAP has devoted decades to understanding the trends, details, and challenges that customers in these industries face every day. And we have developed a full range of practical, reliable solutions that have been extensively field-proven at companies around the world.

SAP Solutions and Services Portfolio: Delivering ESA



1) not based on SAP NetWeaver

Business Process Platform

CUSTOMERS WANT UNLIMITED FLEXIBILITY. SAP DELIVERS BUSINESS PROCESS PLATFORM

To fit the customer needs of tomorrow, SAP will evolve SAP NetWeaver into a complete platform for business innovation – or, stated more simply, Business Process Platform (BPP).

By developing BPP, SAP will create the first true platform that combines a strong technology infrastructure with world-class applications. This combination has coined a new term, which analysts are calling "applistructure," to define a new class of solution platforms.

BPP provides a set of ready-to-use enterprise services, as well as the infrastructure to deploy and manage enterprise services and to create composite applications.

And it delivers the power, adaptability, and virtually unlimited flexibility our customers need to face the challenges of the future.

FASTER DELIVERY OF SOLUTIONS

BPP will allow SAP and customers to improve efficiency by systematizing the reuse of components across solutions. And, it will reduce time to market for solutions by leveraging our growing family of composite applications – known as SAP xApps.

BPP will also extend our reach to new areas of the enterprise, with collaborative processes bridging the gap between enterprise applications and business productivity applications. And, it will enable us to build an ecosystem of partners who will complement and extend our solutions, allowing us to reach an even larger market.

Road Map to Enterprise Services Architecture and Business Process Platform

2005	2006	2007
mySAP ERP is successor to SAP R/3	Broad access for Independent Software Vendors (ISVs)	mySAP Business Suite on Business Process Platform
mySAP Business Suite on SAP NetWeaver (all industries)	SAP NetWeaver evolves into Business Process Platform	mySAP All-in-One on Business Process Platform
First ISVs have access to Business Process Platform	**mySAP All-in-One** on SAP NetWeaver (all industries)	Enterprise Services Architecture **road map completed**

Services

CUSTOMERS WANT SUPPORT THEY CAN COUNT ON. SAP SERVICES DELIVERS EXPERTISE, WORLDWIDE

SAP SERVICES – ENSURING CUSTOMER SUCCESS

SAP Services helps ensure that customers get the greatest value out of their SAP solutions at lowest total cost of ownership (TCO). Customers and partners can choose when and how to engage SAP Services and can take advantage of a broad range of services and engagement modes, including product maintenance, enablement, and knowledge transfer services; quality assurance services; expert guidance; and complete execution.

SAP's services offerings are aligned with the customer life cycle, focusing on the following key challenges:

- **Planning:** SAP helps enable IT-powered business innovation by designing flexible, future-proof solution landscapes that leverage ESA.
- **Building:** SAP helps ensure project success by actively mitigating risks and providing the expertise to ensure that the solution goes live on time and on budget – and meets the needs of the business.
- **Running:** SAP helps enable "Best-Run IT" by improving IT service quality and efficiency through assessment and benchmarking services as well as by leveraging SAP's operational best practices.

SAP Services continuously enhances its array of services by productizing the services and experience from the more than 3,000 employees who provide service and support to more than 32,000 customers. For maximum reach, the resulting methodologies, best practices, and content are made available to all customers and partners through the SAP Solution Manager tool.

SERVICE OFFERINGS FROM SAP

- **SAP Consulting:** Provides all the advice and assistance customers need to reap maximum business benefit from their SAP solutions, providing extensive hands-on experience, proven methodologies, and best practices.
- **SAP Education:** Creates a wealth of instructor-led and online courses to help users increase their proficiency and productivity with any SAP solution.
- **SAP Active Global Support:** Round-the-clock support provides customers with peace of mind for their SAP solutions. SAP offers a range of support options from industry-leading SAP Standard Support, to SAP Premium Support ensuring continued business operations and reducing operations costs, to SAP MaxAttention tailored to match the specific needs of SAP's larger global enterprise clients. In addition, SAP Safeguarding delivers technical quality management in an implementation project.
- **SAP Custom Development:** Allows direct access to SAP experts who can help develop custom enhancements to SAP solutions based on unique customer requirements.
- **SAP Managed Services:** Operates, manages, and maintains SAP solutions. Customers benefit from the power and functionality of hosted SAP solutions with minimal risk and lower TCO.
- **SAP Ramp-Up:** Enables customers to profit from new SAP solutions first – before they go into mass shipment.

FACTS ABOUT SAP SERVICES:

- Local presence in more than 50 countries
- 77 training centers
- 5 Global Support Centers
- More than 3,200 employees in service and support
- 10,000 SAP consultants
- 120,000 partner consultants
- Complete support coverage of all industries, solutions, and life-cycle phases
- More than 30 years' experience
- 9 custom development centers in Europe, Asia, and the Americas
- 4 custom data centers
- Genuine 24/7 support

REINVENTING GOVERNMENT.

"With SAP and fine-tuned logistics, state government employees receive the best quality of office supplies at the lowest prices."

Klausdieter Schecker,
President, Wolfgang Walter GmbH

"We are transforming our public administration into a dynamic, process-oriented organization."

Harald Lemke, State Secretary and
Chief Information Officer,
The German Federal State of Hesse

"The e-government portal is setting new standards – accessing information is quicker; and it is easier for citizens to contact their government."

Minister President Roland Koch,
The German Federal State of Hesse

"With better cost-benefit transparency through SAP, we are more accountable to our 6.1 million citizens than ever."

Katharina Schuch,
Oberfinanzdirektion Frankfurt am Main,
State Government of Hesse

"Hesse is doing it the right way – using tax money to offer its citizens better service."

Manfred Wagner, Citizen,
State of Hesse

HESSE'S E-GOVERNMENT PLATFORM

Businesses are not the only organizations finding it difficult to cope with change. Social, political, and technological changes are also challenging governments – both large and small – to deliver services better, faster, and with fewer resources. The German Federal State of Hesse, one of Germany's 16 federal states, or *Bundesländer*, has risen to the challenge by radically transforming its public administration with an innovative IT strategy – and the SAP NetWeaver platform.

E-GOVERNMENT: A NEW WAY OF LOOKING AT PUBLIC ADMINISTRATION

Like Switzerland and the United States, Germany has a federal structure consisting of individual state governments as well as a federal government in Berlin. Hesse is best known for the city that dominates its economic landscape – Frankfurt am Main. The city is one of Europe's most thriving global business centers, drawing upon a diverse range of industries for its economic base, including banking, chemicals, pharmaceuticals, machines, automobiles, materials research and processing, and optics. Hesse's political leaders have been quick to harness the opportunities that today's technology can offer its citizens. "Modern information technology is part of our total strategy for a sound government and a thriving economy," says Minister President Roland Koch, leader of the German state. "Information technology plays a vital role in making the state of Hesse a great place to live, work, and do business."

A PROMINENT ROLE FOR IT – AND SAP

By creating links across the SAP NetWeaver platform and by building an integrated portal for employees, citizens, suppliers, and policy makers, the Hessian state government has achieved greater efficiency and transparency. A transformation on this scale required making IT a top priority, which is why Hesse became one of the first governments in the world to elevate the role of chief information officer (CIO) to a cabinet-level post. Harald Lemke, a cabinet secretary and the state's CIO, plays a leading role in helping Hesse achieve better, more effective government. One of Lemke's first challenges was to choose an IT platform. After an exhaustive review of several options, Hesse chose SAP because, in addition to its high performance, SAP NetWeaver offers optimal support for the state government's strategic goals. "IT will play a vital role in helping Hesse compete on both a national and international level in the vital areas of education, infrastructure, research, and business," says Lemke. "SAP is clearly the best strategic business partner to help us achieve those goals."

E-GOVERNMENT: LESS LIKE GOVERNMENT AND MORE LIKE BUSINESS

Hesse's approach to e-government goes well beyond creating an information portal. It represents a profound, comprehensive change in the state's administrative and organizational processes. From the reform of the state's budget and accounting processes to the goal of creating strategic, output-oriented planning and controlling – as well as the implementation of modern personnel management – Hesse is using the SAP NetWeaver platform to transform its government bureaucracy into a process-oriented organization.

The State of Hesse, one of Germany's 16 federal states, or *Bundesländer*, is meeting today's challenges head-on with an innovative combination of forward-thinking policies and a modern public administration – all supported by an integrated SAP IT system. Hesse's e-government platform is a win for the state's government – and the 6.1 million citizens it serves.

EMPLOYEES WIN

Like many governments, Hesse has looked for ways to increase employee productivity while lowering overall costs. The employee portal will play a central role in providing workers with the necessary information they need for their daily work, as well as employee self-services in the future. To enhance efficiency and flexibility across the entire administration, for example, Hesse has also completely revamped key internal processes like budget preparation, accounting, finance, personnel administration, and procurement. And workflow-driven processes allow employees from different departments to work together more efficiently than ever before.

CITIZENS WIN

The state of the public coffers is giving policy makers and government administrations less financial leeway. Citizens demand that their tax money be managed efficiently. At the same time, however, they expect governments to deliver even more services at higher levels of quality. Hesse's SAP platform helps policy makers meet these challenges by providing them with better financial transparency and comprehensive information for planning and controlling. As a result, planning is more accurate, and a broad overview of budget trends and figures is available. The e-government platform also gives citizens the ability to interact with their government in ways unimaginable even a decade ago, giving them direct access to services and information.

SUPPLIERS WIN

Governments rely on a host of suppliers and service providers to deliver citizen services. Before Hesse integrated its IT system, tracking costs and identifying redundancies between ministries was frequently impossible. Hesse's e-government platform now allows suppliers to consolidate orders from different departments and to directly monitor supply levels throughout the organization. The result is more transparency and better prices through supply bundling. Suppliers also enjoy greater cost advantages and faster delivery times through seamless integration and leaner procurement processes.

BE A FRONT-RUNNER

Over the next five years, state officials plan to be even further along the path of integration in the areas of citizens' portal, processes, workflow management, document management, and process standardization. This is not only viewed as a source of cost savings and increased efficiency, but also as a way to successfully compete with other states, regions, and even countries. Minister President Koch views his state's future with growing confidence. "With sound policies and an equally sound SAP infrastructure, Hesse will continue to consolidate its position as a global European hub for information, finance, and communication."

HESSEN

Research and Development

To continue to win in the ultracompetitive software industry, in 2005, SAP invested more than €1 billion in developing the tools and technologies of tomorrow. Research and development projects are distributed globally across SAP's infrastructure. SAP's global research and development network helps transform ideas, trends, and technologies into breakthrough solutions to enable customers to be best-run businesses, regardless of their size or industry segment. In addition to the global research and development network, SAP Ventures engages in venture capital investments to promote exciting new technologies with potential value for our customers and SAP Inspire sources and drives promising internal ideas with significant business value towards realization.

INNOVATIVE RESEARCH

The SAP Research group is a worldwide organization that identifies emerging IT trends, conducts vital research and development for new technologies, and fosters the best entrepreneurial talent to support future growth. The group is headquartered in Germany, with additional facilities in Australia, Canada, France, South Africa, the United Kingdom, and the United States.

SAP Research employs an outside-in approach, looking to universities, industry research centers, and other institutions for technological trends that may be relevant to SAP and its customers. It is highly collaborative, engaging academia, technology partners, and customers in its research projects, addressing future-oriented topic areas such as wearable computing, future manufacturing, real-time awareness, Semantic Web, or technology for socioeconomic development. Above all, SAP Research is pragmatic, always looking for ways to apply new technologies to actual customer challenges.

An example of how SAP Research is working to remove barriers to interoperability is its involvement in ATHENA (Advanced Technologies for Interoperability of Heterogeneous Enterprise Networks and Their Applications), one of the largest research projects co-financed by the European Commission in the area of e-business. SAP Research is leading the consortium of 21 partners. The knowledge gained and tools developed are already being deployed in the "xCarrier" project, which is creating a solution that will allow shippers to seamlessly integrate services from different carriers – ranging from parcel carriers to ocean carriers – and to execute end-to-end business processes.

Other examples of research projects include the "Digital Communities" initiative with Intel and various cities; Collaborative Business Items (CoBIs) with BP; wearIT@work and SNOW with EADS and Austrian GESPAG; eJustice project with the Austrian Federal Chancellery; and PROMISE with Bombardier and Caterpillar, for example.

PRODUCT DEVELOPMENT

SAP development units are responsible for the entire SAP product and solution portfolio.

With operations in Bulgaria, Germany, France, India, Israel, China, Japan, and North America, the SAP development units integrate ideas and leading-edge technologies that address the needs of specific industries and geographic regions, and keep SAP and its customers at the forefront of business success.

Today, the product pipeline from SAP is stronger than ever, comprising the solutions in our enterprise services architecture (ESA) road map, solutions that reach new business users, and solutions for the midmarket.

Delivering on the ESA Road Map

SAP developers continue to deliver on our ESA road map as described in the "Solutions and Technology" section of this annual report. For example, cross-functional teams are developing SAP NetWeaver into our Business Process Platform (BPP). They are also responsible for the delivery of the mySAP Business Suite as well as SAP industry solutions.

Product Innovation for Business Users

SAP continues to bring new innovation to a broader array of business professionals, including new functionalities and products that leverage the flexibility and openness of the ESA approach:

- **Mendocino:** In 2005, SAP and Microsoft introduced the first jointly developed product from the two companies. Code-named Mendocino, and built in keeping with our ESA vision, the new solution will provide a strong bridge between SAP's business applications and Microsoft's desktop productivity tools, opening up new opportunities to bring SAP functionality to a larger class of end users, and helping customers gain enormous productivity gains. First shipments to customers were made at the end of 2005, with general availability of Mendocino planned for mid-2006.
- **SAP Analytics:** In 2005, SAP unveiled more than 100 industry-specific analytic applications that empower users by pulling all relevant information – whether historical or up-to-date – from a wide variety of enterprise systems to deliver clear and comprehensive business insights. Powered by the SAP NetWeaver platform, these applications are unique in their ability to deliver data in the business context of the specific process at hand – letting a business manager know, for example, not only the day's sales figures but also whether these figures are on target compared to past performance and the current year's revenue goals.
- **SAP CRM on-demand solution:** SAP has created the first hybrid CRM solution that transcends conventional on-demand (Internet-delivered, pay-as-you-go model) and on-premise solutions (traditional in-house enterprise solutions), while integrating with core enterprise solutions. This unique hybrid approach pioneers a model that combines high availability and low risk with exceptional efficiencies and deployment speed. Initially offered with sales force automation tools, the family of SAP CRM on-demand products will be expanded in 2006 to include solutions for service and marketing.

Midmarket Solutions

SAP continues to expand its offerings for small and midsize enterprises, including mySAP All-in-One and SAP Business One. In 2005, SAP introduced the first qualified mySAP All-in-One partner solutions based on SAP NetWeaver. Going forward, these solutions will be delivered based on our ESA vision – on Business Process Platform.

SAP VENTURES AND SAP INSPIRE

Since 1996, SAP Ventures has been investing in companies that offer exciting new technologies and applications.

Independent from SAP's overall strategy, SAP Ventures has the freedom to pursue a portfolio of different opportunities. At the same time, it carries the benefit of SAP's knowledge and market experience, which it can pass on to its portfolio companies. Examples of investments from 2005 include Avokia Inc., Black Duck Software, Inc., Factory Logic, Inc., Ping Identity Corporation, and iTAC Software AG.

SAP Inspire actively solicits and cultivates ideas from employees, partners, and customers. In 2005, the group has investigated more then 400 ideas submitted online to SAP Inspire and three ideas received Board approval and funding. Five think-tank sessions were held in SAP Labs in Tokyo, Shanghai, Montreal, Sophia Antipolis, and Walldorf. In addition, SAP Inspire is currently investigating the potential of developing a solution for natural disaster and civil crisis management as a result of an idea submitted shortly after the tsunami catastrophe in Southeast Asia.

The Global Research and Development Network of SAP

New Opportunities

As we build on our strong position in core markets, SAP continues to seek opportunities in new market segments. Our strategy for capturing these opportunities includes focusing on midmarket customers, key industry segments, and emerging economies. In addition, we are increasing our efforts to attract new customers through the Safe Passage program, through solutions aimed at a wider range of business users, and through our Business Process Platform (BPP).

THE MIDMARKET

IT spending among small and midsize enterprises (SMEs) with up to 2,500 employees currently outpaces that of larger companies – a trend that is expected to accelerate in the years ahead.

SAP already leads the world with IT solutions for this market. In 2005, some 30% of order entry was achieved with SMEs. The aim is to grow that share to a range of 40% to 45% by 2010.

SAP's success in the SME marketplace is achieved through partnerships with qualified, committed, and effective resellers, Independent Software Vendors (ISVs), and other partners. Through programs such as SAP PartnerEdge, which offers a variety of incentives for successfully developing and selling SAP software-based solutions, our future success will involve partners to an even greater degree.

By the end of 2005, SAP and its ISV partners offered a total portfolio of nearly 600 qualified mySAP All-in-One solutions, which are available in more than 50 countries and used by more than 7,700 customers worldwide.

SAP Business One, supported by nearly 1,100 channel partners, is available in more than 37 country versions and has attracted more than 9,000 customers up to now.

KEY INDUSTRIES

SAP is the leading provider of enterprise software solutions in virtually every major industry. Going forward, we will continue to refine and expand our solutions for more than 25 industries.

Through new solutions, strategic partnerships, and small acquisitions to enhance our solution portfolio, we will expand our capabilities in key industry sectors that represent exceptional opportunities for growth:

- **Retail:** SAP is the global leader in the retail market. We see a significant growth opportunity as retailers move away from in-house development and adopt standardized software such as SAP's. In 2005, we acquired two leading companies, Khimetrics and Triversity, whose successful retailing solutions will help SAP gain even greater traction in the years ahead.
- **Financial Services:** SAP has a highly successful portfolio of solutions for the financial services market, including the banking and insurance segments. To stay current with evolving industry needs, SAP recently established the first Industry Value Network for Banks. This group brings together industry experts, including executives from leading financial services companies, to collaborate with SAP to develop advanced solutions based on our BPP strategy.
- **Public Sector:** SAP is the global market leader in helping governments transform and improve service to citizens. In 2005, SAP embarked on a groundbreaking effort to help government agencies and organizations measure the value of their IT projects in economic, social, and political terms – beyond mere financial metrics.
- **Healthcare:** To meet the needs of the rapidly growing healthcare market, SAP recently announced a global strategic alliance with Siemens to deliver an integrated information technology offering. The resulting solution will enable healthcare organizations to conduct collaborative business planning, in-depth financial analysis and accounting, human resources tasks, and more.

EMERGING ECONOMIES

SAP continues to achieve outstanding gains in virtually all of the geographic areas in which we operate. In addition, we are making a special effort to increase our presence in several of the world's emerging economies, including Brazil, Russia, India, and China. In 2005, SAP's revenue in those countries grew 30%.

These nations are experiencing economic growth rates that are well above the global averages. And through a combination of business expansion, privatization, and low penetration by enterprise software providers, they offer outstanding opportunities for SAP.

THE SAFE PASSAGE PROGRAM

At a time when many of our competitors are undergoing mergers and acquisitions, SAP has achieved great success in offering their customers a "safe passage" to our solutions.

The Safe Passage program is a comprehensive offering that addresses the concerns of customers facing the uncertainties arising out of market consolidation activities and resulting end-of-life of competitive solutions. It includes access to SAP's best-in-class solutions, protection for a customer's existing investment in competitive solutions, immediate integration benefits through the SAP NetWeaver platform, and migration support services. During 2005, SAP introduced specialized Safe Passage programs for customers running PeopleSoft, J. D. Edwards, Siebel Systems, Inc., and Retek Inc. solutions, as well as specific support elements for the SME segment of the marketplace and for business process outsourcers. By the close of 2005, hundreds of customers were in discussions with SAP regarding the Safe Passage program and more than 200 had already participated in the program.

THE EXTENDED BUSINESS USER MARKET

By delivering Mendocino, SAP Analytics, and the new SAP CRM on-demand solution, SAP is reaching a broader array of business professionals with tools that suit their particular requirements – essentially expanding our potential market to include virtually 100% of all business users.

For example, Mendocino builds a strong bridge between the desktop productivity solutions from Microsoft and SAP enterprise solutions in ways that add speed and efficiencies in daily work tasks. SAP Analytics provides business users with extremely user-friendly analytical tools. And SAP CRM on-demand solution puts sales, service, and marketing capabilities in the hands of customer-facing professionals as an important fast-start to CRM functionality.

THE PLATFORM MARKET

Where SAP is traditionally known for its application software, we are now adding a reputation for leadership in the platform space – providing true "applistructure" – the convergence of applications and infrastructure technology, designed to be used by both SAP and non-SAP customers.

With robust capabilities built on open standards, SAP NetWeaver becomes instantly attractive to ISVs as a platform upon which they can develop and market new innovative software solutions. In 2005, more than 1,000 ISVs registered their commitment to bring forward a wave of new software innovation to meet customer challenges – all built with the same platform delivered with every SAP solution. This building ecosystem demonstrates the maturity of the SAP NetWeaver platform strategy and brings a new level of value to customers and prospects.

People at SAP: A Winning Team

With a reputation for providing outstanding career opportunities and a stimulating work environment, SAP is an employer of choice in the global software industry. In 2005, we added over 3,600 employees to our corporate family – chosen from a pool of more than 300,000 applicants. Our commitment to employees has also been recognized externally through several national best employer awards, among others, in Germany and Latin America in 2005, presented by the internationally renowned Great Place to Work Institutes. SAP was also recognized with the top award for fairness in the "Best Workplaces in Europe 2005" list.

PERSONALIZED CAREER PATHS

From the moment employees enter the world of SAP, we strive to identify, nurture, and regularly evaluate their unique talents and abilities. By doing so, we help ensure a personalized career path for each individual – and the ongoing development of future leaders for our company.

Through a well-organized performance and talent management process, employees are encouraged to develop careers as project specialists, experts, or managers. Each career path offers its own route to professional development, recognition, and higher levels of compensation.

LEADERSHIP DEVELOPMENT

Because managers play a key role in SAP's overall talent development programs, our company provides people managers with the knowledge and tools they need to become more effective leaders.

Designed with the help of leading business experts, our global and regional leadership development programs provide ongoing training to cultivate the entrepreneurial capabilities of each manager.

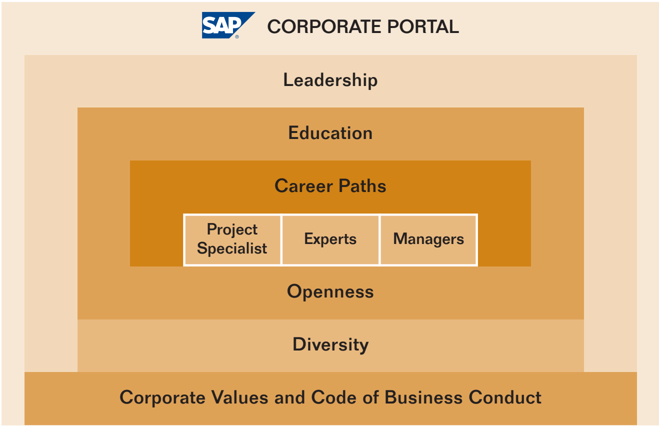
Through global and local programs like these, each of our more than 3,000 managers is responsible not only for contributing to the production of real business results, but also for playing an active role in helping to build employee motivation, commitment, and engagement.

These programs are supplemented by regular survey results and 360-degree feedback processes to ensure that our organization remains focused on the development of managerial excellence.

EDUCATIONAL OPPORTUNITIES

Knowledge is power, and through our company intranet SAP Corporate Portal, employees have access to an extensive knowledge base covering technology, applications, and business. Our global learning programs are designed to immediately enhance real-world skills and combine on- and off-the-job training.

SAP Corporate Portal: Window to SAP's World



REWARDING EXCELLENCE

SAP rewards outstanding performance with outstanding compensation and benefits packages. Our programs include profit-sharing and stock-option programs, as well as supplementary benefits tailored to the cultural and legal customs of each country in which we operate.

STRONG CORPORATE VALUES

For more than 33 years, SAP has been guided by deeply held corporate values, which have given our company the strength and longevity to help shape the path of our industry – while influencing the success of thousands of businesses worldwide.

SAP values include customer focus, quality, and the unwavering pursuit of product excellence. In addition, the values consist of integrity, commitment, and a passion for ever-higher levels of achievement, with the knowledge that our actions today will help define our industry now and in the future.

Our values are reflected in every aspect of our culture, and continue to guide our efforts to be a best-run business. And in 2005, they were reinforced by five new corporate requirements: agility, high performance, simplicity, co-innovation, and talent development.

COMMITMENT TO ETHICAL BUSINESS PRACTICES

In recent years, governments around the world have implemented a growing number of regulatory initiatives to ensure ethical corporate conduct. SAP seeks to comply with all of these statutes. And in 2003, we supplemented our compliance efforts with our own Code of Business Conduct, which defines the standards that each employee must meet in all business, legal, and ethical matters.

A CULTURE OF OPENNESS

SAP fosters a culture of openness, in which all employees are encouraged to express their opinions and perspectives. Information channels are ubiquitous and include the wealth of knowledge available on our company intranet, as well as a monthly e-mail newsletter to all employees from the SAP Executive Board. In addition, SAP CEO Henning Kagermann, as well as other members of the Board and Senior Executive Team, frequently meet with teams at all levels of the organization to share ideas on the direction of the company.

Knowledge and ideas are also shared in on-site and "virtual" meetings that cross time zones, borders, and company departments. Spontaneous meetings are encouraged by the availability of open meeting areas in SAP offices around the world.

In addition, presentation series and discussion forums, such as FutureScope and CIO@SAP, offer the chance for employees to learn and converse about current customer issues as well as future trends in technology and business.

STRENGTH IN DIVERSITY

SAP's employee family includes people of virtually every culture, race, ethnicity, gender, nationality, religion, age, disability, marital status, education, and sexual orientation. This diversity is among our greatest corporate assets and results in an organization that is rich in cultural wealth and open to a broad range of ideas and perspectives.

Diversity

Number of Employees (Full-Time Equivalents)	35,873
Percentage of Women	30%
Average Age	37 years
Average Seniority	5.3 years
Represented Nationalities by Employees in Germany	88

THE SPIRIT OF INNOVATION

Innovation has always been the hallmark of SAP. And to keep the innovative spirit thriving, SAP has implemented a variety of programs and networks.

For example, SAP provides compensation and peer recognition as incentives for inventions. As a result, our Global Intellectual Property team generally files several hundred new patent applications per year.

And to promote organizational innovation, employees are asked to submit their ideas on how to improve internal processes into an idea management system. Ideas are evaluated and the best are rewarded with monetary prizes.

In 2005, more than 1,000 ideas were submitted – and more than 200 were put into practice.

PANTALOON RETAIL BLENDS TRADITION AND TECHNOLOGY.

"Working with Pantaloon,
we are shortening the path
from the factory to the shelf."
Dr. Rakesh Mittal, Director,
Pantaloon Production House

"SAP solutions allow us to pursue our growth
strategy with confidence."
Kishore Biyani, Founder and Chief Executive Officer,
Pantaloon Retail (India) Limited

"With SAP, all our business functions
are linked together,
so our value chain is transparent."
Chinar Deshpande, Chief Information Officer,
Pantaloon Retail (India) Limited

"With my personalized SAP employee portal,
I now have the tools I need
to do my job more efficiently."
Gurpreet Saini,
IT team, Pantaloon Retail (India) Limited

"Pantaloon understands
what my family wants:
Great style, great quality, and great value."
Shavana Chopra,
Customer, Pantaloons

A SHORTER PATH FROM MIND TO MARKET

How do you manage diverse operations and double-digit annual growth? For Pantaloon Retail, only one software provider had the answer. Like a mirror in one of its many dressing rooms, Pantaloon Retail (India) Limited reflects its nation's rapidly changing profile: Smart, complex, successful, and able to blend tradition and technology into a unique new style. Founded in 1987 as a textile manufacturer, the Mumbai-based company has become a vertically integrated and highly diverse enterprise, with businesses that include major clothing labels, the flagship Pantaloons fashion store chain, the all-in-one Central Mall, Big Bazaar hypermarkets, Food Bazaar supermarkets, and more than 3.0 million square feet of retail space under its management. And it has succeeded by recognizing that Indian families want quality and value – as well as an exciting shopping experience.

FINDING A PARTNER

In the first six months of 2005–2006, Pantaloon has experienced breathtaking growth, with revenues rising more than 100% annually to approximately €200 million. With its existing business software solutions unable to keep pace, the company searched for a provider that could support its diverse operations – today and in the future. After an extensive evaluation, Pantaloon chose SAP.

Kishore Biyani, founder and Chief Executive Officer of Pantaloon, recalls, "We looked at systems from around the world. But because we are not only a retailer, but also have consumer brands, manufacturing, and shopping centers, we wanted someone who could bring all of our businesses and processes together. We felt that SAP, with their platform technology and specialized retail industry solution, would be the best partner to help us grow to the next level," he says.

Pantaloon Retail (India) Limited is one of India's leading retailers – and much more. Its rapidly growing operations also include fashion design and manufacturing, supermarkets, hypermarkets, real estate fund management, and consumer financial services. For help in managing this complex array of businesses, Pantaloon turned to SAP.

DISCOVERING NEW SEASONS

Today, Pantaloon has made SAP the cornerstone of its IT strategy, with solutions that include mySAP Customer Relationship Management, mySAP Supply Chain Management, SAP NetWeaver, and SAP's specialized solutions for the apparel and footwear industry. The company is counting on SAP solutions to enhance its focus on meeting customers' changing desires. "In a country this diverse," Mr. Biyani explains, "we need to respond to customers the way they would like us to respond. SAP helps us reduce the time it takes to move a product from mind to market. To give an example," he says, "we previously had only four fashion seasons each year. Now we are providing fashions for seven seasons. With SAP to help us bring new products to market more quickly, we can move to nine seasons per year."

A WIN-WIN FOR SUPPLIERS

SAP solutions will also support Pantaloon's suppliers, who are critical to the company's ability to respond more quickly to changing customer tastes. "Our suppliers will get direct benefits from our improved value chain," says Chinar Deshpande, Pantaloon's Chief Information Officer. "We will order the right quantities at the right time, and we will be able to make payments on time. It's a win-win situation." Mr. Biyani adds, "With our encouragement, a lot of supplier companies are going to be working with SAP."

A NEW DESTINATION

As SAP solutions are being implemented at Pantaloon, spirits are running high throughout the organization. "The SAP software implementation is a very exciting time for our company," says Mr. Deshpande, "and every one of the 8,000 people in our organization is involved in it." The implementation is promoted internally through a dedicated radio station and monthly newsletters. There's even an internal TV station featuring SAP-centered news, drama, and comedy programming.

In a bow to tradition, Pantaloon has named the implementation project "Sarthi," or charioteer, in honor of the role that Lord Krishna played in the Hindu epic of Mahabharata. The project mascot, a horse, appears on T-shirts, mouse pads, and posters throughout the company. As Mr. Biyani explains, "Sarthi and our mascot symbolize that SAP is taking our people, and our company, on a journey to a new destination."

REWRITE RULES RETAIN VALUES

PANTALOON
RETAIL (INDIA) LIMITED

Investor Relations: Credible, Transparent, and Up-to-Date

Investors' interest in 2005 focused on enterprise services architecture (ESA) and its importance for the future success of SAP. SAP's improving position in the fast-growing small and midsize enterprise segment, especially the specific solutions for over 25 industries, also attracted a great deal of attention. SAP explained its growth strategy to institutions and private investors through a record number of events and one-on-one discussions. Three core values underpinned all of SAP's investor relations work: credibility, transparency, and timeliness.

SAP SHARES SIGNIFICANTLY OUTPERFORM GSTI SOFTWARE INDEX

Stock markets in different countries did not advance uniformly in 2005. Despite increasing profits, shares stagnated on the U.S. stock exchanges. The Japanese Nikkei index, meanwhile, climbed 40% over the same period. Despite the increasing prices for oil and commodities, the major European indexes in London, Frankfurt, Paris, and Zurich also achieved growth in double-digit percentages. For example, the DJ EURO STOXX 50 index gained 21.3% in 2005 to reach 3,579. The German DAX index closed at 5,408 at the end of the year – up 27.1% compared to 2004.

SAP's stock initially struggled to keep up with these figures, falling to €114.50 (Xetra closing price) on April 18, 2005. The relevant Goldman Sachs Technology Index (GSTI) Software Index (GSTI Software Index) also lost approximately 15% by mid-April 2005. Profit warnings from U.S. software vendors at the start of the year rattled the market's confidence in the future development of the IT industry. The announcement of SAP's first-quarter results provided the impetus for a turnaround. Subsequently, SAP's stock rose almost continuously, hitting €155.80 on December 2. At year-end on December 30, 2005, SAP stock closed at €153.16, some 17% above the year-end value of 2004 and easily outperforming the GSTI Software Index, which declined 5% in 2005. SAP's market capitalization (the share price multiplied by the number of shares outstanding) was €48.5 billion on December 31, 2005, compared to €41.5 billion at the end of 2004.

Due to a rising U.S. dollar, the SAP American Depositary Receipt (ADR) price did not increase as steeply, closing at US$45.07 on December 30, 2005 – a year-over-year increase of 2.6%. In the United States, most foreign companies issue ADRs instead of shares. Four SAP ADRs represent one SAP share.

ANOTHER DIVIDEND INCREASE RECOMMENDED

As in the previous years, SAP wishes to share its success with its investors by paying a dividend. The Executive Board and the Supervisory Board will recommend at the annual general meeting of shareholders that SAP pay a dividend of €1.45 per share. This corresponds to an increase of 32% or €0.35 compared to the previous year and total distributed dividends of €449 million.

Key Facts About SAP Stock/ADRs

Listings	
Germany	Berlin-Bremen, Frankfurt, Stuttgart
USA (ADRs)	New York Stock Exchange
Stock symbols	
WKN	716460
ISIN	DE0007164600
Reuters	SAPG.F or .DE
Bloomberg	SAP GR
Quotron	SAGR.EU.
NYSE (ADRs)	803054204 (CUSIP)
Indexes	**Weighting on Dec. 31, 2005**
DAX 30	5.62
Prime All Share	4.63
Dow Jones STOXX 50®	1.12
Dow Jones EURO STOXX 50	1.81

LITTLE CHANGE IN SHAREHOLDER STRUCTURE

At the end of the year, SAP's subscribed capital was €316.5 million, which corresponds to 316.5 million SAP shares. 32.2% of shares were held by three of the founders of SAP and their trusts and holding companies. 2.1% were in SAP treasury ownership. As in the previous year, the largest group of shareholders besides the founders was U.S. institutions and retail investors (20.6%), followed by institutional investors in continental Europe, excluding Germany (10.4%). German institutions owned 9.6% of the shares at the end of the year, followed by institutions in the United Kingdom and Ireland (7.1%) and in the rest of the world (1.5%). The remaining shares were in the hands of private or unidentified investors (16.5%).

SAP maintained its profit-sharing programs for its employees and executives. For more information, refer to the SAP Group Review of Operations.

INCREASED SHARE BUY-BACK

In 2005, SAP bought back a total of 3.21 million shares (2004: 1.14 million shares). The average price of the shares repurchased was €129.77. For more information, refer to the Notes of this annual report.

INCREASED COMMUNICATION WITH INSTITUTIONS

In light of its significantly expanded portfolio of solutions, SAP continued to increase its contact to institutional and retail investors in 2005. As in previous years, SAP set high goals for transparency and openness in its communication with the shareholders. In some 700 one-on-one discussions held by SAP during investor road shows and investor events worldwide, SAP informed institutional investors and analysts about its business progress. It ran regular telephone conference calls and analyst meetings about the quarterly results.

Investor presentations at the SAPPHIRE conferences in Copenhagen and Boston, as well as the SAP Investor Day in Newtown Square, Pennsylvania, were other platforms for communications with the financial markets. Around 85 participants at the SAP Investor Day heard SAP's overview of its solution portfolio for small and midsize enterprises and about its solutions for a wide spectrum of industries. As a SAP customer, the U.S. Navy provided the highlight of the event as it presented its own major SAP project.

Return on SAP Stock (Ordinary Shares) WKN 716 460/ISIN DE 000 7 164 600

Initial investment €10.000

Date of investment	Dec. 31, 1995	Dec. 31, 2000	Dec. 31, 2004
Period of investment	10 years	5 years	1 year
€ value at close of 2005 [1]	42,612.70	12,738.25	11,775.43
Average annual return in %	**15.60**	**4.96**	**17.75**
Performance comparators in %			
DAX 30 Performance – Total Return Index	9.15	– 3.41	27.07
REX General Bond – Total Return Index	5.92	5.89	4.08
S&P 500 Composite – Total Return Index	10.40	– 3.94	20.89
GSTI Software Index – Price Index	8.11	– 14.08	9.71

[1] Assuming all dividends were reinvested
Source: Datastream

EXTENDED PROGRAM FOR RETAIL SHAREHOLDERS

Serving retail investors is also a top priority for SAP. The quarterly shareholder magazine SAP INVESTOR is one of the keystones of SAP's services for private investors. Others are the monthly e-mail newsletter, the shareholder hotline, the e-mail service from investor@sap.com, and a robust Web site with plentiful information about SAP and our stock. Additionally, all major events at which members of the SAP Executive Board speak about SAP are broadcast live on the Internet. In 2005, the SAP investor relations team took part in several stock market days and shareholder conventions including, for the first time, events in the United Kingdom and Austria.

Resources for retail investors in the United States were significantly enhanced in 2005. SAP appeared at many events held by the National Association of Investors Corporation (BetterInvesting) and Money Show investment conferences. Among the highlights were the BetterInvesting Compufest in Buffalo, New York, the BetterInvesting National Convention in Atlanta, Georgia, and the Money Show in Orlando, Florida – interest in investing in SAP was particularly strong at these events. SAP also held numerous corporate presentations for financial consultants and brokers from major financial services providers, as well as quarterly "squawk box" telephone conferences.

INTERNATIONAL ACCLAIM FOR INVESTOR RELATIONS ACTIVITIES

As in past years, SAP's investor relations work won praise from many quarters in 2005.

- A survey by *Institutional Investor Magazine* showed that both buy-side and sell-side analysts bestow SAP the number-one rankings among European software companies in the categories "Best Investor Relations," "Best CEO," and "Best CFO."
- SAP attained third place in the same magazine's U.S. Investor Relations Survey, making it one of only three non-U.S. companies placed in the top three.
- In this year's Thomson Extel survey, SAP was placed second among all German companies, and fourth in Europe overall, for its financial news service.
- For the first time, SAP was awarded third place among all 30 DAX companies for the "Beste Investor Relations Deutschland" (BIRD) prize.
- SAP earned *IR Magazine's* accolade for the best use of virtual conferencing among all continental European companies, given in recognition of SAP's policy of broadcasting all of its investor events on the Internet.

Cash Earnings According to DVFA/SG[1]

	2005	2004
	€ million	€ million
Net income before minority interest	1,496.4	1,310.5
Minority interest	2.9	4.9
Net income	**1,499.3**	**1,315.4**
Depreciation and amortization	220.1	229.9
Write-ups	– 3.1	– 2.4
Change in reserves and accrued liabilities	45.6	49.1
Change in deferred taxes	16.1	19.2
Other material non-cash expenses and income	6.3	– 4.7
Cash earnings according to DVFA/SG[1]	**1,784.3**	**1,606,4**
Cash earnings per share according to DVFA/SG[1] in €	**5.64**	**5.08**

[1] German Association of Financial Analysts and Investment Consultants (DVFA) and Schmalenbach Society for Business Management (SG) method

Corporate Citizenship: Meeting Responsibilities. Leveraging Strengths

SAP believes that every business has a responsibility to play an active role in society. And the most effective form of engagement is to draw on our own unique strengths and expertise. Therefore, SAP focuses its worldwide corporate citizenship activities on the themes of education, transparency/good governance, and community development.

EDUCATION

To promote learning at all levels of the socioeconomic spectrum, SAP engages in a wide range of educational programs, including:

SAP University Alliances

Education is fundamental to the creation of an open society and economic development. And through the SAP University Alliances program, SAP supports the development of scientific and technological education by providing educators and students around the world with access to SAP solutions.

Launched in 1988, the SAP University Alliances program now has more than 500 participating institutions. SAP invests nearly €130 million annually in the program through a combination of cash and in-kind donations.

To date, more than 2,200 educators and 100,000 students have taken part in courses supported by SAP software solutions. These courses enable students to put theory into practice through demonstrations, hands-on exercises, case studies, and research projects. In addition, the program provides educators with essential curriculum support. Most program members access SAP software that is hosted from one of 17 University Competency Centers worldwide.

During 2005, new member universities in Germany, India, Russia, the United Kingdom, and North America joined the program. In addition, the SAP University Alliances program conducted its first joint teaching pilot, in conjunction with Fachhochschule Brandenburg in Germany and Indiana University in the United States. This successful pilot program simulated the complexity of realistic business problems that required students to cooperate and collaborate despite the obstacles of distance and time zones.

FIRST™ LEGO® League

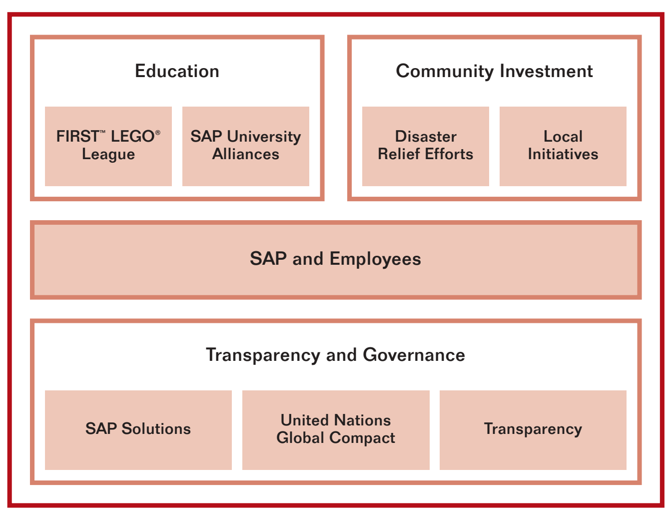
While the SAP University Alliances program serves the needs of university-level students, SAP recognizes the importance of inspiring and motivating children to get involved with technology from an early age.

Created by the LEGO® company and FIRST Foundation, FIRST™ LEGO® League International introduces children around the world to the fun and experience of solving real-world problems by applying math, science, and technology.

In 2005, SAP became one of four corporate sponsors of this program, and also launched a global employee volunteering initiative. More than 170 SAP employees participated, helping local children design and build robots for a competition.

Participating employees deployed their own technical and coaching skills while helping young people develop the abilities needed to work together as a team in this innovative competition. As a result, one employee-led team has qualified for the 2006 international finals in Atlanta.

Corporate Citizenship at SAP



TRANSPARENCY AND GOVERNANCE

To help promote ethical conduct in business and government entities around the world, SAP draws on its experience in developing solutions that promote transparency and regulatory compliance.

United Nations Global Compact

SAP is a signatory member of the United Nations Global Compact. The company's corporate citizenship focus on transparency and good governance is particularly aligned with the 10th principle of the compact, which deals with the effort to eliminate corruption.

Transparency

In 2005, SAP became a partner in the Global Corporations for Transparency International initiative to support the ongoing work of Transparency International (TI), the world's leading organization in the fight against corruption. For example, SAP supported the TI Latvia chapter in developing and conducting a seminar on business integrity. Held in the capital city of Riga, the event was attended by more than 50 business and public sector representatives from the Baltic and Nordic regions of Europe. SAP also supported TI's development of a toolkit for small to midsize enterprise (SMEs), which will eventually be used in a number of markets around the world.

In recognition of SAP's own ethical performance, the company has again qualified for inclusion in major ethical investment indices: FTSE4Good and Dow Jones Sustainability Index.

FTSE4Good

Member of Dow Jones Sustainability Indexes 05

COMMUNITY INVESTMENT

As SAP addresses issues on a global level, the company encourages individual employees to become involved in the communities where they live and work.

Disaster Relief Efforts

The past year witnessed an exceptional number of national disasters. In response, SAP Solidarity Fund, an independent trust for employee donations, supported disaster relief efforts in Southeast Asia after the tsunami, in the Kashmir region after the earthquake, on the Gulf Coast of the United States, and on behalf of hurricane victims throughout Central America. Together with all subsidiaries, SAP donated more than €7 million.

Local Initiatives

With more than 35,000 employees around the world, SAP engages in a wide range of local community initiatives – many of which are led by SAP staff members. Some examples from 2005 include:

- SAP North America held its first "Week of Service," a national volunteering initiative, in which more than 1,500 employees donated a total of over 10,000 hours to local charities.
- SAP Africa supported the ICT Academy on CIDA City Campus, a Johannesburg-based university that serves the special needs of students in the developing world.
- SAP supported many local programs, including the Astronomieschule e. V. Heidelberg, which provides programs for local young people to study astronomy. In addition, as co-founder of the World Childhood Foundation, SAP co-hosted a fund-raising concert event in Paris in partnership with DaimlerChrysler.

For SAP, making a lasting contribution to the world is as important as making a profit. Therefore, we will continue to pursue new opportunities where corporate and individual skills can be applied to solving social challenges.

Trust and Transparency: German Corporate Government, Code Section 3.10 and Corporate Governance Report

Good corporate governance means responsible company management and control oriented to long-term value. It involves the Executive and Supervisory Boards efficiently cooperating together, respect for the interests of shareholders, and open, transparent corporate communications. SAP was one of the first German companies to get to grips with the rules of corporate governance and follow not only the standards that apply in Germany but also international requirements. This report on corporate governance at SAP in 2005, prepared by the SAP Executive Board and issued jointly with the SAP Supervisory Board, is a requirement of the German Corporate Governance Code ("Code"), section 3.10.

CORPORATE GOVERNANCE AT SAP

SAP sees corporate governance as a process of continuous adaptation. SAP led the way in Germany by publishing its own Principles of Corporate Governance ("Principles") even before the Code entered force. Ever since their first publication, the Company has been continuously updating them in the light of changing national and international standards, to the extent they apply to SAP and are not inconsistent with SAP's circumstances. SAP revised its Principles again in 2005, with amendments introduced in March and October. Moreover, SAP complied with the provisions in the Corporate Governance Standards of the New York Stock Exchange (NYSE) and the U.S. Sarbanes-Oxley Act (SOA) that are relevant to SAP as a foreign company listed on the NYSE. SAP also updated its report on significant deviations from the NYSE's corporate governance rules in line with its latest corporate governance developments. SAP's Principles, compliance declaration pursuant to the German Stock Corporation Act, section 161, and report on significant deviations from the NYSE's corporate governance rules are online at
www.sap.com/company/governance/index.epx and
www.sap.com/germany/company/governance/index.epx.

AMENDMENTS TO SAP'S PRINCIPLES OF CORPORATE GOVERNANCE IN 2005

In 2005, SAP amended its Principles twice as a result of German and international developments in corporate governance.

RECOMMENDATIONS

The version of SAP's Principles adopted in March 2005 contained additional provisions on the prohibition on loans to Executive and Supervisory Board members in accordance with SOA, section 402, and on the publication of individual Executive and Supervisory Board members' remuneration in a compensation report.

Further amendments to SAP's Principles were necessary following changes to the Code in June 2005. The recommendations: SAP did not implement the following recommendations: "as a rule, a chairperson or member of the Executive Board shall not become chairperson of the Supervisory Board or chairperson of a Supervisory Board Committee" (section 5.4.4 of the Code) and "Supervisory Board members shall be elected individually" (section 5.4.3 of the Code). SAP set out and explained these deviations from the Code in its compliance declaration in October 2005. All of the other new provisions were incorporated into SAP's Principles. The recommendation in Code section 5.3.2, regarding the specialist knowledge and skills of the audit committee chairperson requires special mention: SAP has implemented this recommendation by appointing Dr. Erhard Schipporeit, CFO of E.ON AG, as a member and the chairperson of the audit committee. During the Supervisory Board meeting in October 2005, the independence of the Supervisory Board members representing the shareholders as recommended by Code section 5.4.2 was determined by means of a special resolution.

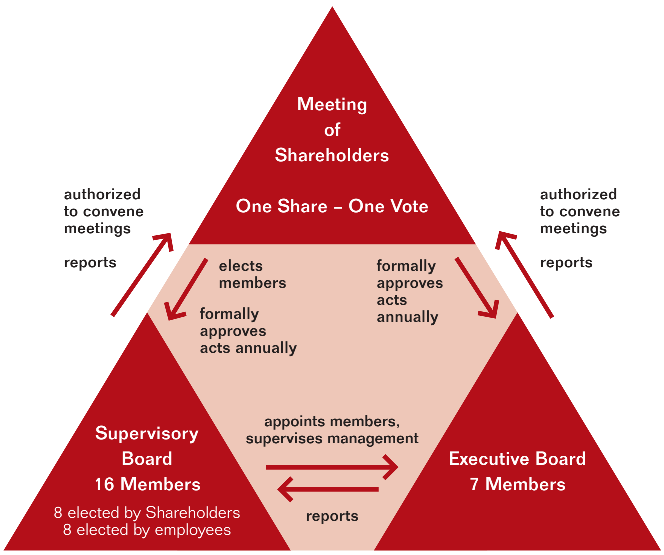
SUGGESTIONS

There are only three suggestions that SAP does not follow out of the 19 in the Code. SAP believes that it is not necessary to convene a general meeting of shareholders in takeover situations, as suggested in Code section 3.7 because the law has usefully standardized the rules for such processes. Moreover, it is not possible to predict the effects on the takeover of convening a general meeting of shareholders and announcing the measures that the shareholders are to decide upon. Therefore, it is not possible to clearly differentiate between the legal requirements in the German Securities Acquisition and Takeover Act and the acts and omissions of the Executive Board suggested in the Code. SAP will therefore not follow this suggestion.

Nor does SAP appoint Supervisory Board members at different times, as suggested by Code section 5.4.4. It holds block votes and adjusts the terms of office as appropriate. SAP considers this to be practical, particularly with regard to the German system of codetermination, since the applicable legal provisions in the German Codetermination Act require employee representatives to be elected at the same time for five years. Therefore, the Code's suggestion could only apply to the shareholder representatives. In turn, this would lead to unequal treatment.

SAP has not agreed to pay Supervisory Board members performance-oriented remuneration based on the Company's success as suggested in Code section 5.4.5. SAP believes that this suggestion does not take into the account the Supervisory Board's role as a monitoring body, since agreeing remuneration based on the Company's long-term success would no longer ensure the necessary distance between Supervisory Board members and the management duties of the Executive Board. At SAP, variable remuneration is linked to the dividend and governed by SAP's Articles of Incorporation. SAP believes that it thus ensures transparent, appropriate remuneration for Supervisory Board members that, in particular, takes their legal responsibilities into account. Furthermore, in light of the judgment of the German Federal Supreme Court, the legal permissibility of long-term, variable, performance-based remuneration, particularly stock options, is questionable.

SAP AG Corporate Governance Structure



2005 COMPLIANCE DECLARATION PURSUANT TO THE GERMAN STOCK CORPORATION ACT, SECTION 161

The changes to SAP's Principles in March 2005 did not require any additions to the compliance declaration. Instead, for the first time, SAP complied with the Code's recommendation to publish individual Executive Board members' remuneration.

Since SAP did not implement all of the recommendations added to the Code in June 2005 and include them in its Principles, the Executive and Supervisory Boards resolved in October 2005 to publish a revised compliance declaration. The following points were added:

- Chairperson or member of the Executive Board becoming chairperson of the Supervisory Board or chairperson of a Supervisory Board committee
- No individual election of Supervisory Board members by the general meeting of shareholders

The Code, section 5.4.4, recommends that, as a rule, the former chairperson of the Executive Board and members of the Executive Board do not become the chairperson of the Supervisory Board or chairperson of a Supervisory Board committee. SAP cannot rule out the possibility that these kinds of appointments will take place in the future. It is not currently possible to foresee whether this will be the case as a rule. Moreover, the chairperson of the Supervisory Board and chairpersons of Supervisory Board committees are appointed by the members of the Supervisory Board, who should be guided solely by the actual qualifications of the persons standing for election.

In addition, SAP's Principles do not require Supervisory Board members to be elected individually. Block voting is the usual practice and has proved its worth because it ensures that General Meetings of Shareholders are conducted expeditiously. Block voting is legally permitted provided that, before the voting, the chairperson of the General Meeting of Shareholders informs the shareholders at the meeting that they have the option of voting against all of the candidates if they do not want to vote for one of the candidates. SAP has met this requirement in the past and will continue to do so in the future for the election of Supervisory Board members. SAP believes that block voting fulfills the conditions required for shareholders to exercise their voting rights. It does not recognize a particular need of shareholders to elect Supervisory Board members individually.

CODE OF BUSINESS CONDUCT

The Code of Business Conduct for employees and the Executive Board expresses the high standards that SAP requires from its employees and how it deals with customers, business partners, and shareholders. SAP sees its Code of Business Conduct as the standard applicable to all dealings involving customers, business partners, competitors, and vendors. By implementing the Code of Business Conduct, SAP safeguards against misleading SAP's investors, business partners, and customers and against unfair competitive practices and corruption.

RISK MANAGEMENT AT SAP

In German stock-corporation and commercial law, there are special requirements for internal risk management that apply to SAP. SAP's corporate management has therefore introduced a global risk management system that supports risk planning, identification, analysis, handling, and resolution. To meet the requirements of SOA section 404, Management Assessment of Internal Controls, it is also setting up company-wide processes that document and continually evaluate the effectiveness of the internal controls, with the aim ensuring that its financial reporting is reliable. The processes are supported by a standard software product, which SAP developed for the purpose, the management of internal controls (MIC) tool. Although the U.S. Securities and Exchange Commission (SEC) has extended the deadline for building up the documentation and regularly evaluating the effectiveness of internal controls in accordance with SOA, section 404, to December 31, 2006, SAP has kept to its original schedule for implementing the internal control structure. As a result, SAP completed nearly all of the company-wide control design assessment and control testing in 2005.

Furthermore, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG) carried out a dry run audit in various business units to check the SAP Group companies' level of preparation for the mandatory implementation of the requirements of SOA, section 404. Based on the results of the SAP internal control design assessment, the control testing, and the dry run audits, SAP is confident it can fully meet the requirements of SOA, section 404, by December 31, 2006.

Another control mechanism that SAP has implemented is standardized reporting across the Group. The internal audit service and the Supervisory Board are also closely involved in risk management.

APPLYING INTERNATIONAL CORPORATE GOVERNANCE STANDARDS

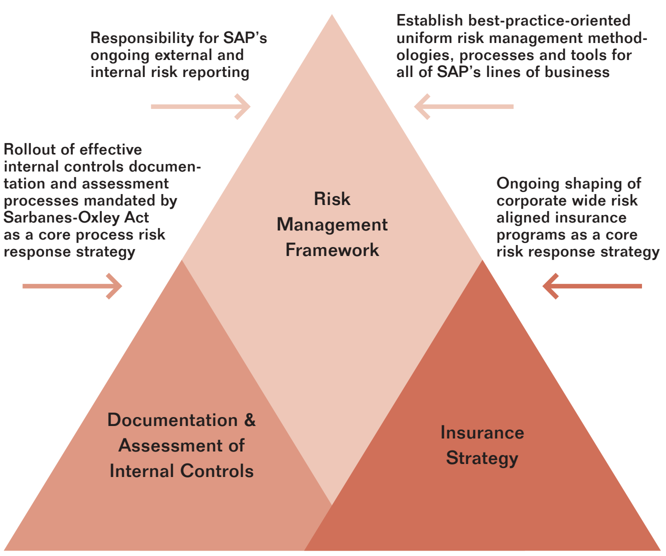
As a NYSE-listed company, SAP is subject to U.S. financial legislation and to the rules of the U.S. Securities and Exchange Commission and of NYSE. In response to accounting irregularities, notably by U.S. companies, SOA was enacted in July 2002. It is a major plank in the efforts to strengthen corporate governance and win back the confidence of the financial markets. SAP fully supports its aims and principles, so although it involves considerable expenditure, SAP meets the SOA requirements that apply to the Company.

Besides continuing to implement the requirements of SOA, section 404, as listed below, SAP's implementation of international corporate governance rules focused on the implementation of the requirements concerning the establishment and membership of an audit committee in the NYSE Corporate Governance Standards, section 303A.06, which are set out in the NYSE Listed Company Manual. With changes in membership of SAP's audit committee, the Company was able to fully comply with these requirements, in particular the SOA's criteria for ensuring the independence of audit committee members. The audit committee also adopted rules of procedure to meet another requirement in the NYSE Corporate Governance Standards.

In 2005, for the first time, SAP submitted a written affirmation statement in accordance with the NYSE Corporate Governance Standards, section 303A, in which it declares, among other things, that the membership and organization of the audit committee complies with the requirements of the NYSE Corporate Governance Standards, section 303A.06.

In accordance with the NYSE Corporate Governance Standards, SAP has – as in the past two years – stated the extent to which the German corporate governance rules that apply to it deviate from the rules that apply to U.S. companies listed on the NYSE. SAP revised and adapted the report in March and October 2005 due to the above-mentioned changes to SAP's Principles of Corporate Governance and to changes in law in 2005.

Global Risk Management Objectives



TRANSPARENCY, COMMUNICATION, AND SERVICE FOR SHAREHOLDERS

SAP is careful to ensure that its shareholders can obtain a complete picture of the state of the Company from full information posted promptly on its Web site. Among other information, SAP posts all of its financial reports, all relevant news about the Company's governing bodies, corporate governance documentation, news in frequently-asked-question format on current business measures, news of measures requiring ad-hoc disclosure, the Company's press releases, and news of directors' dealings notifiable pursuant to the German Securities Trading Act, section 15a.

Shareholders are also able to participate in the Annual General Meeting of Shareholders online on the Internet. They can vote according to their shares at the meeting by instructing a proxy of their choice or one of the proxies provided for that purpose by SAP. In good time for the meeting, all shareholders can access all of the shareholder meeting paperwork on the Company Web site.

The German Stock Corporation Act, as most recently amended by the German Corporate Integrity and Avoidance Right Modernization Act of November 2005, provides much simplified registration and proof of identity for shareholders. Under the new legislation, the closing date for both registration and identification purposes is 21 days before the general meeting of shareholders. SAP amended its articles of incorporation accordingly by resolution of the shareholder meeting on May 12, 2006. The amendment also made it simpler for foreign SAP shareholders to participate in the shareholder meeting and vote according to their shares.

FINANCIAL STATEMENTS

The May 2005 annual general meeting of shareholders elected KPMG auditor. SAP's financial statements are prepared in accordance with German GAAP (the German Commercial Code) and U.S. GAAP: SAP AG publishes company accounts to German GAAP; the consolidated statements for the SAP Group are prepared in accordance with U.S. GAAP. The Executive Board is responsible for preparing the financial statements, which the Supervisory Board approves. The auditor elected by the Annual General Meeting of Shareholders conducts the audit.

EXECUTIVE BOARD AND SUPERVISORY BOARD COMPENSATION AND SHARE OWNERSHIP IN THE CORPORATE GOVERNANCE REPORT PURSUANT TO SECTION 3.10 OF THE CODE

The Code requires that certain details of Executive Board and Supervisory Board compensation and share ownership in the corporate governance report pursuant to section 3.10 of the Code. SAP first published a compensation report disclosing all these details in its 2004 annual report. SAP will publish a compensation report in 2005 again, but because of changes in the legislation it will appear in the review of group operations. It will contain, among other information:

- Each Supervisory Board member's remuneration broken down into its elements
- Dealings of the Executive and Supervisory Board members in the Company's shares and derivatives thereof
- Executive and Supervisory Board members' ownership of shares
- Stock option and other incentive plans

Since sections 5.4.7, 6.6, and 7.1.3 of the Code recommend that this information should be disclosed in the corporate governance report, the following exposition should be read in conjunction with the more detailed information in the compensation report.

SUPERVISORY BOARD COMPOSITION DETAILS PURSUANT TO CODE SECTION 5.4.7

Section 5.4.7 calls for details of each Supervisory Board member's remuneration, broken down into its elements, to be disclosed in the corporate governance report.

SAP SupervisoryBoard members' compensation is governed by the Company's Articles of Incorporation, section 16. It provides that each member of the Supervisory Board receives compensation composed of a fixed element and a variable element as well as reimbursement of his or her expenditure. The variable element is linked to the dividend. The chairperson and deputy chairperson are paid more fixed compensation and more variable compensation than the other members.

The fixed element is €50,000 for the chairperson, €37,500 for the deputy chairperson, and €25,000 for other members of the Supervisory Board. The fixed element is paid after the end of the fiscal year.

For each €0.01 by which the dividend distributed per share exceeds €0.40, the variable element is €2,000 for the chairperson, €1,500 for the deputy chairperson, and €1,000 for other members of the Supervisory Board. The variable element is paid on the first business day following the Annual General Meeting of Shareholders resolving upon the appropriation of the retained earnings for the relevant fiscal year.

The aggregate compensation cannot exceed €100,000 for the chairperson, €75,000 for the deputy chairperson, and €50,000 for other members.

The compensation report shows more details of Supervisory Board members' compensation, assuming the May 2006 general shareholder meeting resolves as expected.

DIRECTORS' DEALINGS AND SHARE OWNERSHIP DETAILS PURSUANT TO CODE SECTION 6.6

Section 6.6 of the Code recommends that every acquisition or disposal of shares of the Company or related financial instruments such as derivatives by a member of the Supervisory Board, member of the Executive Board, or other person with regular access to inside information about the Company and powers to make important decisions about the Company, or by any of certain persons with whom any such member or other person has a close association ("director's dealing") be disclosed without delay. The duty to disclose applies to acquisitions and disposals in excess of €5,000 in a calendar year. The full details are shown in the compensation report. All such directors' dealings by such persons in 2005 as envisioned in the German Securities Trading Act, section 15a are also posted on SAP's Web site at
www.sap.com/company/governance/index.epx and
www.sap.com/germany/company/governance/index.epx.

DIRECTORS' SHARE OWNERSHIP DETAILS PURSUANT TO CODE SECTION 6.6

Section 6.6 of the Code recommends that the direct or indirect ownership of shares of the Company or related financial instruments such as derivatives by a member of the Supervisory Board or of the Executive Board be disclosed if it amounts to more than 1% of the issued shares of the Company. If the total owned by all members of the Supervisory Board and members of the Executive Board amounts to more than 1% of the issued shares of the Company, ownership should be disclosed for Executive Board members as a group and for Supervisory Board members as a group. All of the details mentioned above should be included in the corporate governance report.

No Executive Board member directly or indirectly owns more than 1% of the SAP AG subscribed capital. The notes to the consolidated financial statements will include an overview of the SAP shares held by Supervisory Board chairperson Hasso Plattner, Supervisory Board member Klaus Tschira, and former Supervisory Board chairperson Dietmar Hopp and the companies in which they have majority interests. No other member of the Supervisory Board held more than 1% of SAP AG's subscribed capital.

DETAILS OF STOCK OPTION PLANS AND SIMILAR INCENTIVES PURSUANT TO CODE SECTION 7.1.3

Section 7.1.3 of the Code recommends that the corporate governance report contain specifics of the Company's stock option plans and similar value-based incentives. Members of the Executive Board hold stock options granted to them in previous years under SAP SOP 2002 and LTI Plan 2000. The terms and detail of the two plans and the other elements of Executive Board compensation are disclosed in the compensation report.

SAP's corporate governance officer monitored, and regularly reported to the Supervisory Board on the Company's adherence to the SAP Principles of Corporate Governance. There is more information on SAP's governing bodies and directors, on the way the Executive and Supervisory Boards work together, about the Supervisory Board committees, etc. in the Supervisory Board's report (which is part of this annual report) and on the Company's Web sites at www.sap.com and www.sap.de. For example, SAP's Principles and the Company's report on deviations from the NYSE Corporate Governance Standards are posted at
www.sap.com/company/governance/index.epx and
www.sap.com/germany/company/governance/index.epx.

FOR BANCO ITAÚ, SAP IS MONEY IN THE BANK.

"SAP has been an important strategic partner to Banco Itaú. Their solutions help us pursue our vision of being the leader in bank performance."

Roberto Egydio Setubal, Chief Executive Officer and Director General, Banco Itaú

"Banco Itaú is different. And our strong heritage of innovative processes and systems needs an equally strong IT platform to keep them running – the SAP NetWeaver platform."

Renato Roberto Cuoco, Senior Vice President, Banco Itaú

"SAP's solution for currency management and optimization allows us to address the bank's currency by linking each element of our value chain – all the way to the ATM kiosk."

João Jacó Hazarabedian, Executive Director, Banco Itaú

"Banco Itaú is able to move the right amount of currency at exactly the right moment – at the lowest possible cost. SAP helps us leverage value from each link in our value chain."

Joaquim Marcondes de Andrade Westin, Managing Director, Banco Itaú

"I love the convenience of Banco Itaú's ATMs. They're always available when and where I need them."

Luiz Gomes da Silva, Customer, Banco Itaú

A DELICATE BALANCE

Banco Itaú ensures that customers nationwide have a dependable source of cash – without breaking the bank. Most bank customers take automated teller machines (ATMs) for granted. Their cards go in, and money comes out. But for banks themselves, ATMs pose a daily logistical challenge. If a bank stocks too little cash at a time, it needs to restock frequently – or risk disappointing customers. If it stocks too much cash, profitability suffers due to high carrying costs. But with the help of SAP, Banco Itaú, one of Brazil's largest and most innovative banking institutions, has found an ideal balance for its ATMs and branch offices. And it began with a study of the dairy industry.

A LEADING INNOVATOR

Headquartered in São Paulo, Banco Itaú has perennially been named the "best Brazilian bank" by global industry publications and ranks as its nation's most valuable banking brand. In addition, Banco Itaú is considered Brazil's most modern banking institution – in part because of its extensive use of SAP solutions, including those for enterprise resource planning, supplier relationship management, employee self-service, customer relationship management, business intelligence, and finance. The bank's nationwide network includes more than 3,000 branches and 21,000 ATMs – many of which are in remote locations. And according to Renato Roberto Cuoco, Senior Vice President and member of Banco Itaú's executive board, the costs of stocking each machine with cash became a significant challenge.

"Maintaining our ATM network can be a very costly operation," he explains. "For instance, if we have to send an armored car 200 miles from a regional base, it costs money to send cash and bring back deposits. "What's more," he notes, "Brazil's central bank imposes very high fees on commercial banks that hold excessive cash balances. And having too much money at an ATM or branch can increase the risk of robbery." In 2000, Banco Itaú looked for an efficient and fully integrated solution for managing its cash supplies. And it turned to SAP.

With a novel application of SAP supply chain management software, one of Brazil's leading banks has discovered a more efficient way to distribute cash to its branches and automatic teller machines (ATMs) around the country.

FIRST APPLICATION OF ITS KIND

"We saw a method in the United States for the distribution of dairy products," Mr. Cuoco recalls, "and we thought it was actually a very good fit because dairies were already using IT to predict how much of each product to distribute to stores each day, based on a complex set of calculations. For example, they knew that the demand for milk and butter would be higher on weekends or holidays when people were baking for guests – just as demand for cash is higher during the holidays or on paydays. And we knew that SAP's supply chain management solutions could help us apply a similar approach to managing our cash inventory."

Working together, Banco Itaú and SAP customized SAP Advanced Planning & Optimization (SAP APO), a solution normally used by manufacturers, to manage cash in the same way that manufacturers manage raw materials. The result was a seamless supply chain between bank management, branch managers, and bank customers. It was the first application of SAP APO used in a financial institution in the world. And it is now available to other banking customers as a currency management optimization application from SAP.

A COMPLEX OPERATION

SAP's currency management optimization application enables Banco Itaú to continually identify the optimal cash replenishment service at the lowest possible cost. For example, the SAP solution applies sophisticated algorithms to forecast cash demand at each of the branch and ATM locations in Banco Itaú's nationwide network. Then, it develops optimized delivery and withdrawal routes for the bank's cash delivery vendors. And because it integrates fully with Banco Itaú's other SAP solutions, complete transparency for all cash movements, cash handling costs, and suppliers throughout the nation is ensured. As Luiz Barrichelo, Currency and Logistics Superintendent of Banco Itaú, explains, "If you want to have a benefit to the bottom line, you need to see the whole chain. Our system puts us years ahead of our competitors. And we continue to refine our methods to optimize our use of suppliers and our branch network."

EXCEEDING EXPECTATIONS

Through the use of their SAP solution, Banco Itaú has reduced the total costs of its financial operations by 15% – while maintaining the same high level of customer service as before. Managing Director de Andrade Westin says, "With the SAP solution, we can put money in ATMs and branches at exactly the right moment – at the lowest possible cost. It is a very important logistical tool for us, because it allows us to reduce the number of armored cars and transportation costs. And more than that, it allows us to provide more efficient service to our customers." In addition, by optimizing its cash reserves, Banco Itaú has improved its cash management capabilities, contributing more profit to the company's bottom line. And, less cash in the field has increased the overall level of security for Banco Itaú branches and ATMs. "SAP exceeded our expectations," Mr. Cuoco says. "And that's always a good surprise."

Dear Shareholders,

For SAP, 2005 was one of the most successful years ever. Software revenue for the year was some 18% higher than for 2004. Total revenue increased 13%; operating income grew 16% These results – and the encouraging outlook for 2006 – exceeded market expectations and were well received by the financial analysts, which has helped raise the Company's market capitalization appreciably. The Company made great strides shipping new solutions based on enterprise service architecture. Meanwhile, mySAP Business Suite and all SAP industry solutions also shipped for SAP NetWeaver. The number of independent software vendors (ISVs) developing solutions for SAP NetWeaver grew all through the year. The Company pursued a policy of investing in organic growth, but also made small acquisitions where that was the best way to add a desirable offering to the product portfolio. It reported good numbers throughout the year, demonstrating again that the strategies that the Executive and Supervisory Boards agreed are a recipe for success.

This report is an account of how the Supervisory Board discharged its duties in 2005. It focuses on constant consultation processes between the two Boards, on the topics discussed at meetings of the Supervisory Board and its committees, the governance of the Company, and the Supervisory Board's role in facilitating the audit of the annual accounts and disclosures.

The Supervisory Board discharged the duties imposed on it by the law and by the Company's articles of incorporation. It was regularly consulted by the Executive Board on the running of the Company, and it monitored and scrutinized the work of the Company's management. The Supervisory Board was involved whenever decisions were made about matters that were of fundamental importance for SAP. It regularly received full and timely reports from the Executive Board, both from members in person and in written documents. They chiefly concerned the Company's progress in business, risks and their management, and items of special significance for SAP. The chief executive officer and the chairperson of the Supervisory Board met regularly to discuss the needs, opportunities, and decisions of the hour.

Hasso Plattner, Chairperson of the Supervisory Board

I. SUPERVISORY BOARD MEETINGS

The deliberations and resolutions at ordinary Supervisory Board meetings were concerned with the developing revenue, earnings, and human capital situation, finances, strategy, investment in businesses, risk management, approval of the group annual budget, tracking and exploiting new developments and technologies, corporate governance and matters relating to compliance, transactions that require Supervisory Board approval, and the remuneration of Executive Board members.

The Supervisory Board held four ordinary meetings during the year. It also held two extraordinary meetings and used its circular correspondence procedure to adopt five resolutions.

At its February 10, 2005, meeting, the Supervisory Board discussed the 2004 fourth quarter figures and business over the year, and signed off its draft report for the year. It also received and discussed a strategy report from the Executive Board and discussed and approved the budget, capital expenditure budget, and cash plan for 2005. The meeting received reports from the corporate governance officer and the compliance officer, and agreed to begin the annual review of the Supervisory Board's work.

At its March 17, 2005 meeting, the Supervisory Board focused on the 2004 annual financial statements and consolidated statements and audit, strategic planning for 2005, and updating SAP's Principles of Corporate Governance. It also agreed the agenda for the May 2005 Annual General Meeting of Shareholders.

At the July 29 and October 28, 2005 meetings, discussion centered chiefly on special strategic projects, the current state of collaboration with SAP Systems Integration AG (SAP SI), the new public bid for outstanding SAP SI shares, updating SAP's Principles of Corporate Governance in the light of the June 2005 German Corporate Governance Code amendments, the election of a new audit committee chairperson, and various aspects of risk management.

At each of the meetings mentioned above, the Supervisory Board received reports on the work of its committees.

The two extraordinary meetings on February 10 and March 16, 2005, dealt with the SAP's bid to acquire all shares of Retek, Inc., a U.S. company, and the reorganization of the SAP Executive Board.

The five circular correspondence resolutions mentioned above approved, among other matters, various acquisitions, the discontinuation of SAP's Extended Management Board, and the leasing and building of facilities. The matters concerned had been discussed at meetings of the Supervisory Board before the circular correspondence procedure was used.

II. THE WORK OF THE SUPERVISORY BOARD COMMITTEES

In 2005, the five committees continued to operate effectively, supporting the work of the Supervisory Board. The powers of the committees were the same as the previous year. Only the membership of the audit committee and of the finance and investment committee changed. After the May 2005 Annual General Meeting of Shareholders elected Dr. Erhard Schipporeit to the SAP Supervisory Board as a new member, the July 2005 meeting of the Supervisory Board appointed Dr. Erhard Schipporeit to membership – and the October meeting elected him to the chair – of the audit committee. Prof. Haarmann vacated his audit committee seat in July 2005. Instead, he took up the finance and investment committee seat vacated by Mr. Dietmar Hopp upon the latter's retirement from the Supervisory Board.

During the year, the committees discussed the following topics:

The general committee decided the allocation of stock options to employees other than SAP AG Executive Board members and the assignment of shares of SAP to beneficiaries of employee stock option plans. It held one meeting in 2005.

The compensation committee held five meetings. It deliberated and decided amendments to the terms of the Executive Board members' contracts, a new incentive plan for Executive Board members, stock option allocations to Executive Board members, general matters concerning Executive Board members' compensation, Executive Board succession planning, loan approvals for officers who hold procura powers, and Executive Board members' secondary work.

The finance and investment committee held three meetings. It deliberated and decided various strategic investments, such as the acquisition of Triversity Inc. and Khimetrics Inc. It also dealt with SAP's existing investments in various companies, notably the progress of its venture capital investments. In accordance with its powers, the finance and investment committee dealt with certain investments with values in the range €50 million to €100 million.

The audit committee also met three times. It discussed the consolidated annual financial statements and the progress of risk management in the SAP Group. It deliberated on the quarterly results, did work preparatory to the Supervisory Board's proposal to the Annual General Meeting of Shareholders with respect to the election of an auditor, and discussed audit focus areas with the auditor. The committee also determined the auditor's fee. Other matters on which the committee deliberated included the New York Stock Exchange (NYSE) Corporate Governance Standards ("NYSE Standards") for NYSE-listed foreign companies' audit committees, the adoption of audit committee rules of procedure, and the assessment of the Company's internal control structure and procedures for financial reporting. Several representatives of the auditor, KMPG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, attended all audit committee meetings and reported in depth on their audit work and reviews of the quarterly results.

The technology committee monitored current technological developments on the software market and discussed SAP's key technologies and technological strategies. It met eight times in 2005, with the relevant members of the Executive Board, and sometimes the CEO, in attendance. The meetings addressed topics such as the optimization of certain SAP applications on Business Process Platform, absorbing various products and new technologies into SAP's portfolio following acquisition, and the Executive Board's organizational realignment to SAP's products and value chain. The discussions on software development processes of the future concentrated on innovation, product quality, and orientation to the requirements of the customer's employees.

Once again the mediation committee, established to meet a requirement in the German Codetermination Act, section 27 (3), did not need to meet during the year.

The regular reports from the committees ensured that collaboration between the Supervisory Board and its committees was well-informed and effective.

III. CORPORATE GOVERNANCE

SAP sees corporate governance as a process of continuous adaptation: Thus, the Supervisory Board was involved in updating SAP's Principles of Corporate Governance again to reflect the latest developments in Germany and on the international stage. Of these, the most important were the June, 2005 amendments to the German Corporate Governance Code ("the Code"). In consequence, twice during the year SAP's Principles and the Code compliance declaration had to be revised and republished. SAP did not implement the following recommendations: "as a rule, a chairperson or member of the Executive Board shall not become chairperson of the Supervisory Board or chairperson of a Supervisory Board committee" (section 5.4.4 of the Code) and "Supervisory Board members shall be elected individually" (section 5.4.3 of the Code). SAP set out and explained these deviations from the Code in its compliance declaration in October 2005. All of the other new Code provisions were incorporated into SAP's Principles.

As a NYSE-listed company, SAP is subject to U.S. financial legislation and to the rules of the U.S. Securities and Exchange Commission and of NYSE. In 2005, the Company therefore continued to implement the NYSE Standards mentioned above. Notably, it established an audit committee with membership as required by section 303A.06 of the NYSE Standards and an internal control structure as required by the U.S. Sarbanes-Oxley Act, section 404.

SAP's corporate governance officer monitored, and regularly reported to the Supervisory Board on, adherence to SAP's Principles.

The Executive Board issued the corporate governance report on compliance with SAP's Principles, as required by section 3.10 of the Code, in its own name and on behalf of the Supervisory Board.

IV. FINANCIAL STATEMENTS AND REVIEW OF OPERATIONS

KPMG again audited SAP AG's accounts in 2005. The annual general meeting of shareholders on May 12, 2005, elected that firm as the Company's independent public accountant, and the Supervisory Board made the appointment immediately after the Annual General Meeting of Shareholders. Before proposing KPMG to the Annual General Meeting of Shareholders as auditor for the year, the chairperson of the Supervisory Board had obtained confirmation from the firm that circumstances did not exist that might prejudice its independence as the auditor.

KPMG examined the SAP AG financial statements, the consolidated financial statements, and the reviews of SAP Group and SAP AG operations, comparing them with the records on which they were based, and certified them without qualification. KPMG also confirmed that the consolidated financial statements complied with U.S. GAAP and that the exemption in the German Commercial Code, section 292a applied.

The audit reports prepared by KPMG were sent to all audit committee and Supervisory Board members in good time.

The auditor attended the meeting of the audit committee on March 15, 2006, and the audit meeting of the full Supervisory Board on March 16, 2006, and reported the results of the audit in detail. The auditor then discussed the results with the Supervisory Board and satisfied the Supervisory Board it had conducted the audit properly.

The Supervisory Board approved the audit and gave its consent to the consolidated financial statements, the SAP AG financial statements, and the reviews of SAP Group and SAP AG operations. The financial statements and reviews of operations were thus formally adopted. The Supervisory Board checked and endorsed the Executive Board's proposal for the Annual General Meeting of Shareholders to appropriate retained earnings to pay a dividend.

V. MEMBERSHIP OF THE SUPERVISORY BOARD; ORGANIZATIONAL ALIGNMENT OF THE EXECUTIVE BOARD; APPOINTMENT OF CORPORATE OFFICERS OF THE SAP GROUP

Having reached the age of 65, Dietmar Hopp resigned his seat on the Supervisory Board with effect from the close of the May 12, 2005, shareholders' meeting. The Supervisory Board, shareholders, and employees of SAP join in most warmly thanking Mr. Hopp for his tremendous services to the Company. As a co-founder and on the Executive and Supervisory Boards, Mr. Hopp played a defining role in the growth of SAP. He helped shape SAP's core values, and his dedicated work was instrumental in steering SAP toward the success it enjoys today. He has always been a model of kindness, civility, and fairness in his dealings with people and as a businessman. He brought out the best in all who worked with him or for him. We are very sorry he decided to leave the SAP Supervisory Board, though of course we respect that decision.

The May 12, 2005, Annual General Meeting of Shareholders elected Dr. Erhard Schipporeit to the Supervisory Board seat vacated by Mr. Hopp.

With the Supervisory Board's agreement, in 2005, the Executive Board adopted a new form of organization designed to better implement its strategy and achieve the goals it had set. The new Executive Board portfolios reflect SAP's value chain. The following changes were made:

Dr. Peter Zencke now heads research and breakthrough innovation, including the future direction of Business Process Platform development. Shai Agassi is responsible for all SAP's product development, the technology platform, the industry solutions, the partner network, and product and industry marketing. This ensures that all product development is under the control of only one Executive Board member. In addition to his responsibilities for global human resources and labor relations, Prof. Dr. Claus E. Heinrich now manages all SAP's research and development centers worldwide. His portfolio also includes quality assurance and the Company's internal information technology organization. The global service and support organization, which delivers customer support, hosting, and business process outsourcing services, is headed by Gerhard Oswald, as is customer-specific development. Léo Apotheker continues to head global sales and field services (consulting and training), but has also taken over responsibility for global marketing, which – along with product marketing – was previously the responsibility of Prof. Dr. Henning Kagermann.

The previous portfolios of Prof. Kagermann and Dr. Werner Brandt remain unchanged, except that Prof. Kagermann transferred responsibility for global marketing to Mr. Apotheker and Mr. Agassi. Prof. Kagermann is responsible for the Company's strategy and development, corporate communications, patents, the internal audit service, and management of top talent. Dr. Brandt manages finance and administration, venture-capital investments, and SAP AG's shared service centers.

At its February 6, 2006, meeting, the Supervisory Board extended Dr. Peter Zencke's appointment as member of the Executive Board until December 31, 2008.

Along with the changes noted above the Extended Management Board role was replaced with a new function, the corporate officer of the SAP Group (or simply "corporate officer"). Corporate officers are managers on a level immediately beneath the members of the Executive Board at SAP AG, or they are directors of an SAP subsidiary, and they head an area or line of business that is of key importance for the Group. A corporate officer is not as such empowered to bind SAP or its subsidiaries in law or to assume any of the special powers of an Executive or Supervisory Board member.

The Supervisory Board thanks the Executive Board, the managers of the group companies, and everyone who works for SAP, for making 2005 so successful a year.

Prof. Dr. h.c. Plattner
for the Supervisory Board
Walldorf, March 16, 2006

Compensation Report[1)]

This SAP compensation report outlines the criteria that the Company applies to determine compensation for Executive Board and Supervisory Board members, discloses the amount of compensation paid, and describes the compensation packages. It also contains information about Executive Board members' stock-based compensation plans, shares held by Executive Board and Supervisory Board members, and the directors' dealings required to be disclosed in accordance with the German Securities Trading Act.

COMPENSATION FOR EXECUTIVE BOARD MEMBERS

Compensation Package

The Executive Board compensation package is specified by the compensation committee of the Supervisory Board. Executive Board members' compensation is intended to reflect the Company's size and global presence as well as its economic and financial standing. The level is internationally competitive to reward committed, successful work in a dynamic environment.

The compensation of the Executive Board as a body is performance-based. It has three elements: a fixed element (salary), a performance-related element (directors' profit-sharing), and a long-term incentive element (stock options). A compensation target is set for the total of fixed and performance-related elements. The Company reviews the compensation target every year in the light of SAP's business and directors' compensation at comparable companies on the international stage. Every year, the compensation committee sets the target performance-related compensation, reflecting the relevant values in that year's budget.

The elements of Executive Board compensation are paid as follows:

- The fixed element is paid as a monthly salary.
- The amount of performance-related compensation to be paid out in respect of 2005 depends on the SAP group's achievement of its targets for operating income before stock-based compensation expenses and acquisition-related charges and on software revenue growth. On February 3, 2006 the Supervisory Board's compensation committee assessed the Company's performance against the agreed targets and determined how much performance-related compensation was payable. The Company will make the payment after the Annual General Meeting of Shareholders in May 2006.
- The long-term incentive element takes the form of stock options issued on the terms of the SAP stock option plan 2002 (SAP SOP 2002) that the Annual General Meeting of Shareholders approved on May 3, 2002. The number of stock options to be issued to each individual member of the Executive Board was decided by the compensation committee at its meeting on February 10, 2005 and reflected the fair value of the options. Details of the plan and the terms of options under it are set out in Note 22 to the Consolidated Financial Statements. For options granted to members of the Executive Board in and from February 2004, the SAP SOP 2002 plan terms provide that the Supervisory Board can cap subscription rights if it believes that an option holder would make a windfall profit by exercising them. If the total profit from the exercise at all times of rights under options issued to that holder at the same time exceeds two times the product of (i) the number of subscription rights received by that option holder; and (ii) the exercise price, that total profit is a windfall profit. It is determined by reference to the total of the differences, calculated individually for each exercised subscription right, between the closing price of the share on the exercise day and the exercise price. SAP bears any expenses incurred by the option holder through fees, taxes, or deductions related to the cap. The Supervisory Board can only cap subscription rights if it decides the windfall profits are due to not inconsequential, extraordinary, unforeseen appreciation for which the Executive Board is not responsible.

1) The Compensation Report is part of the audited Review of SAP Group Operations.

Amount of Compensation

Executive Board members' compensation in fiscal year 2005:

					2005	2004
	Fixed elements		Performance-related compensation	Long-term incentive elements		
	Salary	Others[1]	Directors' profit sharing	Stock options	Total	Total
	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)
Prof. Dr. Henning Kagermann (CEO)	618.0	18.3	4,104.0	1,344.5	6,084.8	5,258.7
Shai Agassi	412.0	100.2	2,736.0	752.9	4,001.1	3,312.4
Léo Apotheker	412.0	0.2	2,736.0	752.9	3,901.1	3,262.0
Dr. Werner Brandt	412.0	41.3	2,736.0	752.9	3,942.2	3,046.7
Prof. Dr. Claus E. Heinrich	412.0	20.0	2,736.0	752.9	3,920.9	3,277.8
Gerhard Oswald	412.0	14.2	2,736.0	752.9	3,915.1	3,270.4
Dr. Peter Zencke	412.0	21.9	2,736.0	752.9	3,922.8	3,281.8
					29,688.0	**24,709.8**

[1] Retirement pension plan contributions, insurance contributions, benefits in kind, compensation from seats on other governing bodies in SAP group.

Disclosed in the table above for the first time, the stock option values (2005: €5,861.9 thousand; 2004: €9,507.0 thousand) are the fair value of SAP SOP 2002 options at the time of grant to the respective members. During 2005, members of the Executive Board received the following stock options under SAP SOP 2002:

	Stock options
Prof. Dr. Henning Kagermann (CEO)	66,955
Shai Agassi	37,495
Léo Apotheker	37,495
Dr. Werner Brandt	37,495
Prof. Dr. Claus E. Heinrich	37,495
Gerhard Oswald	37,495
Dr. Peter Zencke	37,495
	291,925

END-OF-SERVICE UNDERTAKINGS

Retirement Pension Plan

On January 1, 2000, SAP AG introduced a contributory retirement pension plan. At that time the performance-based retirement plan was discontinued for Executive Board members. Entitlements accrued up to December 31, 1999 were unaffected.

In 2005, pension benefits of €474 thousand (2004: €247 thousand) were paid to former Executive Board members. As of December 31, 2005, the projected benefit obligation for former Executive Board members was €12,830 thousand (2004: €10,819 thousand).

Early Termination

The standard contract for all Executive Board members from January 1, 2006 provides that on termination before full term SAP AG will pay to the member the outstanding part of the compensation target for the entire remainder of the term, appropriately discounted for early payment. A member has no claim to that payment if he or she leaves SAP for reasons for which he or she is responsible.

If an Executive Board member's post on the Executive Board expires or ceases to exist because of or as a consequence of change or restructuring or due to a change of control, SAP AG and each Executive Board member has the right to terminate the employment contract within eight weeks of the occurrence by giving six months' notice. A change of control is when an investor becomes obliged to make a takeover offer for SAP under the German Securities Acquisition and Takeover Act, when SAP AG merges with another company and becomes the subsumed entity, or when a domination or profit transfer agreement is concluded with SAP AG as the dependent company. An Executive Board member's contract can also be terminated before full term if his or her appointment as an SAP AG Executive Board member is revoked.

During the continuance of a 12-month postcontractual noncompete period, an Executive Board member is paid abstention compensation corresponding to 50% of his or her final average contractual compensation. The Company can deduct the abstention compensation from any other amount it owes the member such as pension or early termination payment.

LONG-TERM INCENTIVE ELEMENTS

Members of the Executive Board hold stock-based compensation awards granted to them in previous years under SAP SOP 2002 and LTI Plan 2000. Details and terms of the two plans are set out in Note 22 to the Consolidated Financial Statements.

SAP SOP 2002

The table below shows stock options held by members of the Executive Board on December 31, 2005, granted in 2003, 2004, and 2005 under SAP SOP 2002.

The exercise prices listed in the table for SAP SOP 2002 stock options are 110% of the base price of an SAP AG ordinary share. The base price is the arithmetic mean SAP share closing auction price in the Frankfurt stock exchange Xetra trading system (or its successor system) over the five business days immediately before the issue date of that stock option. The lowest exercise price permitted is the closing auction price on the day before the issue date.

	Exercise price in €	Vested as of December 31, 2005 Number of options	Vested as of December 31, 2005 Remaining term in years	Not vested as of December 31, 2005 Number of options	Not vested as of December 31, 2005 Remaining term in years	Total Number of options	Total Remaining term in years
Prof. Dr. Henning Kagermann (CEO)	90.37	80,000	2.16	–	–	80,000	2.16
	149.99	–	–	50,000	3.13	50,000	3.13
	134.20	–	–	66,955	4.11	66,955	4.11
Shai Agassi	90.37	30,000	2.16	–	–	30,000	2.16
	99.13	30,000	2.33	–	–	30,000	2.33
	149.99	–	–	28,000	3.13	28,000	3.13
	134.20	–	–	37,495	4.11	37,495	4.11
Léo Apotheker	90.37	30,000	2.16	–	–	30,000	2.16
	149.99	–	–	28,000	3.13	28,000	3.13
	134.20	–	–	37,495	4.11	37,495	4.11
Dr, Werner Brandt	149.99	–	–	28,000	3.13	28,000	3.13
	134.20	–	–	37,495	4.11	37,495	4.11
Prof. Dr. Claus E. Heinrich	90.37	45,000	2.16	–	–	45,000	2.16
	149.99	–	–	28,000	3.13	28,000	3.13
	134.20	–	–	37,495	4.11	37,495	4.11
Gerhard Oswald	149.99	–	–	28,000	3.13	28,000	3.13
	134.20	–	–	37,495	4.11	37,495	4.11
Dr. Peter Zencke	90.37	45,000	2.16	–	–	45,000	2.16
	149.99	–	–	28,000	3.13	28,000	3.13
	134.20	–	–	37,495	4.11	37,495	4.11
		260,000		**509,925**		**769,925**	

During 2005, members of the Executive Board exercised stock options granted in earlier years under SAP SOP 2002 as follows:

	Stock options Number of options	Stock options Weighted average exercise price per option in €
Dr. Werner Brandt	30,000	90.37
Gerhard Oswald	45,000	90.37
	75,000	

LTI Plan 2000

Beneficiaries under LTI Plan 2000 could choose between convertible bonds and stock options. The chief difference was in the way the exercise or conversion price was determined. The bond conversion price depends on the closing price of the SAP share the day before the bond was issued, while the option exercise price varies with the performance of the SAP share over time against the Goldman Sachs Software Index.

The table below shows stock options held by members of the Executive Board on December 31, 2005, granted in earlier years under LTI Plan 2000. The exercise prices listed for LTI Plan 2000 stock options reflect the prices payable by an Executive Board member for one SAP ordinary share upon exercise of the option on December 31, 2005. The exercise prices are variable. They vary with the performance of the SAP share over time against the Goldman Sachs Software Index.

	LTI Plan 2000 stock options						
		Vested as of December 31, 2005		Not vested as of December 31, 2005		Total	
	Exercise price in €	Number of options	Remaining term in years	Number of options	Remaining term in years	Number of options	Remaining term in years
Prof. Dr. Henning Kagermann (CEO)	77.95	28,032	4.14	–	–	28,032	4.14
	94.72	39,375	5.14	–	–	39,375	5.14
Shai Agassi	–	–	–	–	–	–	–
Léo Apotheker	117.02	14,437	6.14	7,438	6.14	21,875	6.14
Dr. Werner Brandt	–	–	–	–	–	–	–
Prof. Dr. Claus E. Heinrich	77.95	20,532	4.14	–	–	20,532	4.14
	94.72	27,500	5.14	–	–	27,500	5.14
Gerhard Oswald	117.02	–	–	10,625	6.14	10,625	6.14
Dr. Peter Zencke	77.95	6,981	4.14	–	–	6,981	4.14
	94.72	18,425	5.14	–	–	18,425	5.14
		155,282		18,063		173,345	

The table below shows convertible bonds held by members of the Executive Board on December 31, 2005, granted in earlier years under LTI Plan 2000. The exercise prices listed in the table for LTI Plan 2000 convertible bonds reflect the prices payable by an Executive Board member for one SAP ordinary share on conversion of the bond. The exercise prices are fixed and correspond to the quoted price of one SAP ordinary share on the business day immediately preceding the grant of the convertible bond.

	Exercise price in €	Vested as of December 31, 2005 Number of bonds	Vested as of December 31, 2005 Remaining term in years	Not vested as of December 31, 2005 Number of bonds	Not vested as of December 31, 2005 Remaining term in years	Total Number of bonds	Total Remaining term in years
	LTI Plan 2000 convertible bonds						
Prof. Dr. Henning Kagermann (CEO)	290.32	22,425	4.14	–	–	22,425	4.14
	191.25	31,500	5.14	–	–	31,500	5.14
	151.50	59,400	6.14	30,600	6.14	90,000	6.14
Shai Agassi	–	–	–	–	–	–	–
Léo Apotheker	334.67	23,850	4.19	–	–	23,850	4.19
	191.25	30,000	5.14	–	–	30,000	5.14
	151.50	11,550	6.14	5,950	6.14	17,500	6.14
Dr. Werner Brandt	191.25	5,000	5.14	–	–	5,000	5.14
	151.50	19,800	6.14	10,200	6.14	30,000	6.14
Prof. Dr.Claus E. Heinrich	290.32	16,425	4.14	–	–	16,425	4.14
	191.25	22,000	5.14	–	–	22,000	5.14
	151.50	33,000	6.14	17,000	6.14	50,000	6.14
Gerhard Oswald	290.32	16,425	4.14	–	–	16,425	4.14
	191.25	22,000	5.14	–	–	22,000	5.14
	151.50	16,500	6.14	8,500	6.14	25,000	6.14
Dr. Peter Zencke	290.32	16,425	4.14	–	–	16,425	4.14
	191.25	22,000	5.14	–	–	22,000	5.14
	151.50	33,000	6.14	17,000	6.14	50,000	6.14
		401,300		**89,250**		**490,550**	

Rights exercised by members of the Executive Board in 2005 under LTI Plan 2000 stock options and convertible bonds:

	Stock options Number of options	Stock options Weighted average exercise price per option in €	Convertible bonds Number of bonds	Convertible bonds Weighted average exercise price per bond in €
Dr. Werner Brandt	2,125	88.12	–	–
Gerhard Oswald	19,663	99.00	–	–
	21,788		**–**	**–**

STOCK HELD BY EXECUTIVE BOARD MEMBERS

No member of the Executive Board holds more than 1% of the subscribed capital of SAP AG. Members of the Executive Board held a total of 31,346 shares on December 31, 2005.

The table below shows transactions by Executive Board members and persons closely associated with them notified to SAP pursuant to the German Securities Trading Act, section 15a in 2005.

Transactions in SAP Shares and American Depositary Receipts (ADRs)

Notifying party	Transaction date	Transaction	Number	Unit price
Shai Agassi	February 4, 2005	Purchase of ADRs	25,500	US$39.1249
Dr. Werner Brandt	December 12, 2005	Exercise of subscription right	20,000	€90.37
	December 12, 2005	Sale of shares	20,000	€155.03
	December 12, 2005	Purchase of shares	1,000	€154.80
	June 10, 2005	Exercise of subscription right	2,125	€88.1236
	June 10, 2005	Exercise of subscription right	10,000	€90.37
	June 10, 2005	Sale of shares	12,125	€138.17302
Gerhard Oswald	June 10, 2005	Exercise of subscription right	10,313	€108.8686
	June 10, 2005	Exercise of subscription right	45,000	€90.37
	June 10, 2005	Exercise of subscription right	9,350	€88.1236
	June 10, 2005	Sale of shares	64,663	€138.17302

EXECUTIVE BOARD: OTHER INFORMATION

In 2005, SAP did not grant any compensation advance or credit to, or enter into any commitment for the benefit of, any member of the Executive Board.

As far as the law permits, SAP AG and SAP AG's affiliated companies in Germany and elsewhere indemnify and hold harmless their respective directors and officers against and from the claims of third parties. To this end the Company maintains directors' and officers' group liability insurance. The policy is annual and is renewed from year to year. The insurance covers the personal liability of the insured group for financial loss caused by its managerial acts and omissions. There is no individual deductible as envisaged in the German Corporate Governance Code, section 3.8, paragraph 2. SAP believes the motivation and responsibility that the members of the SAP Executive and Supervisory Boards bring to their duties would not be improved by such a deductible element. For this reason, SAP regards a deductible as unnecessary for the insured group.

COMPENSATION FOR SUPERVISORY BOARD MEMBERS

Compensation Package

Supervisory Board members' compensation is governed by the Company's Articles of Incorporation, section 16. It provides that each member of the Supervisory Board receives compensation composed of a fixed element and a variable element as well as reimbursement of his or her expenditure. The variable element is linked to the dividend. The chairperson and deputy chairperson are paid more fixed compensation and more variable compensation than the other members.

The fixed element is €50,000 for the chairperson, €37,500 for the deputy chairperson, and €25,000 for other members of the Supervisory Board. The fixed element is paid after the end of the fiscal year.

For each €0.01 by which the dividend distributed per share exceeds €0.40, the variable element is €2,000 for the chairperson, €1,500 for the deputy chairperson, and €1,000 for other members of the Supervisory Board. The variable element is paid on the first business day following the Annual General Meeting of Shareholders resolving upon the appropriation of the retained earnings for the relevant fiscal year.

The aggregate compensation cannot exceed €100,000 for the chairperson, €75,000 for the deputy chairperson, and €50,000 for other members.

Amount of Compensation

Subject to resolutions of the Annual General Meeting of Shareholders on May 9, 2006, the compensation paid to Supervisory Board members in respect of fiscal year 2005 will be as set out in the table below.

	2005			2004		
	Fixed com-pensation	Variable com-pensation	Total	Fixed com-pensation	Variable com-pensation	Total
	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)
Prof. Dr. h.c. mult. Hasso Plattner (Chairperson)	50.0	50.0	100.0	50.0	50.0	100.0
Helga Classen (Deputy Chairperson)	37.5	37.5	75.0	37.5	37.5	75.0
Willi Burbach	25.0	25.0	50.0	25.0	25.0	50.0
Prof. Dr. Wilhelm Haarmann	25.0	25.0	50.0	25.0	25.0	50.0
Dietmar Hopp (until May 12, 2005)	10.4	10.4	20.8	25.0	25.0	50.0
Bernhard Koller	25.0	25.0	50.0	25.0	25.0	50.0
Christiane Kuntz-Mayr	25.0	25.0	50.0	25.0	25.0	50.0
Lars Lamadé	25.0	25.0	50.0	25.0	25.0	50.0
Dr. Gerhard Maier	25.0	25.0	50.0	25.0	25.0	50.0
Dr. h.c. Hartmut Mehdorn	25.0	25.0	50.0	25.0	25.0	50.0
Pekka Ala-Pietilä	25.0	25.0	50.0	25.0	25.0	50.0
Prof. Dr. Dr. h.c. August-Wilhelm Scheer	25.0	25.0	50.0	25.0	25.0	50.0
Dr. Barbara Schennerlein	25.0	25.0	50.0	25.0	25.0	50.0
Dr. Erhard Schipporeit (since May 12, 2005)	16.7	16.7	33.3	0.0	0.0	0.0
Stefan Schulz	25.0	25.0	50.0	25.0	25.0	50.0
Dr. Dieter Spöri	25.0	25.0	50.0	25.0	25.0	50.0
Dr. h.c. Klaus Tschira	25.0	25.0	50.0	25.0	25.0	50.0
Total	**439.6**	**439.6**	**879.2**	**437.5**	**437.5**	**875.0**

In addition, SAP reimburses to members of the Supervisory Board the value-added tax payable on their compensation.

LONG-TERM INCENTIVE ELEMENTS

Members are not offered stock options or other stock-based compensation for their Supervisory Board work. Any stock options or other stock-based compensation received by employee-elected members relate to their position as SAP employees and not to their work on the Supervisory Board.

SUPERVISORY BOARD MEMBERS' SHAREHOLDINGS

Note 21 to the Consolidated Financial Statements shows the shareholdings of Supervisory Board members Hasso Plattner (chairperson) and Klaus Tschira, and the companies they control, on December 31, 2005. No other member of the Supervisory Board held more than 1% of SAP AG's subscribed capital. Members of the Supervisory Board held a total of 70,396,026 SAP shares on December 31, 2005.

The table below shows transactions in 2005 by Supervisory Board members and persons closely associated with them notified to SAP pursuant to the German Securities Trading Act, section 15a.

Transactions in SAP Shares and ADRs

Notifying party	Transaction date	Transaction	Number	Unit price
Hasso Plattner GmbH & Co. Beteiligungs-KG	December 28, 2005	Acquisition of shares by way of security loan	410,000	variable[1)]
Bernhard Koller	August 1, 2005	Purchase of shares	1,000	€140.23
	May 24, 2005	Purchase of shares	350	€131.47
Christiane Kuntz-Mayr	October 31, 2005	Purchase of shares	325	€142.18821

1) At an original price of 0.35% of €153.16 per annum and additionally the payment of a sum of 140% of any cash disbursements received on the share loan with an original value of €219,784.60.

SUPERVISORY BOARD: OTHER INFORMATION

In 2005, SAP did not grant any compensation advance or credit to, or enter into any commitment for the benefit of, any member of the Supervisory Board.

Hasso Plattner, the chairperson of the Supervisory Board, entered into a consulting contract with SAP after he joined the Supervisory Board in May 2003. The contract does not provide for any compensation. The only cost incurred by SAP in 2005 under the contract was the reimbursement of expenses.

As far as the law permits, SAP AG indemnifies Supervisory Board members against, and holds them harmless from, claims brought by third parties. To this end the Company maintains directors' and officers' group liability insurance. For more information about this insurance, see the Executive Board: Other Information section.

Financial Information

Since 1999, we have prepared our consolidated financial statements in accordance with the accounting principles generally accepted in the United States (U.S. GAAP). This ensures direct comparability with the financial statements of our international competitors. In addition to the many disclosures required under U.S. GAAP, the notes to our statements contain a great deal of extra detail that we provide voluntarily. The review of operations meets the requirements of the German Commercial Code or Handelsgesetzbuch (HGB), but it also contains additional voluntary information. We are committed to increasing transparency, as the international financial community rightly demands.

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by SAP AG, Walldorf comprising the balance sheet, the income statement, the statements of changes in shareholders' equity and cash flows, the notes thereto as well as the Review of SAP Group Operations as of and for the business year from January 1 to December 31, 2005. The preparation and the content of both, the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (U.S. GAAP) and the Review of SAP Group Operations in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with §317 HGB [Handelsgesetzbuch „German Commercial Code"], German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) as well as in supplementary compliance with Auditing Standards Generally Accepted in the United States of America (U.S. GAAS). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with accounting principles and in the Review of SAP Group Operations are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the effectiveness of the accounting-related internal control system and the amounts and disclosures in the consolidated financial statements is examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the Review of SAP Group Operations. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the conclusions of our audit, the consolidated financial statements comply in all material respects with Accounting Principles Generally Accepted in the United States of America (U.S. GAAP) and give a true and fair view of the net assets, financial position, results of operations and cash flows of the SAP Group in the business year in accordance with these requirements. The Review of SAP Group Operations is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

In addition, we confirm that the consolidated financial statements and the Review of SAP Group Operations for the business year from January 1 to December 31, 2005 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Mannheim, Germany
March 10, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Schmid
Wirtschaftsprüfer

Walter
Wirtschaftsprüfer

REVIEW OF SAP GROUP OPERATIONS

GENERAL INFORMATION

THE SAP GROUP OF COMPANIES

SAP was founded in 1972 and is today one of the world's leading providers of business software solutions and the world's third largest independent software company based on market capitalization.

SAP has around 32,000 customers in over 120 countries and employs more than 35,000 people at sales and development locations in more than 50 countries in the Europe, Middle East, and Africa (EMEA), Americas, and Asia-Pacific regions. It is headquartered in Walldorf, Germany.

SAP's core business is granting licenses to use SAP business software solutions. The product portfolio comprises the SAP NetWeaver platform and software applications, including:

- mySAP Business Suite solutions, which help enterprises improve business operations ranging from supplier relationships to production to warehouse management, sales, and administrative functions, through to customer relationships
- Prepackaged mySAP All-in-One and SAP Business One solutions for small and midsize enterprises (SMEs)
- Specific solutions for more than 25 industries in the discrete manufacturing, financial services, consumer, public service, process, and service sectors

SAP also sells maintenance, consulting, and training services associated with its software products.

The Company both develops and markets products in close cooperation with business partners.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements based on the beliefs of, and assumptions made by, SAP using information currently available to the Company. Any statements contained in this report that are not historical facts are forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. SAP has based these forward-looking statements on its 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 the Company's business strategy; developing and introducing new services and products; freedom to use intellectual property; regulatory and political conditions; adapting to technological developments; obtaining and expanding market acceptance of SAP's services and products; terrorist attacks or other acts of violence or war; integrating newly acquired businesses; meeting customers' requirements; and other risks and uncertainties, some of which we describe in the *Risk Factors and Risk Management* section (below). The words "anticipate," "believe," "continue," "counting on," "is confident," "estimate," "expect," "forecast," "intend," "may," "plan," "project," "predict," "seek," "should," "strategy," "want," "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 those statements. The factors that could affect our future financial results are discussed more fully in the *Risk Factors and Risk Management* section (below), as well as elsewhere in this report and in our filings with the U.S. Securities and Exchange Commission ("SEC"), including the Form 20-F annual report for 2004 and the Form 20-F annual report for 2005, which will be filed with the SEC before June 30, 2006. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report. We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events, or otherwise.

MANAGING FOR VALUE

SAP uses performance measures that help manage its primary aim, sustained growth of corporate value, and the ancillary goal of profitable revenue growth. It uses different value measures for operating and non-operating income, and at group level it also uses an overarching performance measure.

The key measures SAP uses to manage its operational business are growth of software revenue, growth of product revenue, and pro-forma operating margin. The target values are tuned to each other for profitable growth.

- Software revenue growth is the key revenue growth driver because it tends to stimulate other revenue for the Company. The chief source of software revenue is fees customers pay for software licenses. Generally, customers that buy software licenses also enter into maintenance contracts covering support services, regular software maintenance, and software updates and enhancements. These maintenance contracts generate recurring maintenance revenue after the software sale. Software revenue and maintenance revenue together are categorized as product revenue. Software revenue also stimulates service revenue from consulting and training sales.

Pictures and graphs are included for illustrative purposes only and are not part of the audited review of operations.

- The third of SAP's operational measures is pro-forma operating margin, which is the ratio of the Company's pro-forma operating income to total revenue, expressed as a percentage. It measures SAP's overall operational process efficiency and the performance of its core business. For an explanation of how SAP determines pro-forma operating income, see the *Non-GAAP Measures* section (below).

SAP also uses performance measures – net financial income/expense and the effective group tax rate – to manage non-operating items:

- Financial income reflects the return on liquid assets and capital investments. Hedges for currency and stock-based-compensation expense and income from the minority investment portfolio also affect financial income. To manage financial income, the Company focuses on cash flow, the composition of the liquid asset and capital investment portfolio, and the rate of interest at which assets are invested. Another aspect is management of working capital by reducing the days' sales outstanding for receivables.
- The effective group tax rate is the ratio of income taxes (in U.S. GAAP terms) to income before income taxes and minority interests, expressed as a percentage.

Earnings per share measures the overall performance of the Group, because it catches all operating and non-operating elements of income. It represents the portion of consolidated net income allocable to each SAP share outstanding (using the average number of shares outstanding over the reporting period). The Company sees buying back stock as another good way (in addition to distributing a dividend) of returning value to shareholders, so it repurchases SAP shares for treasury using powers granted by the shareholders at their general meetings.

The information basis used to manage for value at SAP is a holistic view of the performance measures described above plus associated analyses. Planning and control processes manage the compilation of these key measures and their availability to the decision makers.

The Company's long-term strategic plans are the starting point for SAP's planning and controlling processes, including creating a multiyear plan: SAP's future growth and profitability drivers are identified at a highly aggregated level. The process is intended to identify the best areas at which to target sustained investment. The next step is to distill multiyear plans for areas of development and for customer-facing and support functions, and to break them down by product group and region. Based on the detailed annual plans, the resources available to achieve the targets are allocated. At the lowest level of performance monitoring, the Company also uses monthly forecast processes to quantify degrees of strategy realization and identify any deviations from plan. Concerned units in the Group are closely monitored to analyze such developments and define any appropriate actions.

The entire network of planning, control, and reporting processes is implemented in seamlessly integrated information systems across all organizational units so that the Company can conduct the evaluations and analyses it needs to make informed decisions. For example, it can precisely analyze differences in profitability between subsidiaries or probe into the impact of revenue growth on income.

SAP routinely reviews and improves its internal planning and control processes. Recently, for example, the Company moved from compiling forecasts each month for the period to the end of the fiscal year to compiling rolling four-quarter forecasts. This innovative concept integrates SAP's planning and target-setting processes so that in an ever-changing market the Company can continue to react quickly and competently.

NON-GAAP MEASURES

This review of operations discloses certain financial measures, such as pro-forma operating income, pro-forma operating margin, pro-forma expenses, pro-forma net income, pro-forma earnings per share (EPS), cash earnings according to DVFA/SG, and currency-adjusted year-on-year changes in revenue and operating income, which are not prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and are therefore considered non-GAAP measures. The non-GAAP measures included in this annual report are reconciled to the nearest U.S. GAAP measure. The non-GAAP measures that SAP reports may not correspond to non-GAAP measures that other companies report. The non-GAAP measures that SAP reports should be considered as additional to, and not as a substitute for or superior to, operating income, operating margin, cash flows, or other measures of financial performance prepared in accordance with U.S. GAAP.

SAP believes that pro-forma operating income, pro-forma operating margin, pro-forma net income, and pro-forma EPS, all based on pro-forma expenses, provide supplemental meaningful information that can help investors fully assess the financial performance of the Company's core operations. The pro-forma measures disclosed are the same measures that SAP uses in its internal management reporting. Pro-forma operating income is one of the criteria, alongside the software revenue increase, for performance-related elements of management compensation.

The following expenses are eliminated from pro-forma expenses, pro-forma operating income, pro-forma net income, pro-forma operating margin, pro-forma EPS, and other pro-forma measures:

- Stock-based compensation, including expenses for stock-based compensation as defined under U.S. GAAP as well as expenses related to the settlement of stock-based compensation plans in the context of mergers and acquisitions. SAP excludes stock-based compensation expenses because it has no direct influence over the actual expense of these awards once it has entered into stock-based compensation commitments.
- Acquisition-related charges, including amortization of identifiable intangible assets acquired in acquisitions of businesses or intellectual property
- Impairment-related charges, including other-than-temporary impairment charges on minority equity investments

In the second quarter of 2005, SAP redefined the acquisition-related charges used to determine the Company's pro-forma operating income, pro-forma operating margin, pro-forma EPS, and other pro-forma measures. Previously, SAP treated the amortization of intangibles as acquisition-related charges only if the intangibles had been acquired in the context of the acquisition of a company. However, SAP now expects that its acquisitions will often be acquisitions of a target company's intellectual property and related intangibles rather than acquisitions of the target company itself. Therefore, with effect from the second quarter of 2005, SAP also treats the amortization of intellectual property rights such as patents, copyright, and like rights and interests acquired without the company to which they belonged as acquisition-related charges. Changing the definition in this way has no material effect on pro-forma figures published in the past, because SAP had never made significant acquisitions of intellectual property before this redefinition except in the context of acquiring a company to which intellectual property belonged.

Pro-forma expenses and pro-forma operating income reconcile to the nearest U.S. GAAP measure as follows:

		Reconciliation		
€ millions	U.S. GAAP Measure	Stock-based compensation	Acquisition-related charges	Pro-Forma Measure
2005				
Cost of product	993	4	25	964
Cost of service	1,925	12	1	1,912
Research and development	1,089	11	7	1,071
Sales and marketing	1,746	9	1	1,736
General and administration	435	9	0	426
Other operating expenses, net	– 6	0	0	– 6
Total operating expenses	6,182	45	34	6,103
Operating income	2,331	45	34	2,410
2004				
Cost of product	916	2	21	893
Cost of service	1,784	19	6	1,759
Research and development	908	6	2	900
Sales and marketing	1,524	8	1	1,515
General and administration	366	3	0	363
Other operating expenses, net	– 2	0	0	– 2
Total operating expenses	5,496	38	30	5,428
Operating income	2,018	38	30	2,086
2003				
Cost of product	963	15	24	924
Cost of service	1,694	32	0	1,662
Research and development	872	38	2	832
Sales and marketing	1,411	30	0	1,381
General and administration	354	15	0	339
Other operating expenses, net	7	0	0	7
Total operating expenses	5,301	130	26	5,145
Operating income	1,724	130	26	1,880

Pro-forma net income and pro-forma EPS reconcile to the nearest U.S. GAAP measure as follows:

	U.S. GAAP Measure	Reconciliation (net after tax): Stock-based compen-sation	Acquisition-related charges	Impairment-related charges	Pro-Forma Measure
2005					
Net income in € millions	1,496	31	21	4	1,552
Earnings per share in €	4.83	0.10	0.07	0.01	5.01
2004					
Net income in € millions	1,311	24	18	5	1,358
Earnings per share in €	4.22	0.08	0.06	0.01	4.37
2003					
Net income in € millions	1,077	88	15	14	1,194
Earnings per share in €	3.47	0.28	0.05	0.04	3.84

SAP calculates "constant-currency" year-on-year changes in revenue and operating income by translating foreign currencies using the average exchange rates from 2004 instead of 2005. SAP believes that such constant-currency measures provide supplemental meaningful information for investors as they show how the Company would have performed if it had not been affected by changes in exchange rates.

Constant-currency year-on-year changes in revenue and operating income reconcile to the respective unadjusted year-on-year changes as follows:

	Percentage change from 2004 to 2005 as reported	Constant-currency percentage change from 2004 to 2005	Currency effect
	%	%	%
Software revenue	18	15	+ 3
Maintenance revenue	12	11	+ 1
Product revenue	**15**	**13**	**+ 2**
Consulting revenue	9	8	+ 1
Training revenue	14	12	+ 2
Service revenue	**9**	**8**	**+ 1**
Other revenue	**28**	**27**	**+ 1**
Total revenue	**13**	**12**	**+ 1**
Germany[1]	2	2	± 0
Rest of EMEA[1]	11	10	+ 1
United States[1]	24	23	+ 1
Rest of Americas[1]	24	13	+ 11
Japan[1]	5	7	– 2
Rest of Asia-Pacific[1]	24	19	+ 5
Total revenue	**13**	**12**	**+ 1**
Operating Income	**16**	**12**	**+ 4**

[1] Based upon the location of the customers.

Cash earnings according to DVFA/SG is an adjusted cash-flow measure developed by the Society of Investment Professionals in Germany to improve comparability between companies. The reconciliation from cash earnings according to DVFA/SG to net income is shown in the *Investor Relations* section of SAP's annual report to shareholders.

In addition, SAP gives guidance based on non-GAAP financial measures as defined above. It does not provide guidance on U.S. GAAP operating margin and earnings per share measures because those measures include expenses such as stock-based compensation, impairment-related charges, and acquisition-related charges. The Company views those expenses as less meaningful in its own assessment of the financial performance of its core operations, or they are factors outside SAP's control, dependent on SAP's share price, or dependent on the share price of companies it acquires or in which it invests.

ECONOMIC CONDITIONS

GLOBAL ECONOMY

Global Economy Continues to Grow

The global economy continued to recover in the course of 2005. The news from North America and many of the Asian countries was predominantly good. The European economy also grew stronger as the year progressed, helped by low long-term interest rates, a retreating euro, and buoyant export markets. However, domestic demand in Europe remained flat. Surges in energy and commodity prices impeded global recovery. However, both the Paris-based Organisation for Economic Co-operation and Development (OECD) and the Washington, DC-based International Monetary Fund (IMF) report that the core inflation rates in most industrialized countries were low, with rates in the range 1% to 3%. Not even the steep energy price rises seriously impacted the global recovery. The IMF estimates that global gross domestic product (GDP) grew some 4.3%. That represents a decline compared to the overall 2004 figure of 5.1%, but deceleration in the first six months of 2005 was partly offset by a pickup in growth in the second half of the year.

The chief driver of growth was again China. China's economy grew 9.5% in 2004; the IMF believes it grew 9.0% in 2005. India's economy also remains buoyant, with growth unchanged at 7%. The OECD reports 2.4% GDP growth in Japan (2004: 2.7%). The U.S. economy was again vigorous: The IMF estimates that U.S. GDP grew more than 3.5% in 2005, compared with 4.2% in the previous year.

Europe Lags Behind Global Growth

The economies of Europe underachieved in comparison with the global economy. According to the OECD, euro zone GDP growth, which was 1.8% in 2004, slowed to 1.4% in 2005. Both organizations point to slow demand on the domestic market and the increased oil price as an impediment to economic growth. Exporters alone achieved the growth to keep the European Union (EU) economy afloat.

The OECD believes the German economy expanded only a disappointing 1.1% in 2005. In 2004, German GDP had grown 1.6% on IMF numbers. The supporting pillar of the German economy, and the only part of the economy that remained vibrant, was export trade. On the fourth-quarter numbers, the Kiel Institute for World Economics comments that there are clear signs the German economy is trending up. Key indicators, such as process industry order books, increasingly point toward improved growth, the Institute says.

IT SECTOR

Trend in IT Industry Remains Stable

Information technology (IT) market-intelligence provider IDC estimates that the global IT market grew 5.9% in 2005. Another IT market researcher, Gartner, believes global IT market growth was only 4.9%. Gartner breaks the IT market down into hardware, packaged software, applications, and services segments.

The segment in which SAP chiefly operates is applications, which in 2005 expanded 5.6% worldwide according to IDC – or 8.4% according to Gartner. It says the IT market continued to grow, almost regardless of anything that happened in the political, climatic, or economic environments.

According to IDC's analysis, in 2005 the fastest-growing segment in the IT market was system infrastructure. That indicates that companies increasingly focused on optimizing and overhauling their IT infrastructure. Application-related segments in particular benefited from a growth spurt. In IDC's analysis, this means the trend toward replacing systems became more pronounced in 2005, which would boost new application implementations.

U.S. IT Market Grows Almost 5%

IDC estimates the IT market in the United States, SAP's single most important market, grew 4.9% in 2005. Gartner's corresponding estimate is comparable. Both research firms report 5% IT market growth in Western Europe, where the economic environment was more difficult than in the United States. IDC and Gartner report appreciably stronger growth, 6% or more, for the year in the Asia-Pacific market. More than 90% of global IT business is with customers in North America, Western Europe, and the Asia-Pacific region.

The German Association for Information Technology, Telecommunications, and New Media (BITKOM) estimates that the German IT market grew 3.2%, which is similar to the corresponding 2004 growth figure. On the other hand, IDC believes the overall German IT market expanded only 2.7% in 2005. BITKOM estimates that the German market for system and applications software expanded 4.5%. IDC reports that the German IT services market grew 2% in the year.

BUSINESS AT SAP

STRATEGY

Significant changes in customer requirements are emerging, driven by broader economic trends such as globalization and technology advancements such as service-oriented architectures. SAP sees globalization as a trend that is increasing competition worldwide and establishing requirements for connectivity among the world's markets, businesses, and governments. In this emerging environment, businesses are seeking a new level of integration and flexibility in their business applications. The IT industry has responded by introducing service-oriented architectures that allow disparate systems to work together more efficiently and effectively.

With enterprise services architecture (ESA) and the SAP NetWeaver platform, SAP's product strategy directly addresses these new customer requirements. ESA is SAP's service-oriented architecture which is designed for companies and which allows partners and customers to work with ready-to-run business processes in the form of enterprise services. In effect, customers and partners can easily adapt, extend, or recompose business applications simply by plugging and playing enterprise service components. SAP will deliver a unique set of the most useful, reusable enterprise services within SAP NetWeaver, along with several integration design tools. By enriching SAP NetWeaver with ready-to-run business processes, SAP creates an integrated combination of technology infrastructure and its core code assets in the form of reusable enterprise services.

It is SAP's mission to play a leading role in the emerging area of business process platform solutions, to accelerate business innovation powered by IT for firms and industries worldwide, and thus to contribute to global economic development.

By leveraging ESA and working with an increasingly broad community of software partners, SAP plans to build on a strong position in the core enterprise applications segment and grow into related fields, serving customers with new offerings. The intent of SAP's strategy remains to increase software and product revenue, segment share, and profitability.

SAP plans to grow within its core market of enterprise applications by increasing its sales to its existing customer base and by expanding its reach to new customers in under-penetrated industries and in regions of the world with fast-growing economies. SAP plans to realize its potential for growth by:

- Fully addressing SMEs
- Providing offerings tailored to the needs of nonexpert business users
- Delivering an application platform that partners and customers can use to build, adapt, and run business applications

Although some acquisitions may be appropriate, SAP plans to support this growth strategy principally through organic development of its product portfolio.

SIGNIFICANT RESULTS AND EVENTS

Operational Goals Surpassed

In 2005, SAP again achieved a substantial increase in revenue while maintaining a high level of profitability in a field that remained fiercely competitive. The major driver of this achievement was the Company's success in the United States and in the Asia-Pacific region.

- In its guidance for investors, SAP had announced its target of increasing software revenue 12% to 14%. The Company exceeded that guidance, recording an 18% increase in software revenue. Total revenue grew 13% to €8,513 million.
- Another target in the published outlook was to improve the pro-forma operating margin by up to 0.5 percentage points from the 27.8% attained in 2004. This the Company achieved with a pro-forma operating margin of 28.3%.
- Pro-forma EPS was the third key performance measure in the guidance. The 2004 value was €4.37. The guidance SAP published was €4.85 to €4.90. The Company clearly outperformed those values by achieving €5.01 pro-forma EPS in 2005.
- The critical driver of SAP's growth was once again the United States. Software revenue in the United States rose 31% (28% on a constant currency basis). This performance although the 2004 percentage growth in U.S. software revenue was already in double digits. Revenue in the Asia-Pacific region also grew significantly. Software revenue there increased 25% (22% on a constant currency basis). In a difficult economic environment, software sales in Germany did not gain momentum until the second half of the year. Software revenue for the full year was unchanged year-on-year in Germany.

- In 2005, SAP again grew its share of the global enterprise application software business segment. SAP defines segment share for this purpose by reference to software revenue from the core enterprise application market, which includes solutions for enterprise resource planning (ERP), customer-relationship management (CRM), supply-chain management (SCM), supplier relationship management (SRM), and product-life-cycle management (PLM). At the end of 2003, SAP's global enterprise application software segment share was less than 18%; by the end of 2004 it had grown to some 20%; and in 2005 it rose above 21%. The Company's U.S. share on the same basis was 11% at the end of 2005. Its lead over its largest peers (Siebel Systems, Inc. and the relevant divisions of Microsoft Corp. and Oracle Corp.) was reinforced by the surge in SAP's software revenue. SAP won 62% of the combined enterprise application software revenue of the four peers. The biggest of the competitors, Oracle (including its recent acquisitions PeopleSoft and Retek), took a modest peer-group share of around 16%.

Major Advances in the Solution Range

The demands of business are changing ever more rapidly, and chief information officers have to stay ahead of that accelerating change. Product innovations, mergers and acquisitions, and evolving business models are among the factors generating new demands. The rate of change that the business environment demands threatens to outstrip the ability of classic IT to respond quickly and efficiently. As planned, in 2005 SAP invested heavily in ESA development to rise to these challenges. ESA is an open software architecture that helps companies' IT organizations respond more rapidly and effectively to new demands than was previously possible. The technical foundation of ESA is the SAP NetWeaver platform. Combined with functions in the form of basic business process components from reusable parts of SAP software, it makes a business process platform that IT departments can use to more rapidly implement business change in companies' systems. SAP, its partners, and its customers can also use this platform to create new composite applications as a way of developing specific business solutions. During 2005, SAP recruited many employees for research and development work on the platform. That investment is intended to further boost SAP's growth and profitability over the years to come.

SAP's reward for focusing investment on ESA development was that it managed to ship the entire mySAP Business Suite and the full range of SAP industry solutions powered by SAP NetWeaver in 2005. The new version of mySAP ERP also embraces the benefits of the SAP NetWeaver platform and includes additional analysis tools for decision support. As early as the spring, the ESA Adoption Program from SAP came onstream to help customers evolve their systems into a service-oriented architecture. As an adjunct to the SAP NetWeaver platform, the ESA adoption program supports a formalized, step-by-step transition from conventional IT infrastructures to service-oriented architectures.

At the end of October 2005, the Company launched an enhanced version of SAP Business One, the integrated solution for SMEs. SAP Business One is marketed by around 1,100 SAP channel partners. Customers in more than 37 countries run it, and more than 9,000 new customers have chosen it in the last three years.

Building Closer Partner Alliances

For IT companies working in the SAP environment, the ESA concept constitutes a base on which to develop and market their solutions and integrate them with SAP's solutions. This enabled SAP to close a large number of collaboration agreements with partners in 2005.

- Leading players in many segments of the IT industry support ESA. They include document-processing software maker Adobe, networking solution provider Cisco, IT management software manufacturer Computer Associates, data retrieval specialist EMC, chipmaker Intel, Web authoring toolmaker Macromedia, business technology optimization software provider Mercury, system and application software maker Microsoft, IT security solution vendor Symantec, and backup solution developer VERITAS. These companies will be ESA licensees and will offer ESA-ready solutions using Web services for improved flexibility and performance at reduced risk and reduced cost. Their commitment speaks for the competitiveness of SAP's software architecture and the high regard in which the market holds it.
- SAP's network of partners expanded over the year. The number of independent software vendors (ISVs) developing solutions for the SAP NetWeaver platform grew significantly during 2005. To date, more than 1,100 solutions, developed by over 650 ISVs, have achieved Powered by SAP NetWeaver or Certified for SAP NetWeaver status. On achieving certification, partners gain access to the Company's new Industry Value Networks and thus to the global SAP customer base. The purpose of these networks is to bring together customers, development partners, and SAP's experts to develop

enterprise services for the most relevant industry processes. SAP also gives these partners specific marketing support. Dell Computer, Hewlett-Packard, Novell, and Research In Motion (RIM) are among the leading technology companies that have already announced they will use SAP NetWeaver to design and certify new products for ESA.
- The Company concluded strategically significant new agreements with, among others, IBM, Microsoft, Siemens, and Capgemini.

Acquisitions Enrich Product Portfolio

In 2005, SAP continued its announced policy of organic growth complemented by selected small acquisitions to build potential and enrich the Company's product portfolio. It bought four non-SAP software companies and acquired two others under asset deals.
- To support its Safe Passage program, early in 2005 SAP acquired TomorrowNow, Inc., a U.S. company that specializes in providing maintenance and support services for PeopleSoft and J.D. Edwards & Company (JDE) products. Safe Passage is a comprehensive program of support for the 2,000 companies that have deployed SAP solutions and software from PeopleSoft – or from JDE, which PeopleSoft took over in 2003. The program aims to help these customers away from uncertainty by giving them a clear road map for the longer-term development of their business application strategies. It offers them incentives to migrate to SAP solutions and support for their PeopleSoft and JDE software. Shortly beforehand, Oracle Corp. had completed its takeover of PeopleSoft, Inc. This was the biggest yet merger among SAP's competitors.
- In March 2005, the Company decided not to increase its public bid for all outstanding shares of Retek, a U.S. retail industry software specialist, after Oracle Corp. announced a higher per-share offer. Instead, SAP investigated other potential acquisitions to reinforce its successful position as a retail solutions provider in the long term.
- In mid-September, SAP advanced its position as a vendor of solutions for the retail industry by acquiring privately owned, Toronto-based Triversity, a leading provider of point-of-sales, store inventory management, customer relationship management, and customer service solutions. The integration teams from SAP and Triversity created a shared solution map that links the two companies' retail solution portfolios.
- In the second half of November, SAP announced its acquisition of another specialist in software for the retail industry, the privately owned U.S. company Khimetrics. The purchase was completed at the beginning of January 2006. Khimetrics has 130 employees and makes customer-demand management solutions, which help retailers price and position products to optimally manage demand, improve margin, and accurately predict sales and income. The acquisition of Khimetrics enriched SAP's product offering for the retail industry.

Corporate Action to Reward Shareholders

The Company's strong financial position gave it room for corporate action in the interests of shareholders.
- During 2005, the Company bought back some 3.21 million shares at an average price of €129.77 per share, and by December 31, 2005 it held more than 6.68 million SAP shares in treasury.
- In October 2005, the Company announced that during 2006 it intended to increase subscribed capital by conversion of retained earnings. The action would enable the Company to give each shareholder three new "free" shares for each existing SAP share held. The Company would not raise new capital from shareholders through this action. The Supervisory Board approved the Executive Board's decision to put it to the next Annual General Shareholders' Meeting in May 2006. The action would have the effect of reducing the attributable value of each share of SAP, making the stock more affordable, particularly for a wider retail investor community.
- Also in October, SAP launched another bid for the remaining outstanding shares of SAP Systems Integration AG (SAP SI). By the time the bid expired, SAP owned 96.5% of the shares of SAP SI. It had thus achieved a key condition for fully integrating SAP SI into the SAP Group and bundling all consulting work in the Group.

Organization and Management Structures Optimized

In January 2005, SAP announced that it was grouping all of its customer-facing services – sales, consulting, and external education – under the management of a single Executive Board member. With that in mind, the consulting and education services were united in a single field services organization. This alignment was designed to ensure "one face to the customer." Consistent, reliable service better meets the needs of customers, who see one line of business with a holistic profile.

With the Supervisory Board's agreement, in March 2005 the Executive Board adopted a new split of its areas of responsibility designed to better implement its strategy and achieve the goals it had set. The new Executive Board areas reflect SAP's value chain. The following changes were made:

- Peter Zencke now heads research and breakthrough innovation, including the future direction of Business Process Platform development. Shai Agassi is responsible for all SAP's product development, the technology platform, the industry solutions, the partner network, and product and industry marketing. This ensures that all product development is under the control of only one Executive Board member. In addition to his responsibilities for global human resources and labor relations, Claus Heinrich now manages all SAP's research and development centers worldwide. His portfolio now also includes quality management and the Company's information technology organization. The global service and support organization, which delivers customer support, hosting, and business process outsourcing services, is headed by Gerhard Oswald, as is customer-specific development. Léo Apotheker continues to head global sales and field services (consulting and training), but has also taken over responsibility for global marketing, which – along with product marketing – was previously the responsibility of Henning Kagermann.
- The previous portfolios of Henning Kagermann and Werner Brandt remain unchanged, except that Henning Kagermann transferred responsibility for global marketing to Léo Apotheker and for product and industry marketing to Shai Agassi. Henning Kagermann is responsible for the Company's strategy and development, corporate communications, patents, the internal audit service, and management of top talent. Werner Brandt manages finance and administration, venture-capital investments, and SAP AG's shared service centers.

Significant Customer Contracts

SAP closed new deals with many major companies in 2005.

- Riddell, Bell Holdings, a midsize business in the equipment, sports accessories, and team sales markets, selected mySAP Business Suite. The company opted for mySAP Supply Chain Management, mySAP ERP Financials, and mySAP CRM for sales and service plus SAP Analytics and the SAP Apparel and Footwear application – all of which will be hosted to enable economies of scale and operational efficiency. To Riddell, Bell, the SAP Safe Passage program offered the special advantages of a readily available solution, support services, and price points that no other vendor could provide.
- Germany's largest health insurer, AOK, chose SAP NetWeaver as its strategic development and integration platform, continuing the company's modernization of its application landscape using SAP standard components. AOK is mapping core business processes to SAP using enterprise services in line with SAP's architecture concept.
- Accenture and SAP are revamping the software systems at China Minsheng Banking Corporation Limited. This first privately owned bank in China is implementing the core banking solution in SAP for Banking.
- SAP also closed major deals in 2005 with engine maker Briggs & Stratton, friction management and power transmission solutions provider The Timken Company, and Carlsberg, a leading international premium brewer. Other companies that signed up for new SAP software in 2005 include major household items manufacturer Procter & Gamble, Spanish banker Caixa d'Estalvis de Catalunya, Fuji Photo Film of Japan, Moscow City Telephone Networks, Allianz, Europe's largest insurer, and Horiba, an international supplier of environmental analysis and measuring equipment.

Finance Plan for SAP Solutions

Implementing business software solutions can represent a major investment. In October, SAP and a Siemens subsidiary, Siemens Financial Services GmbH (SFS), together launched the SAP Financing Service, a plan that helps companies invest in SAP solutions. Delivered by SFS, the plan offers multiple financing solutions tailored to customers' differing liquidity requirements. It covers all the expenses of installing an SAP solution – software, hardware, customizing, implementation, training, and maintenance during installation.

INCOME

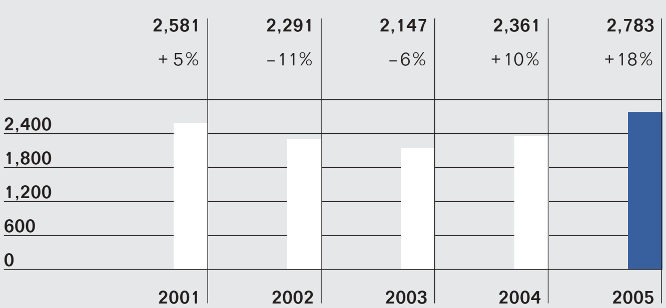
REVENUE

Software Revenue Growth Exceeds Guidance

In its guidance for investors published at the beginning of 2005, SAP announced its target of increasing software revenue 10% to 12% compared to 2004. In the course of the year, SAP amended this to 12% to 14%. In the event, the Company recognized software revenue of €2,783 million (2004: €2,361 million; 2003: €2,148 million), an 18% increase. It was the second successive year of double-digit growth for this measure. The software revenue increase on a constant currency basis was 15%.

Software Revenue

in € millions | change since previous year

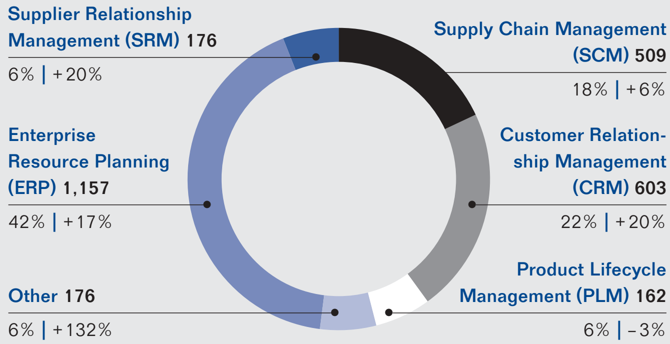


The Company believes it achieved such vigorous growth because it has a clear product strategy, because it understands the industries for which it offers products, and because it offers superior solutions. Also, unlike some competitors, SAP believes in organic growth and is therefore a more appropriate long-term partner for customers. The customer base grew constantly and, based on received orders, 22% of software revenue was attributable to new customers in 2005 (2004: 24%; 2003: 26%). In 2005, the Company closed 8,820 software license contracts valued at €10,000 or more, a 22% increase on the 7,216 such contracts made in 2004 (2003: 6,038). Orders received grew 17% year-on-year, so the trend toward more but smaller orders continued.

SAP conducts regular surveys to find out from its customers how they plan to deploy their software. The results show that the revenue attributable to SAP NetWeaver and related products grew 132% since 2004. SAP believes this confirms it has chosen the right technology strategy. A 20% increase in revenue attributable to the field of CRM was the fruit of several years' investment in CRM solutions.

Software Revenue Breakdown by Software Solutions

in € millions | percent | change since previous year

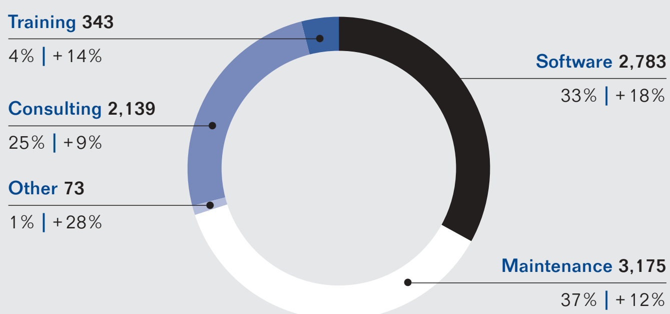


Product Revenue Grows 15%

Maintenance revenue increased 12% to €3,175 million (2004: €2,823 million; 2003: €2,569 million). That corresponds to an 11% increase on a constant currency basis. Product revenue – software revenue plus maintenance revenue – climbed 15% from the previous year's €4,716 million to €5,184 million (2003: €4,716 million). Thus 70% of SAP's total revenue was product revenue, exactly meeting SAP's target ratio.

Revenue Breakdown by Type of Activity

in € millions | percent | change since previous year



Service Revenue Rises 9%

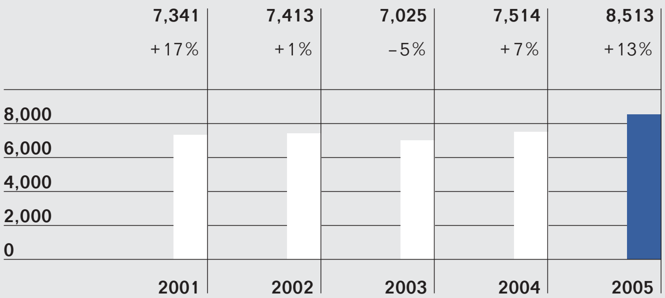
SAP focused more on the profitability of its consulting business than on its growth. By improving resource utilization, the Company achieved a 9% increase in consulting revenue (8% at constant currencies) despite continued pressure on prices, a pleasing improvement on the previous year's 1% revenue growth. The training business benefited from alignment with the consulting business, which helped to drive growth through joint customer engagement. After revenue from training had declined in 2002 and 2003, and rose only 1% in 2004, it grew 14% in 2005 (12% on a constant currency basis). Service revenue – the sum of consulting and training revenue increased 9% (8% on a constant currency basis) from €2,273 million in 2004 to €2,482 million in 2005 (2003: €2,253 million).

Total Revenue Growth in Double Digits

Buoyed by the dynamic growth of software revenue, the Company's total revenue for the year was €8,513 million (2004: €7,514 million; 2003: €7,025 million), an increase of 13% (12% at constant currencies) – the first time the Company has posted double-digit total revenue growth since 2001.

Total Revenue

in € millions | change since previous year



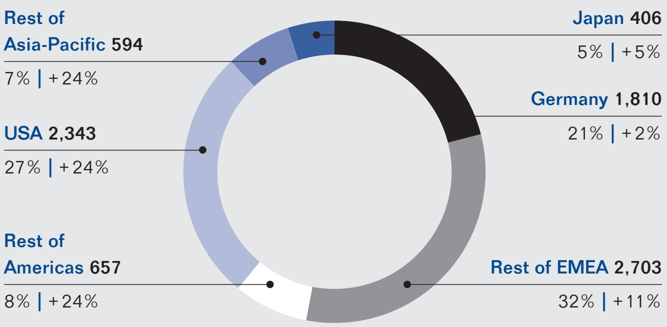
Revenue Grows in All Regions

In the business outlook it issued for investors at the beginning of 2005, SAP forecast that the Americas and the Asia-Pacific regions would lead the drive for revenue growth in the SAP Group. Neither region disappointed. In the Americas, software revenue climbed 32% (27% at constant currencies) from €780 million in 2004 to €1,027 million in 2005 (2003: €634 million). Total revenue for the region rose 24% (21% on a constant currency basis) in 2005 to €3,000 million (2004: €2,424 million; 2003: €2,216 million). The Company's U.S. business contributed the lion's share of this growth. In the United States, software revenue grew 31% (28% on a constant currency basis) from €625 million in 2004 to €820 million in 2005 (2003: €499 million) and total revenue increased 24% year-over-year (23% at constant currencies) to €2,343 million (2004: €1,894 million; 2003: €1,736 million). Based on the Company's own estimates, its U.S. software revenue is therefore well ahead of that of Oracle, its main rival, even though by buying PeopleSoft and Retek, Oracle bought additional customer base. Canada and Latin America also reported software revenue increases in double digits.

In the Asia-Pacific region, software revenue grew 25% (22% on a constant currency basis) from €289 million in 2004 to €363 million in 2005 (2003: €273 million). The region's total revenue rose 15% (13% at constant currencies) from €867 million in 2004 to €1,000 million in 2005 (2003: €839 million). The results from the emerging markets of China and India was especially welcome: They both reported software and total sales growth well above the SAP average. Japan showed signs of recovery: After several years of declining revenues, software revenues increased 6% (8% on a constant currency basis) in 2005 to €122 million, (2004: €115 million; 2003: €142 million). Japan's total revenue rose 5% (7% on a constant currency basis) from €387 million in 2004 to €406 million in 2005 (2003: €442 million).

Revenue Breakdown by Sales Destination

in € millions | percent | change since previous year



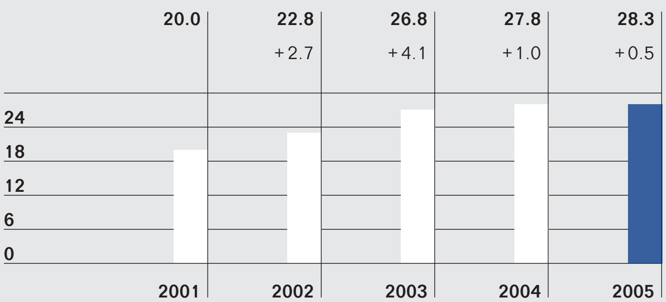
In the EMEA region, the pace of SAP's software revenue growth accelerated to 8% (7% on a constant currency basis), twice the 2004 rate. Switzerland, France, most of the Nordic countries, and Russia performed above average. Software revenue from EMEA was €1,393 million (2004: €1,292 million; 2003: €1,240 million). Total EMEA revenue rose 7% (6% at constant currencies) from €4,223 million in 2004 to €4.513 million in 2005 (2003: €3,970 million). In Germany, the Company's software sales picked up in the second six months, resulting in 2005 software revenue from Germany of €527 million, just higher than the 2004 number of €525 million (2003: €498 million). German total revenue, €1,810 million, was 2% better than the €1,780 million achieved in 2004 (2003: €1,670 million).

INCOME AND OPERATING MARGIN

Operating Margin Improved

At the beginning of the year, SAP explained in its business outlook guidance that 2005 would be a year of investment in the future and that the Company would push ahead with developing Business Process Platform and the solution portfolio, continue to work on its volume business approach, and expand the sales force. This did not mean it intended to allow pro-forma operating margin (that is, the ratio of pro-forma operating income to revenue) to decrease – rather, that margin would improve by up to 0.5 percentage points in 2005 despite the investment spending. By improving pro-forma operating margin from 27.8% in 2004 to 28.3% in 2005 (2003: 26.8%), SAP hit the upper end of the range in the business outlook. SAP's 2005 U.S. GAAP operating margin, 27.4%, was also 0.5 percentage points better than the 2004 figure of 26.9% (2003: 24.5%).

Pro-Forma Operating Margin
(before stock-based compensation and acquisition-related charges)
in % | change since previous year | in percentage points

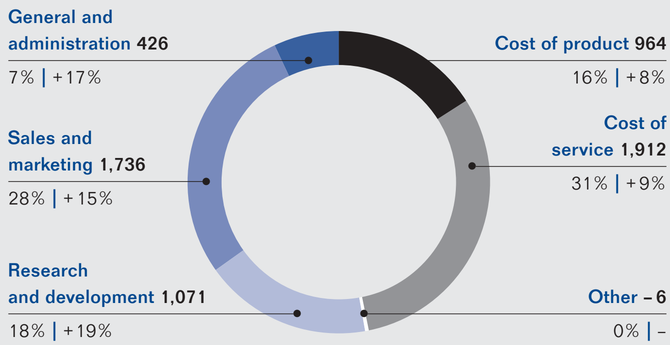


Operating expenses for 2005 were €6,182 million (2004: €5,496 million; 2003: €5,301 million). The 12% increase over 2004 was due primarily to rising human resource costs as a consequence of increasing the Company's headcount by 3,668 full-time equivalents; other contributory factors included buying in more third party services and an increase in travel expenses associated with expanded business activities.

In line with the strong product revenue growth, cost of product increased 8% to €993 million (2004: €916 million; 2003: €963 million), including increased expenses for third party software license fees and the expansion of support resources. Pro-forma cost of product also increased 8%, to €964 million (2004: €893 million; 2003: €924 million). In consequence, the product margin widened 1.0 percentage points to 83.3% (2004: 82.3%; 2003: 79.6%).

Cost of service was €1,925 million, 8% higher than in 2004. Pro-forma cost of service was €1,912 million, an increase of 9% on the previous year's figure. The additional expenses for services were occasioned by hiring new staff and temporarily deploying external resources. Better resource utilization in consulting and increased training revenue resulted in an improved service margin. The service margin grew from 21.5% in 2004 to 22.4% in 2005 (2003: 24.8%).

Pro-Forma Operating Expenses Breakdown
(before stock-based compensation and acquisition-related charges)
in € millions | percent | change since previous year



In accordance with its announced plans, the Company expanded its development capacity and increased FTE developer headcount by 18%. As in the previous year, new recruits were concentrated in the major emerging markets with modest salary levels. This, and the fact that hiring activity was spread over the year, meant that the increase in research and development spending was smaller than the rise in developer headcount. R&D expenses rose 20% to €1,089 million (2004: €908 million; 2003: €872 million). Pro-forma R&D expenses rose 16% to €1,071 million (2004: €900 million; 2003: €832 million).

Sales and marketing expenses rose 15% to €1,746 million (2004: €1,524 million; 2003: €1,411 million), reflecting additional investment in aligning to volume business and in the sales organization. Pro-forma sales and marketing expenses for the year were €1,736, also a rise of 15% (2004: €1,515 million; 2003: €1,381 million). Pro-forma sales and marketing expenses as a portion of total revenue were unchanged year-over-year.

General and administration expenses rose 19% to €435 million (2004: €366 million; 2003: €354 million). The rise included an increase in performance-related compensation and additional spending on shared service centers, which are expected to save costs in the future. Nonetheless, general and administration expenses represented 5% of total revenue, as they did in the previous year. Pro-forma general and administration expenses increased 17% to €426 million (2004: €363 million; 2003: €339 million).

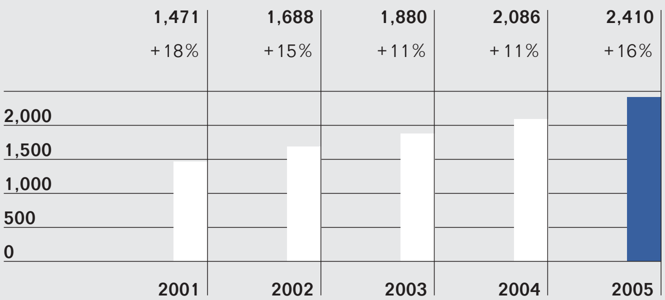
Operating Income Climbs 16%

By keeping expense increases under control in 2005 while revenue grew strongly, the Company achieved a 16% rise in operating income to €2,331 million (2004: €2,018 million; 2003: €1,724 million). Pro-forma operating income also increased 16%, to €2,410 million (2004: €2,086 million; 2003: €1,880 million).

Pro-Forma Operating Income

(before stock-based compensation and acquisition-related charges)

in € millions | change since previous year



FINANCIAL INCOME

Financial Income Declines

Increased holdings of liquid assets and marketable securities and higher rates of interest led to a 61% rise in the Company's net interest income in 2005 to €90 million (2004: €56 million; 2003: €43 million). The fair value of options acquired to hedge anticipated STAR exposures declined as a result of the increase in the SAP stock price. A greater fair-value write-down was required, resulting in a 340% increase in unrealized losses from STAR hedging to €66 million compared to the €15 million recorded for this expense in both 2004 and 2003. In 2004, gains on sales of marketable equity securities boosted finance income. This was not the case in 2005. Moreover, SAP's investments in 2005 tended to generate a lower before-tax and a higher after-tax yield. In sum, despite the increase in net interest income, these effects led to a 76% decline in financial income from €41 million in 2004 to €10 million in 2005 (2003: €16 million).

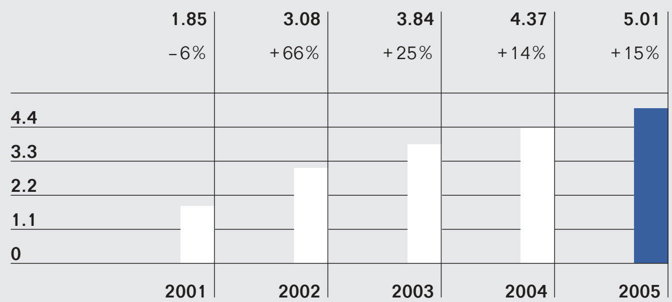
PRETAX INCOME; INCOME TAXES; NET INCOME

Double-Digit Increases in Pretax and Net Income

The increase in income before income taxes was 12% – not as great as the increase in operating income. This was a result of the decline in financial income. However, tax-rate cuts in various countries and the Company's tax-free or low-tax investments helped SAP reduce its effective tax rate to 35.3% (2004: 36.5%; 2003: 39%). Net income increased 14% to €1,496 million (2004: €1,311 million; 2003: €1,077 million). Derived from the net income result is the figure for basic earnings per share, which is of special interest to investors. In 2004, basic earnings per SAP share were €4.22 (2003: €3.47); the corresponding 2005 figure was €4.83, an increase of 14% over basic EPS in 2004.

Pro-Forma Earnings per Share

in € | change since previous year



The Company regards the pro-forma figures discussed here as meaningful because they neutralize the impact of expenses for stock-based compensation, acquisition-related charges, and impairment charges associated with minority investments. This makes some comparisons between companies and between periods more meaningful. SAP's pro-forma net income for 2005 was €1,552 million, an increase of 14% on the previous year's figure of €1,358 million (2003: €1,194). Pro-forma EPS rose from 15% from €4.37 in 2004 to €5.01 in 2005. In its investor outlook at the beginning of 2005, SAP forecast pro-forma EPS would be in the range €4.70 to €4.80. Later in the year it revised that guidance upward to €4.85 to €4.95.

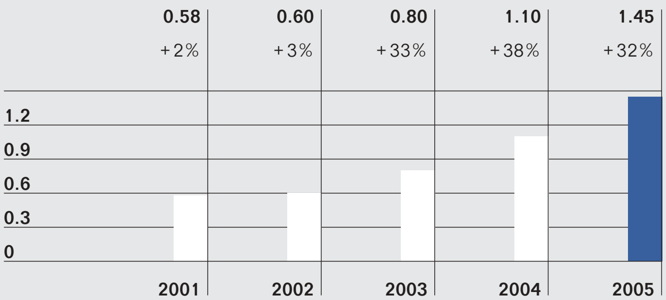
DIVIDEND

Dividend Increase Recommended Again

SAP intends to continue its dividend policy of recent years and believes its shareholders should benefit appropriately from the Company's success in achieving its increased income targets for 2005. The Executive Board and Supervisory Board will recommend to the Annual General Meeting of Shareholders that a dividend be paid of €1.45 per share, which would be a 32% increase over the previous year's dividend of €1.10 (2003: €0.80). The dividend payout ratio (which for this purpose means total distributed dividend as a percentage of net income) would be 30%, an increase of 4 percentage points over the previous year's ratio of 26% (2003: 23%).

Dividend per Share

in € | change since previous year



If the shareholders approve this recommendation and treasury stock remains at the 2005 closing level, the provisional total amount distributed in dividends would be €449 million. The actual amount distributed is expected to be different than the provisional total because the number of shares held in treasury will probably change before the Annual General Meeting of Shareholders. Transactions related to stock-based compensation could also change the amount of capital stock. Aside from the distributed dividend, in 2005 the Company also returned €417 million to the shareholders by repurchasing SAP shares for treasury.

FINANCES

CASH FLOW AND LIQUIDITY

Back Taxes Reduce Operating Cash Flow

SAP's sound income position in 2005 had a positive impact on cash flow. The €1,608 million flowing from operating activities was nonetheless 13% less than the previous year's figure of €1,845 million (2003: €1,499 million). This was the result of back tax payments' significantly reducing deferred tax reserves. Also, in 2004 cash flow was affected by the cash inflow from the maturing of a forward exchange contract.

In 2005, net cash used in investing activities was €583 million, significanlty less than the 2004 amount, which was €748 million (2003: €1,193 million). There was a greater increase in property, plant, and equipment because of a rise in building activity at the Company headquarters. However, increasing the Company's holding in SAP SI had led to greater outflows in 2004 than in 2005. Also, short-term investments were reduced in 2005, whereas in the previous year substantial amounts of cash were transferred to short-term investments.

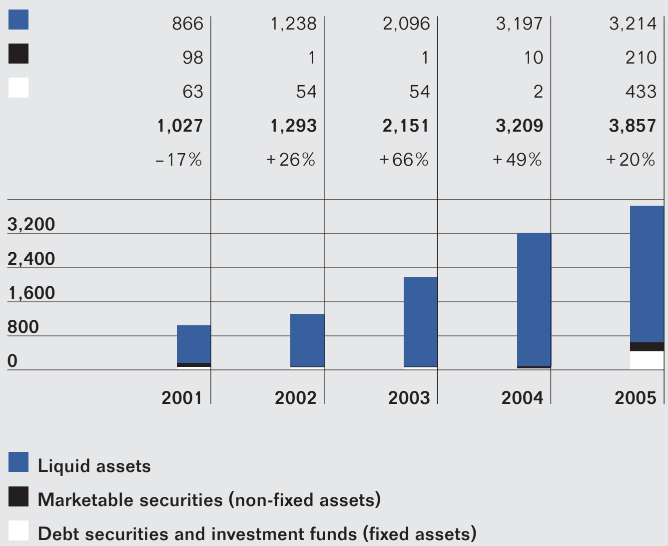
Financing activities accounted for €555 million net cash outflow in 2005. That is 43% more than the previous year's figure of €388 million (2003: €315 million).The increase was caused by a rise of 37% in the amount of dividend distributed and a rise of 160% in the outflow for treasury stock purchases.

Cash and Cash Equivalents Increase 37%

Cash and cash equivalents stood at €2,064 million at the end of 2005, an increase of 37% over last year's €1,506 (2003: €839 million). Liquid assets, comprising cash and cash equivalents as well as time deposits with original maturities exceeding 90 days, totaled €3,214 million. The Company's holdings of marketable securities as investments, some of which are recorded as fixed assets and some as non-fixed assets, increased €631 million to €643 million (2004: €12 million; 2003: €55 million).

Liquidity Reserves

in € millions | change since previous year



To increase financial flexibility, in November 2004 the Company obtained a €1,000 million syndicated credit facility through an international group of banks. The Company already had other lines of credit in place; the new line was arranged to provide additional flexibility. SAP did not draw on the facility in 2005 and has no current plans to do so.

At the end of 2005, the other lines of credit available to SAP AG totaled approximately €553 million (2004: €622 million; 2003: €858 million). The Company did not draw on these facilities during 2005, 2004, or 2003. Several subsidiaries in the SAP Group had credit lines in their local currency. These totaled some €218 million (2004: €204 million; 2003: €178 million), for most of which SAP AG was guarantor. At the end of the year, the subsidiaries had drawn €24 million under these facilities (2004: €28 million; 2003: €22 million).

The Company does not currently have a credit rating with any of the rating agencies. The Company's debt ratio is low, at 36% (2004: 39%; 2003: 41%), and it does not believe any change in credit conditions that might be obtained with a rating would have a substantial effect on its financial situation. The liabilities comprise 6% pension liabilities (2004: 5%; 2003: 4%), 56% other reserves and accruals (2004: 59%; 2003: 56%), and 26% other liabilities (2004: 25%; 2003: 26%).

FINANCIAL MANAGEMENT

Financial Management Objectives and Policy

SAP uses global financial management to control liquid assets, interest, and currencies centrally. Its chief function is to secure a minimum level of liquidity for the Group. SAP companies have their liquidity managed by the Group so that liquid assets across the Group can be consolidated, monitored, and invested in accordance with Group policy.

High levels of liquid assets and marketable securities provide a strategic reserve, helping to keep SAP flexible, sound, and independent. Interest management policy is guided by liquidity and risk considerations, and investment strategy is conservative. Most of the liquidity reserve is available at short notice. The Company's net interest income is thus affected by both long-term and short-term interest rate fluctuations on the financial markets.

Currency management is also centralized. SAP determines exposures daily, based on balance-sheet items and cash flows expected in different currencies, and hedges them with the appropriate derivatives if necessary. The SAP Group does not speculate in derivatives.

Financial Instruments Minimize Risks

Every month, the SAP sales companies in each country pay to SAP AG, the parent company and licensor, a license fee reflecting their software and maintenance revenues. Those fees are generally paid in local currencies, and, to hedge the foreign exchange risks, SAP sells currencies forward under contracts that generally run for 12 months. Without exception, all of SAP's currency futures transactions relate to underlying business and they are never speculative.

Along with fixed salary, employee compensation may include components that vary with stock performance. The STAR plan is such an element, passing weighted stock appreciation value on to employees. SAP uses derivative instruments from independent banks to manage the associated share-price risk. Each of these contracts is subject to the Company's internally stipulated directives concerning the creditworthiness of the bank concerned. For details about the use of hedging contracts, see the Notes to the Consolidated Financial Statements.

Debt Ratio Reduced

The Company's debt ratio (total debt as a portion of total assets) decreased from 39% in 2004 to 36% in 2005 (2003: 41%). That SAP is predominantly equity-financed is also apparent from the fact that bank loans and overdrafts represented only 0.27% of total assets (2004: 0.37%; 2003: 0.34%). The cost of equity fell as the Company's market capitalization rose.

The average rate of interest for fixed-interest bank loans was 7.22% (2004: 6.14%). Most of the Company's fixed-interest bank loans were short-term loans taken by subsidiaries in different currencies and different levels of interest.

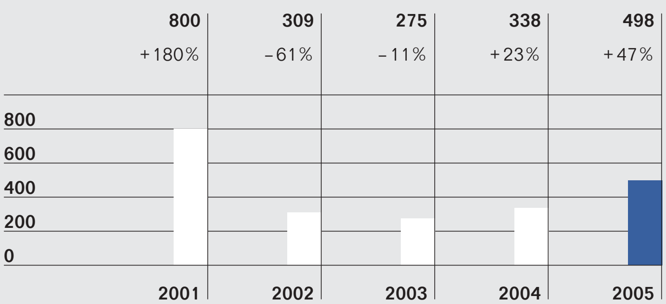
ASSETS

GROWTH OF ASSETS; ANALYSIS OF BALANCE SHEET

The Company's total assets grew 19% from €7,585 million in 2004 to €9,063 in 2005 (2003: €6,326 million). The year's acquisitions increased the Company's intangible assets, and more was invested in longer-term financial assets. In the result, fixed assets increased 47% to €2,395 million (2004: €1,624 million; 2003: €1,609 million). The equity-to-fixed-assets ratio declined from 283% at the close of 2004 to 241% at the close of 2005 (2003: 231%).

Investments

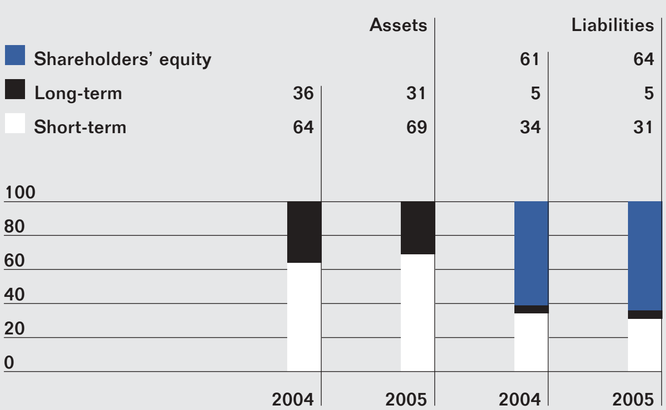
in € millions | change since previous year



SAP improved receivables management, as it repeatedly has for several years: The Company reduced its rolling 12-month average collection period, which is measured in days' sales outstanding (DSO), by three days to 68 days (2004: 71 days; 2003: 76 days).

Consolidated Balance Sheet Breakdown

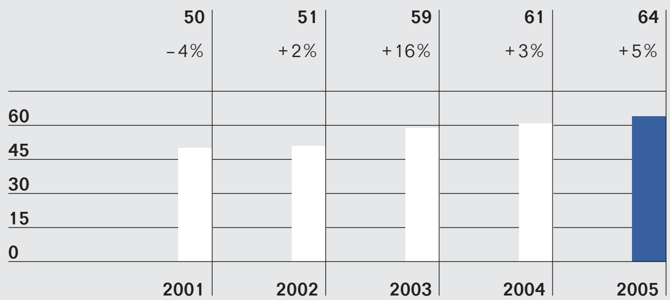
in percent



Robust net income growth reinforced shareholders' equity in the Company still further. The equity ratio (that is, the ratio of shareholders' equity to total assets) increased three percentage points to 64% in 2005 (2004: 61%; 2003: 59%).

Ratio of Equity to Total Assets

in percent | change since previous year



INTANGIBLE ASSETS

Market Value of Equity Significantly Higher than Book Value

The assets that truly underpin SAP's success today and in the future do not appear on the balance sheet. This is apparent from a comparison of SAP's market capitalization, which was €48.5 billion at the end of the year (2004: €41.5 billion), with shareholders' equity, which was €5.8 billion (2004: €4.6 billion). The difference is chiefly due to certain intangible assets that the applicable accounting standards do not allow to be recorded (at all or at fair value) on the balance sheet. These include customer capital (SAP's customer base and customer relations), the employees and their knowledge and skills, the network of SAP partners, software internally developed by SAP, the Company's ability to innovate, the brands built up by SAP – in particular the SAP brand itself – and the Company's organization.

SAP intensified its marketing activities in 2005 in order to convince current and potential customers as well as the general public of the special benefits of its solution portfolio while also increasing the value of the SAP brand. These efforts were rewarded with increased awareness. In the Interbrand and *BusinessWeek* 100 Top Global Brands scoreboard, SAP ranked 36 (2004: 34). It is the only software company in the study that increased its brand value. Interbrand determined a value of US$9 billion (2004: US$8.3 billion) for the SAP brand.

Intellectual Capital Grows

Customer capital also developed positively. SAP gained numerous new customers in various market segments and strengthened its existing customer relationships. With the help of external service providers, SAP regularly measures the satisfaction and loyalty of its customers. The results of these surveys once again show improved customer satisfaction and customer loyalty.

The Company increased the value of the employee base and SAP's own software with the employee and research and development activities described below. SAP also increased the value of its partner network by continuing to develop sales and development partnerships.

A number of measures during the year improved the Company's organization. These included restructuring the Executive Board members' areas of responsibility and grouping all customer-facing lines of business. In order to fulfill its strategic goals, SAP has started to align its strategy and its corporate culture together in a "best-run company" transformation. It identified and underscored the core values of SAP's corporate culture and developed new cultural requirements, which it promoted intensively throughout the Company. The basic values will sustain the success of SAP, while the newly defined requirements will drive the transformation of corporate culture needed to fulfill the strategic objectives.

END-OF-YEAR FINANCIAL SITUATION

Clean Bill of Health

At the end of 2005, SAP was in good health, not least because of the business successes it scored over the year. The Company can point to its broad, innovative range of solutions, highly qualified and highly motivated workforce, strong position, efficient processes, and sound profitability and liquidity.

EMPLOYEES

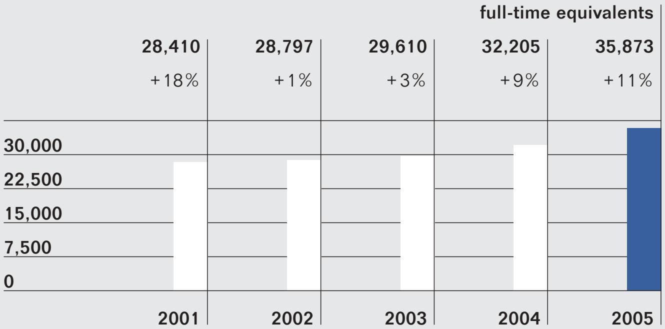
HEADCOUNT INCREASE

Headcount Grows with Business Success

Reflecting its success in business, SAP hired many highly qualified professionals over the course of 2005, thus creating the foundations for future success and continued growth. Initial plans for 2005 called for 3,000 new jobs to be created. The actual number of employees hired exceeded this forecast because of the need to accelerate the development of the new generation of software and because of SAP's high level of success overall. Consequently, the number of full-time employees grew 3,668 in 2005. At the end of the year, SAP employed 35,873 people worldwide (2004: 32,205; 2003: 29,610), of whom 13,916 were located in Germany (2004: 13,525; 2003: 13,026).

Employees at Year End

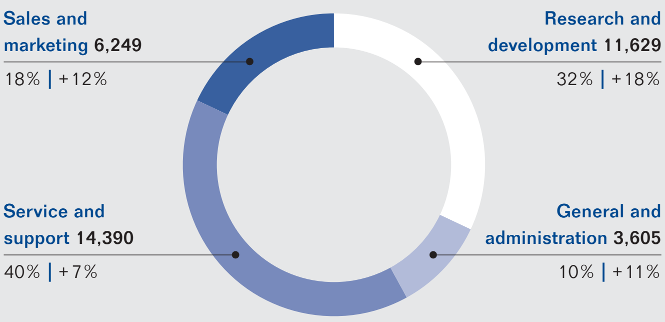
change since previous year



The biggest increases were in research and development, in which – due to the development of SAP NetWeaver as Business Process Platform – the worldwide employee count rose 18% to 11,629 (2004: 9,882; 2003: 8,854). Service and support counted 14,390 employees at the end of 2005 – a growth of 7% (2004: 13,505; 2003: 12,533). Sales and marketing had 6,249 employees (2004: 5,583; 2003: 5,170). This is a rise of 12%. Finance and administration headcount increased 11% to 3,605 full-time positions (2004: 3,235; 2003: 3,053).

Employees by Area

in full-time equivalents | percent | change since previous year



The largest number of employees (61%) work in the EMEA region. Twenty-two percent of employees are in the Americas region and 17% are in the Asia-Pacific region. The percentage increases were 19% in the Americas, 5% in EMEA, and 27% in Asia-Pacific.

SAP employs people of 107 nationalities. The Company embraces this diversity as a valuable resource. To maximize the benefit, it adopted a global diversity management initiative, involving employees from all the regions as well as external advisers.

In 2004, the Company opened a new shared service center (SSC) for the EMEA region in Prague, Czech Republic, complementing SSCs established in recent years in Asia-Pacific and the Americas with the aim of handling internal processes more efficiently. Thirteen European subsidiaries from 10 countries transferred human resource management and finance and administration employees who work on highly transactional tasks to the SSC in Prague in 2005. The success of the SSC concept was recognized outside SAP: An independent body, the International Quality and Productivity Center, honored SAP's Asia-Pacific SSC in Singapore in 2005 for its contribution to increased efficiency and productivity.

SAP AS AN EMPLOYER

An Attractive Employer

In 2005, the 315,000 applications for positions with SAP worldwide indicate how attractive SAP is as an employer. This is underscored by the praise that others accorded the Company. In early January 2005, SAP was named Germany's best employer in the category for companies with more than 5,000 employees and was also judged top for fairness The awards were based on a survey of 36,000 randomly selected employees in 110 companies of all sizes, conducted by the Great Place to Work Institute and research organization Psychonomics. Alongside other recognition in Germany, SAP was also judged one of the 100 best employers in Europe in the 2005 Best Workplaces in Europe awards. The Company is also recognized as a good employer in other countries. Not for the first time, local Great Place to Work Institutes in Latin America judged SAP to be one of the best employers.

SAP's success depends on its employees. Their innovativeness and commitment are crucial, as is their standard of education. Most SAP employees have a science, engineering, or business degree from university. In 2005, the Company continued its policy of investing in training to maintain high levels of employee proficiency.

Stock-Based Compensation for Motivation

Only excellent employees can deliver the top-quality work that SAP's customers demand. To retain them, the Company must offer competitive conditions. In addition to the appropriate salaries, SAP offers its employees many additional benefits. Profit sharing is one important motivational element. The Company awarded STARs to more than 21,000 employees in 2005 in recognition of their performance. In addition, 1,777 executives were awarded a total of 2.9 million five-year stock options. By offering employee stock purchase programs in 32 countries so that employees can buy subsidized shares, the Company also encourages its employees to adopt an entrepreneurial approach to their work.

RESEARCH AND DEVELOPMENT

RESOURCING RESEARCH AND DEVELOPMENT

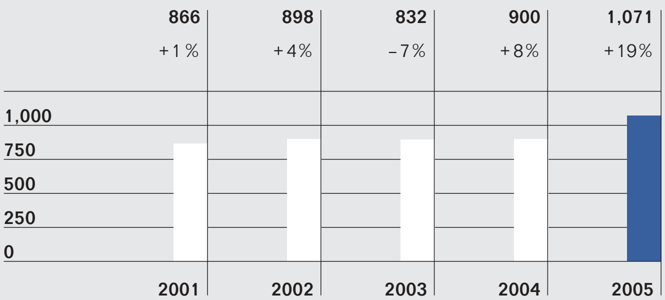
13% of Revenue Invested in R&D

SAP knows that in the medium term it must continuously improve its portfolio of innovative products to maintain and reinforce its current leading position as a vendor of business software. Research and development (R&D) activities in 2005 centered on the delivery of software solutions for the ESA road map, and on the on-schedule delivery of mySAP Business Suite solutions plus all of the SAP industry solutions based on SAP NetWeaver. Additionally, SAP provided more than 500 enterprise services to complement mySAP Business Suite and all industry solutions from SAP.

Pro-forma R&D expenses grew 19% to €1,071million (2004: €900 million; 2003: €832 million). The portion of its total revenue that the Company spent (based on the pro-forma measure) on R&D in 2005 rose to 13% (2004: 12%; 2003: 12%).

The importance of research and development was also reflected in the breakdown of employees' profiles. In 2005, the total full-time equivalent headcount of the SAP Group was 35,873, of whom 11,629 (2004: 9,882; 2003: 8,854) were engaged in development work. This corresponds to 32% of employees and an 18% rise compared to the proportion of R&D employees in the previous year. Of the employees working in R&D, 56% (2004: 62%; 2003: 68%) are employed in Germany, 20% (2004: 15%; 2003: 9%) are in the high-growth SAP development centers in China and India, and 24% (2004: 23%; 2003: 23%) are in SAP's other development locations. The expenses for research and development include employee salaries as well as the costs for externally procured development services.

Pro-Forma Research and Development Expenses
(excluding share-based compensation and acquisition-related charges)
in € millions | change since previous year



In 2005, the Company opened a new research and development center in Hungary. The initial headcount of 50 software developers is to be boosted to approximately 300 by early 2006. Each of the worldwide SAP development labs has its own focus and specific strengths. SAP Labs Hungary, the third SAP research and development center in Europe, will be part of the worldwide SAP development network and will focus on supply chain management (SCM). SAP Labs Hungary joins the list of SAP Labs locations, which already includes Walldorf (Germany), Palo Alto (United States), Bangalore (India), Tokyo (Japan), Sophia Antipolis (France), Sofia (Bulgaria), Montreal (Canada), Tel Aviv (Israel), and Shanghai (China).

In addition to conducting its own research and development, SAP works with many universities and research institutes. At the end of 2005, the Company had 32 collaboration agreements in place covering such work.

Collaboration with Strategic Partners

As in previous years, SAP forged development alliances that it believes will help it shape the future.

- IBM and SAP entered into an agreement to develop social administration solutions and market them worldwide. With integrated tools for managing applications and for checking and defining social benefits, organizations can modernize their processes and implement procedures that fulfill the latest requirements. IBM and SAP also plan to offer a high-performance, low-cost packaged solution for efficiently evaluating company data. The solution is to integrate the analysis functions of SAP NetWeaver with the scaleable blade servers of the IBM BladeCenter and the IBM TotalStorage systems. This will give customers a flexible business intelligence solution to extract, store, and evaluate business-related information.
- Microsoft and SAP stepped up their long-standing partnership to work on their first product together, code-named Mendocino. The product aims at integrating process functions from the SAP solutions directly into Microsoft Office applications, thus bridging gaps between sources of information and eliminating inefficiencies caused by the divide between office and business applications. Mendocino is built to connect the two systems so that users will be able to access business processes and information from within the Microsoft Office environment. Employees will have new ways to access their companies' data and will have improved means of analyzing and using the data.
- SAP and Siemens announced a global strategic alliance for health care industry solutions. Specifically, both companies are collaborating on an integrated IT solutions to improve patient care, increase efficiency and transparency, drive growth, and lower operating costs. Consisting of Siemens Soarian and SAP for Healthcare, the solution is based on the SAP NetWeaver platform and will initially be made available in the United States, Germany, and Japan. This new partnership continues the more than 10 years of cooperation between SAP and Siemens in the health care area.
- Capgemini and SAP announced the expansion of their global collaboration to include a solution suite for logistics service providers. The suite will initially center on the core processes of transport, inventory, and fulfillment management. The companies' joint offering will comprise the SAP for Logistics Service Providers solution portfolio and Capgemini consulting and implementation services.

- Since SAP and Accenture's financial services strategic alliance started late 2003, both companies have combined their capabilities to offer banks and insurance companies a more effective, low-risk way to transform to an industrialized business. A dedicated joint development team and sales channel, integrated services and solutions, innovative delivery, and an efficient implementation model have been built since then, involving an unprecedented teaming of thousands of people across the globe. In 2005, this cooperation led customers around the world to work with SAP and Accenture. Among them is China Minsheng Bank, which is implementing the SAP core banking solution as part of its efforts to transform its operations and prepare for future growth. Caixa Catalunya and Nordea selected SAP and Accenture to help meet Basel II requirements, while Lloyds TSB Insurance has turned to the alliance to implement a new claims management system
- At the SAPPHIRE '05 international customer and partner conference in Boston, SAP launched PartnerEdge, a multi-level program for its global channel partner network for value-added resellers and independent software vendors. PartnerEdge is an element of SAP's strategy for expanding its applications software business with SMEs. It offers a technical infrastructure for worldwide information exchange and cooperation with and among partners that develop, market, or implement solutions for the SME market. The focus of the program is the success and profitability of the partners.

PRODUCT NEWS

Planned Portfolio Evolution

The Company continued to optimize its solution portfolio in 2005.

- The new version of mySAP ERP shipped at the end of February. It embraces the benefits of the SAP NetWeaver platform and includes additional analysis tools for decision support. The functional scope covers financial accounting, human capital management, and operations, and also corporate services such as environment protection, health and safety at work, and travel management. mySAP ERP extends automated end-to-end processes beyond the enterprise to customers, suppliers, and partners, providing companies with one solution to increase efficiency and manage the innovation and growth of their organization.
- 2005 also saw the launch of a new version of mySAP Customer Relationship Management (mySAP CRM), inspired by wide-ranging input from customers across more than 25 industries. mySAP CRM delivers innovations in business processes for the telecommunications, public sector, and financial services industries, as well as cross-industry capabilities such as marketing planning, service management, and mobile sales for handhelds. It reinforces SAP's leadership position in the CRM software market.
- The Company unveiled more than 100 analytic applications specific to more than 25 industries for SAP Analytics. SAP Analytics is a new breed of model-driven composite applications that help users drive current processes and take the wisest next steps using up-to-date live information. By merging data from SAP and non-SAP applications, SAP Analytics delivers a seamless view of all the relevant business processes a customer needs.
- In terms both of peer-group share and perception in 2005, SAP established itself as a leading platform vendor. Analysis firm Gartner's third-quarter "Magic Quadrant for Enterprise-Scope Application Platform Suites" showed SAP among the leading providers. More than 300 customers made a strategic decision to transition to a flexible, service-oriented IT architecture with the help of the ESA Adoption Program from SAP.
- In June, the Company announced that its Safe Passage program, which offers migration to SAP software and services for companies running products from PeopleSoft and JD Edwards, was being extended to companies running Siebel products. The Siebel, PeopleSoft, and JD Edwards software companies have been acquired by Oracle. In late June, SAP extended the Safe Passage program offer to SMEs. The Safe Passage program was also extended to enable companies using the Oracle-acquired software under business process outsourcing (BPO) arrangements to change to BPO with SAP solutions. The program welcomes new BPO service providers and new Safe Passage program customers.

Software for SMEs Improved

- The Company launched an enhanced version of SAP Business One, the integrated solution for SMEs. It is tailored to the needs of emerging, dynamic businesses and automates their critical operations, such as sales, finance, purchasing, basic manufacturing, and inventory. It is quicker to install than earlier versions, is more intuitive to use, and delivers international commercial processes and a very wide range of reporting and analysis functions. The Company developed the new enhancements in close cooperation with customers.
- In October 2005, SAP released 28 new versions of SAP Best Practices offerings for SMEs. These are fixed-scope, predefined, and preconfigured packages of software and services based on mySAP ERP addressing the demands of SMEs in industries such as retail, utilities, and the public sector. The offerings are enhanced with new tools designed to help customers achieve faster implementation times and higher business flexibility while lowering risks. SAP partners can utilize SAP Best Practices to build microvertical mySAP All-in-One solution offerings that leverage their unique industry expertise and service capabilities. SMEs can choose from a broad microvertical portfolio of nearly 600 qualified mySAP All-in-One partner solutions, available in more than 50 countries and used by more than 7,700 customers.

CORPORATE GOVERNANCE

Principles of Corporate Governance Amended

SAP sees corporate governance as a process of continuous adaptation: The Company again updated SAP's Principles of Corporate Governance ("SAP's Principles") to reflect developments in Germany, of which the most important were amendments to the German Corporate Governance Code ("Code"), and on the international stage. This in turn necessitated altering the declaration that the Company makes under German law stating how far it follows the recommendations in the Code. SAP does not follow two of the Code's new recommendations:

- SAP does not follow the recommendation against having a former member of the Executive Board serve as chairperson of the Supervisory Board "as a rule". SAP cannot exclude the possibility that in the future a former member of the Executive Board may be elected chairperson of the Supervisory Board. It is not currently possible to foresee whether this will be the case as a rule. Moreover, the chairperson of the Supervisory Board and chairpersons of Supervisory Board committees are appointed by the members of the Supervisory Board, who in SAP's view should be guided solely by the actual abilities of the persons standing for election.
- In addition, SAP's Principles do not require Supervisory Board members to be elected individually, as recommended by the Code. Block voting is the usual practice and has proved its worth because it ensures that general meetings of shareholders are conducted expeditiously.

All of the other new Code provisions were incorporated into SAP's Principles. SAP thus follows 76 of the 82 recommendations in the Code. SAP set out the Code recommendations it does not follow and explained why in its compliance declaration in October 2005.

There are only three suggestions that SAP does not follow out of the 19 in the Code:

- SAP believes that it is not necessary to codify that a general meeting of shareholders is convened in takeover situations, as suggested in the Code, because the procedure companies must follow is set out in the German Securities Acquisition and Takeover Act.
- Only with respect to appointments of replacement shareholder representatives does SAP follow the Code's suggestion that Supervisory Board members be appointed at different times. Otherwise, SAP holds block votes in Supervisory Board elections and adjusts the terms of office as appropriate. SAP considers this to be practical, particularly in view of the German system of codetermination.
- SAP does not follow the suggestion in the Code that an element of the compensation of Supervisory Board members should depend on the performance of the Company. SAP believes that this suggestion does not take into account the Supervisory Board's role as a monitoring body, since agreeing compensation based on the Company's performance would jeopardize the arms' length view Supervisory Board members take of the Executive Board's management. At SAP, variable remuneration is linked to the dividend and governed by SAP's Articles of Incorporation.

Compliance with U.S. Legislation

As a NYSE-listed company, SAP is subject to U.S. securities laws and to the rules of the U.S. Securities and Exchange Commission and of the NYSE. In 2005, the Company therefore maintained its compliance with relevant U.S. laws and rules relating to corporate governance standards. Notably, it implemented the requirements of the NYSE Corporate Governance Standards regarding the composition of the audit committee and prepared for the assessment of the internal control over financial reporting as required by the U.S. Sarbanes-Oxley Act.

RISK FACTORS AND RISK MANAGEMENT

INTERNAL RISK MANAGEMENT POLICIES AND PROCEDURES

Global Risk Management Organization

SAP has a system in place 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 and business risks using internal reporting functions, a number of management and controlling systems, and a planning process that is uniform throughout the Group.

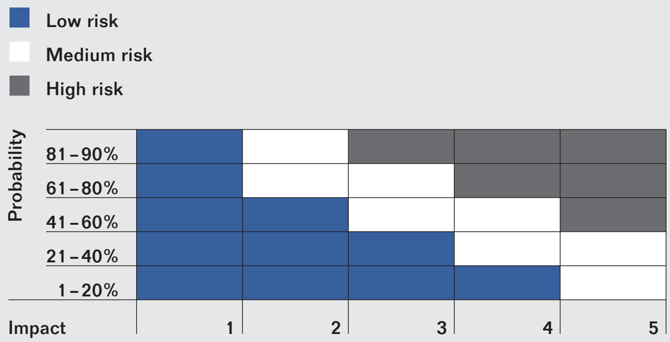
- SAP has created standard documentation of key business processes of SAP AG and all of its major subsidiaries. These standard processes are periodically assessed and tested by dedicated "process champions" as well as SAP's global internal audit service, as to their design and operating effectiveness. Further elements of the system include a corporate Code of Business Conduct for employees, which was formalized in 2003, and the work of the Supervisory Board in monitoring and controlling the Executive Board. Specifically, in 2003 the SAP Executive Board decided to create a companywide Enterprise Risk Management Framework according to the recommendations of the COSO II Enterprise Risk Management Framework Standard. SAP has taken a companywide approach to managing risk by establishing a dedicated global risk management organization with a direct reporting line to SAP's CFO tasked as follows:
  - To provide a common framework to assess the risk-reward balance of business operations
  - To ensure regulatory internal controls compliance in line with the Sarbanes-Oxley Act, section 404
  - To provide cost-effective global insurance alternatives to the SAP Group

SAP's global risk management framework includes a corporate risk management policy approved by the Executive Board, a companywide risk management process model, a three-tier global risk management organization, IT tools implemented across the Company to support the risk management process, and groupwide cascading risk reporting.

Uniform Risk Analysis Across the Group

SAP employs both qualitative and quantitative assessments, which are defined in its companywide risk management process model, to foster the uniformity of the risk analyses applied in SAP's business units. For example, value at risk (VaR) calculations are performed to continuously determine SAP's foreign exchange, litigation, and escalation exposures; Monte Carlo analysis is used in pricing projects.

In other areas, where a quantitative assessment is substantially more difficult, qualitative assessment techniques using expert / management risk estimations on the basis of a companywide uniform risk level matrix are employed. As part of the assessment, the identified risks are assessed as to their estimated probability and impact on the basis of a common assessment horizon of three years, resulting in a qualitative risk prioritization.



	Probability		Impact
Category	**Threshold**	**Category**	**Threshold**
1 – Highly unlikely	1 – 20%	1 – Insignificant	< 200,000 €
2 – Unlikely	21 – 40%	2 – Slight	200,000 – 1,000,000 €
3 – Not unlikely	41 – 60%	3 – Moderate	1,000,000 – 5,000,000 €
4 – Likely	61 – 80%	4 – Considerable	5,000,000 – 25,000,000 €
5 – Very likely	81 – 99%	5 – Major	≥ 25,000,000 €

SAP Runs Its Own Software

SAP uses a range of tools to support the risk assessment. In particular, it uses an SAP solution, Operational Risk Management (ORM), to consolidate and aggregate all identified risks.

The risk information entered in ORM is provided to the SAP Executive Board on a quarterly basis as part of a cascading risk report. In addition, an ad-hoc risk reporting requirement to SAP's Executive Board and the chairperson of the Supervisory Board has been established in case a risk with an expected loss exceeding €100 million is identified. SAP's threshold for the existence of a risk threatening the Company's existence has been defined at an expected loss exceeding €150 million.

SAP's risk management policy and process model are reviewed and, if required, adapted on a semi-annual basis. Apart from these measures, SAP's external auditors perform an annual assessment of the suitability of SAP's risk management system to ensure early detection of risks threatening the Company's existence per the requirements of the German Stock Corporation Act, section 91 (2).

Key risk factors identified and tracked using the enterprise risk management program are summarized below in the same risk category structure as established by SAP's internal risk management reporting system.

ECONOMIC RISKS

- Implementation of SAP software products can constitute a major portion of customers' overall corporate budget. A prolonged economic or political crisis respectively a slow or weak economic recovery, or other difficulties in the economies where the Company licenses products, including Europe, the Americas, and Asia, could have an adverse effect on SAP's business, financial position, and operating results, since customers' willingness to invest in acquiring and implementing SAP products and the timing of customers' investments would be negatively affected. One example for such a risk occurrence was the uncertainty about further political development that paralyzed Germany for the most part of 2005 due to early parliamentary elections and that had an adverse impact on SAP's business performance, especially in the German public sector. The international orientation of SAP, which licenses its products on all significant world markets, gives the Company additional flexibility, because economic difficulties in one region can be balanced by increased business activity on other markets. SAP believes a significant adverse impact on its expected business performance due to a decline of the general economic situation is unlikely.
- The financial, political, economic, and other uncertainties following terrorist attacks like those in the United States, Spain, and the United Kingdom, other acts of violence or war such as the conflict in Iraq, as well as natural catastrophes or epidemics could damage the world economy and affect SAP's and its customers' investment decisions over a period of time. However, the economic impact resulting from terrorist attacks in recent years has proven to be only short term and, SAP did not suffer any lasting adverse effects. In SAP's view, the only significant comparable threats to SAP's expected income at the moment are a possible war in the Middle East (due to the inherent risk of a further increase in global oil prices) and a pandemic of avian flu among humans (due to the expected restrictions imposed on global travel and business operations). At the moment, the occurrence of these risk scenarios is still assessed as highly unlikely by SAP.
- SAP's products and services are currently marketed in over 120 countries worldwide. Sales in these countries are subject to risks inherent in international business activities, including, in particular, general economic or political conditions in individual countries, overlap of differing tax structures, and regulatory constraints such as import and export restrictions, regulation of the Internet, as well as additional requirements for the design and distribution of software and services. For the majority of SAP's important target markets, most notably the markets of the European Union and North America, these risks can be assessed as highly unlikely and minor in their impact due to a well-developed convergence of legal and tax regimes. However, in a few of SAP's growth markets, for example, Brazil and China, certain regulatory constraints still impede international business operations. These comprise, for example, excess levies on transborder royalty payments and bureaucratic import control processes. SAP addresses these risks with various measures, which range from regular dialog with the authorities of the host countries to the initiation of legal proceedings. A moderate impact on SAP's expected business performance in the countries in question induced by such regulatory constraints is nevertheless possible.

MARKET RISKS

- The entire IT sector, including the software industry, is currently experiencing consolidation through mergers and acquisitions, particularly involving larger companies, as Oracle's recent acquisition of PeopleSoft and Siebel show. Large companies, such as IBM and Microsoft continue to expand into areas targeted by SAP and thus increasingly compete with SAP. Competitors have established or may establish cooperative relationships among themselves or with third parties to address their products to customer needs. New alliances among competitors may emerge from these and quickly acquire segment shares to SAP's disadvantage. This could have a material adverse effect on SAP in a variety of ways, such as reducing sales due to customer uncertainty and subjecting SAP to competition from stronger, established companies or new peer group companies. SAP believes that its strategy of organic growth is the right one, particularly with regard to Oracle's aggressive acquisition strategy. Therefore, SAP considers it highly unlikely at the moment that its expected results will be greatly harmed by its direct competitors' taking away significant share from SAP. Rather, SAP sees the current wave of consolidation in the IT sector as an opportunity to strengthen its position, assuming the Company successfully implements its volume business strategy. However, SAP cannot rule out that competitors will increasingly offer extreme discounts to customers, thus significantly limiting SAP's profits.
- The recent trend toward business process outsourcing (BPO) could result in increased competition for SAP through the entry of systems integrators, consulting firms, telecommunications companies, computer hardware vendors, and other IT services providers. The perception of value created by SAP's products among end customers could be diminished to the extent outsourcing providers bundle SAP applications with their services. While most of SAP's revenue is currently derived from license contracts concluded directly with end customers, an increased trend toward outsourcing business processes to external providers could have an adverse impact on SAP's revenue and results. In addition, the distribution of applications through application service providers may reduce the price paid for SAP products or adversely affect other sales of SAP products. SAP is actively countering these risks with its increasingly successful structured BPO partner program and its own on-demand business model and product range in the CRM sector. In light of these measures, SAP considers the risk of significant impairment to its revenue and results from competing BPO providers and ASPs as unlikely for the foreseeable future.
- SAP's large installed customer base has traditionally generated a large portion of SAP's revenue. If SAP's customers decide not to renew their maintenance agreements, license additional products, or contract for additional services, or if they reduce the scope of their maintenance agreements, SAP's revenue and results could be adversely affected. However, SAP considers this unlikely due to the very solid growth of business with its installed base in the past two years and its forward-looking technological strategy, which has been acclaimed by both analysts and customers. Moreover, a growing share of revenue in business with new customers offers new sales opportunities and thus at least some possible replacements.

STRATEGIC PLANNING RISKS

- SAP has entered into cooperative agreements with a number of leading computer software and hardware suppliers and technology providers to ensure that select products produced by such suppliers are compatible with SAP software products. SAP has also supplemented its consulting and services through alliance partnerships with third-party hardware and software suppliers, systems integrators, and consulting firms. Most of these agreements and alliances are of relatively short duration and nonexclusive. In addition, SAP has established relationships relating to the resale of some of its software products by third parties. There can be no assurance that these third parties or business partners, most of whom have similar arrangements with SAP's competitors and some of whom are also in competition with SAP, will continue to cooperate with SAP when such agreements or partnerships expire or require renewal. This could adversely affect the marketing of and demand for SAP's software products. However, this risk has become considerably easier to assess in the last two years as a consequence of the ongoing consolidation in the enterprise software industry. Accordingly, the occurrence of such a risk event with a significant impact on SAP's expected business performance is at the moment assessed as highly unlikely by SAP. This is due to the fact that both leading system integrators as well as IT infrastructure providers like IBM and Microsoft, despite their partial competition with SAP, see cooperation agreements with SAP as an efficient and attractive opportunity to raise their own business performance in the enterprise sector. In SAP's view, this also holds true for its agreement with Oracle Corp. governing SAP's resale of Oracle database licenses, since SAP represents Oracle's largest database reseller worldwide.

HUMAN CAPITAL RISKS

- SAP relies on being able to build up and maintain a specialized workforce with in-depth technological know-how. SAP's operations could be adversely affected if a high number of senior managers or other skilled personnel were to leave and qualified replacements were not available. Most of SAP's current employees, with the exception of selected managers, are subject to employment agreements or conditions that (i) do not contain post-employment noncompete provisions and (ii) in the case of most employees outside Germany, permit the employees to terminate their employment on relatively short notice. In the ongoing economic recovery, the competition for highly qualified talents in the IT industry is again gradually increasing, and consequently there can be no absolute assurance that SAP will continue to be able to attract and retain key personnel. However, SAP's attractiveness as an employer has been confirmed again in surveys in the past fiscal year, SAP's staff turnover rate in most of its locations worldwide remains at a very low level, and, in 2005, SAP succeeded in attracting a lot of seasoned management talent with many years' leadership experience in competitor companies. Therefore, SAP assesses the risk of a tangible adverse effect on SAP's business operations as a result of the departure of key management and employees as highly unlikely at the moment. On the contrary, SAP believes its attractiveness as an employer due to its distinct market positioning and technology leadership will again offer excellent opportunities to hire selected top talent worldwide in 2006, with the potential to contribute to SAP's increased business success in the future.

ORGANIZATIONAL AND GOVERNANCE-RELATED RISKS

- As a stock corporation domiciled in Germany and listed in the United States, SAP AG is subject to governance-related regulatory requirements under both jurisdictions that are among the highest standards worldwide and have considerably grown in the past few years, most notably through the introduction of the U.S. Sarbanes-Oxley Act of 2002. SAP is fully supportive of the intentions of these laws and standards and believes it has initiated thorough and detailed measures to fully comply with all relevant requirements. However great SAP's efforts, there can nevertheless be no assurance that the Company will not be held in breach of the complex and highly specific regulatory requirements, for example, if individual employees behave fraudulently or negligently. However, SAP assesses the likelihood of occurrence of such a risk event as remote due to a significant number of internal control mechanisms. Any such event may have a material adverse impact on SAP's reputation and may lead to decreased business and stock value performance, although exact quantification of the risk is difficult due to the large variety of potential noncompliance scenarios. For example, an empirical study conducted by consulting firm Glass, Lewis & Co. in 2005 revealed that U.S. companies not in a position to attest to the effectiveness of their internal control systems for financial reporting as per the requirements of the Sarbanes-Oxley Act, section 404, due to material control weaknesses were "punished" by a decreased stock performance of, on average, approximately 4% compared to the general stock market development in the two months following their disclosure.

COMMUNICATION AND INFORMATION RISKS

- SAP has established a range of measures to counter the risk that internal, confidential communications and information about sensitive subjects such as future strategies, technologies, and products are improperly or prematurely disclosed to the public. These measures include companywide mandatory security standards and guidelines relating to external communications, technical precautions to prevent the transmission of confidential internal communications over external communications networks, and the provision of encrypted hardware equipment to employees who are frequently exposed to sensitive, confidential information. In light of these measures, SAP assesses the occurrence of such a risk event as unlikely. However, there is no guarantee that the established protective mechanisms will work in every case. SAP's competitive position could sustain major damage if, for example, confidential information about the future direction of its product development became public knowledge.

FINANCIAL RISKS

- Although the euro has been SAP's financial and reporting currency since January 1, 1999, a significant portion of SAP's business is conducted in currencies other than the euro. As a consequence, period-to-period changes in a particular currency can significantly affect reported revenues 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. Accordingly, SAP's results in 2005 benefited from a relatively weak euro. However, if this does not continue, it could have an adverse impact on SAP's income, as in fiscal year 2004. SAP continually monitors the exposure to currency risk based on balance-sheet items and expected cash flows and, for foreign exchange transactions, pursues a company-wide foreign exchange risk management policy using hedging with derivatives as necessary. Taking into account the aforementioned risk management instruments, SAP regularly quantifies the risk positions from the exchange rates of the currencies most relevant to SAP (in particular: U.S. dollar, Japanese yen, Swiss franc, British pound, Canadian dollar, and the Australian dollar) using the value-at-risk method. SAP calculates the possible loss of income from foreign currency influences for a holding period of 10 days and a confidence level of 99%. The following table shows the value at risk calculated on the basis of nonhedged currency exposures (outstanding open items taking into consideration concluded hedging transactions) at the end of the fiscal year and the yearly averages for fiscal years 2004 and 2005. The yearly averages are calculated using the figures at the end of the quarters.

	Dec. 30	Yearly average	Dec. 30	Yearly average
	2005	2005	2004	2004
	€ million	€ million	€ million	€ million
Value at risk	11,1	9,7	6,6	6,3

- The average value at risk of the nonhedged currency exposures and the value at the end of 2005 increased year on year. This is due in particular to higher nonhedged currency exposure based on projected exchange rates. Exchange rate volatility also increased.
- Variances or slowdowns in SAP's licensing activity may negatively impact revenue from services and maintenance, since such services and maintenance revenue typically lag behind license revenue. A significant decrease in the percentage of SAP's total revenue derived from software licensing could thus have an adverse effect on its business, financial position, and results of operations or cash flow. SAP's strategy therefore gives priority to increasing software revenue over other forms of revenue and, as a result, was able to increase the percentage of total revenue derived from software licensing in both 2004 and 2005. SAP is sure that this trend will continue in the coming fiscal year.
- SAP enters into derivative instruments to hedge the anticipated cash flows in connection with SAP's employee stock appreciation rights (STAR) plan. There can, however, be no assurance that the benefits achieved from hedging the STAR plan exceed the costs of hedging the STAR plan.

PROJECT RISKS

- Implementation of SAP software is a process that often involves a significant commitment of resources by SAP's customers and is subject to a number of significant risks over which it has little or no control. SAP cannot provide absolute assurances that protracted installation times will not continue, that shortages of trained consultants will not occur, or that the costs of installation projects will not exceed the fixed fees charged by SAP in all SAP customer projects. Any such event could result in customer claims and harm SAP's image. However, this risk category has also seen a positive trend for various reasons for a few years now. On the one hand, SAP customers nowadays increasingly follow modular project approaches to optimize their IT environment, that is, they embark on sequentially integrated individual projects with a comparatively low risk profile to realize specific potential improvement instead of pursuing highly complex resource-intensive projects to implement an all-embracing IT landscape. SAP itself has steadily developed and standardized its implementation methodology on a global basis in the past few years. In addition, various mandatory risk management measures have been introduced (for example, detailed project pricing techniques applying Monte Carlo simulation and regular project risk assessments moderated by SAP's local risk management departments for implementation projects exceeding certain size thresholds). This has helped improve SAP's ability to control implementation project risks. As a consequence, in the past two years, SAP has steadily reduced its customer escalation handling expenses and the amount of ongoing litigations against SAP from its SAP's operational business. The remaining individual risks are, in SAP's opinion, adequately considered in SAP's financial planning, where appropriate through the build-up of the necessary accruals. A tangible adverse impact on SAP's expected business and earnings from customer project risks is therefore unlikely in SAP's view.

PRODUCT RISKS

- To achieve customer acceptance, new products and product enhancements can require long development and testing periods, which may result in delays in scheduled introduction. New products and product enhancements may nevertheless contain a number of undetected errors when they are first released. As a result, in the first year following the introduction of new software releases, SAP generally devotes significant resources to 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 use of SAP software products by customers in business-critical applications and processes raises this risk in the event of actual or alleged failures of SAP software products and services. Although SAP's agreements generally contain provisions designed to limit SAP's 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. Such claims could adversely affect SAP's assets, finances, income, and reputation. Nevertheless, SAP counters these risks with extensive project management and project monitoring, rigid, regular quality assurance measures certified according to ISO 9001, and program risk assessments during product development. The generally high quality of SAP products is confirmed by SAP's reduced customer escalation handling expenses as already described in the section about project risks, the reduced amount of ongoing litigations against SAP from its operational business, and constant customer satisfaction levels measured in the regular, extensive customer surveys. Therefore, it is unlikely that SAP's planned results will be significantly impaired by product defect claims from SAP customers.
- SAP products include security features that are intended to protect the privacy and integrity of customer data. Despite these security features, these products may be vulnerable to attacks and similar problems caused by Internet users, such as hackers bypassing firewalls and misappropriating confidential information. Such attacks or other disruptions could jeopardize the security of information stored in and transmitted through the computer systems of SAP customers and lead to claims for damages against SAP from customers. However, SAP technologies have not been significantly exposed to security attacks so far and SAP provides extensive security functions, which means the risk can be classed as very unlikely.
- SAP licenses numerous third-party technologies that are incorporated into its existing products. It cannot be ruled out that the licenses for certain third-party technologies will not be terminated against SAP's interests or that SAP will be able to favorably license third-party software for its products. This could lead to short-term replacement problems and to significantly higher development expenses.
- A key component of SAP's strategy for a broad adoption of the SAP NetWeaver technology and Business Process Platform is offering SAP NetWeaver to certified third-party independent software vendors (ISVs) as a basis for those vendors to develop and offer their own business applications. To the extent that SAP cannot attract a sufficient number of capable ISVs delivering high-quality solutions based on the platform, the desired market penetration of SAP NetWeaver may not be achieved. Any ISV-developed solutions with significant errors may reflect negatively on SAP's reputation and thus indirectly impede SAP's own business 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 select and use certain SAP software products. To counter this risk, SAP has established a thorough certification process for all third-party vendors designed to ensure that they deliver consistently high quality.

OTHER OPERATIONAL RISKS

- SAP relies on a combination of the protections provided by applicable trade secret, copyright, patent, and trademark laws, license and nondisclosure agreements, and technical measures to establish and protects its rights in SAP products. Despite these efforts, it cannot be ruled out that these protections will not be sufficient and that SAP will suffer extensive damage caused by infringement of its intellectual property that cannot be pursued effectively in the courts. For example, in some countries in which SAP markets its software products, the law offers less protection against illegal copying of software than in the United States or Germany.
- SAP has been issued patents under its patent program and has a number of applications pending for inventions claimed. Furthermore, SAP selectively embeds third-party open-source software components in SAP software solutions. SAP has implemented strict and detailed approval processes for the deployment of such components, which involve, among others, a thorough check of any related license terms. Nevertheless, there can be no assurance that, in the future, patents of third parties will not preclude SAP from utilizing certain technologies, including open-source software components, in its products or require SAP to enter into royalty and licensing arrangements on terms that are not favorable to SAP. Third parties have claimed, and may claim in the future, that SAP has infringed their intellectual property rights, although SAP does not believe that it is infringing any proprietary rights of others. For example, in April 2005 ePlus, Inc., a U.S. company, brought an action against SAP in the United States alleging patent, copyright, and trade secret infringements and breach of contract. ePlus alleges that certain SAP products, processes, and services infringe three of ePlus's U.S. patents. ePlus, Inc. is claiming as yet unquantified damages, punitive damages of three times those unquantified damages for intentional infringement, and an injunction. There was a preliminary hearing in November 2005. In January 2006, the Court decided the case should proceed to trial, opening March 28, 2006. The eventual outcome cannot be predicted with certainty. SAP denies the allegations and does not believe the case will have a material adverse effect on its business, finances, income, or cash flow. Since defeat appears unlikely and the damages, if SAP were liable, cannot be estimated, the Company did not record an accrual at the close of 2005. On the other hand, any trial involves risk and potentially substantial legal costs. It is therefore impossible to exclude for certain the possibility that this case could have a material adverse effect on SAP's business, finances, income, or cash flow.

  SAP thinks it likely that its products will increasingly be subject to such claims. Any claim, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays, subject SAP products to an injunction, require a complete or partial redesign of the relevant product, or require SAP to enter into royalty or licensing agreements, which would significantly impair its results. Royalty or licensing agreements, if required, may not be available on terms acceptable to SAP.
- Computer viruses could be introduced into SAP's systems or those of SAP's customers or suppliers, which could disrupt SAP's network or make it inaccessible to customers or suppliers. Such security problems can result in recovery costs, production downtime, and customer claims, which would significantly harm SAP's business. However, the risk is very unlikely to occur due to the variety of defense mechanisms in place, such as the latest firewall technology, anti-virus software, and processes for sealing off the SAP network when viruses attack. As a result, SAP's main IT systems had average availability of 99.99% in fiscal year 2005.
- To expand its business, SAP has acquired and expects to continue to acquire businesses, products, and technologies. SAP's current strategy for growth includes acquiring small and midsize enterprises to specifically expand the product portfolio. Risks commonly encountered in such transactions include the inability to successfully integrate the acquired business and the acquired technologies or products with SAP's current products and technologies; a potential disruption of SAP's ongoing business; the inability to retain key technical and managerial personnel; the assumption of material unknown liabilities of the acquired companies; the incurrence of debt or significant cash expenditure; a potential adverse impact on SAP's relationships with partner companies, third-party providers of technology or products,

or customers; and regulatory constraints. SAP counters these risks by means of many different methodical and organizational measures. These range from thorough technical, financial, fiscal, and legal due diligence checks on the object to be acquired and a holistic evaluation of material transaction and integration risks before conclusion of any transaction to detailed, standardized integration planning and its execution by a dedicated integration team. These measures, combined with the fact that the companies SAP has acquired until now have been of a manageable size, mean that SAP considers the risks described here as controllable and does not think it likely that its expected results will be significantly impaired.

- As part of its venture-capital activities, SAP has acquired and expects to continue to acquire equity interests in technology-related companies, many of which currently generate net losses and require additional capital outlay from their investors. It is possible that changes in market conditions affect the performance of companies in which SAP holds investments. Such events could negatively impact SAP's results and financial position or its ability to recognize gains from the sale of marketable equity securities. Additionally, under German tax law, capital losses or writedowns of equity securities are not tax-deductible, which may negatively impact SAP's effective tax rate. This risk is restricted due to the limited scope of SAP's venture-capital activities, making a significant effect on SAP's results unlikely.

CONSOLIDATED RISK PROFILE

SAP's consolidated risk profile – as derived from an aggregation of the risks identified within each of the previously mentioned risk categories – shows the following distribution among the specific risk categories as of the end of fiscal year 2005:

Distribution of Consolidated Risk in Percent	
Category	Proportion of Consolidated Risks
Economic risks	4%
Market risks	16%
Human capital risks	5%
Strategic planning risks	6%
Organizational and governance-related risks	7%
Communication and information risks	1%
Financial risks	4%
Product risks	17%
Project risks	24%
Other operational risks	16%

In 2005, none of the quantifiable risks identified within SAP's risk management system exceeded the thresholds set by SAP for the existence of a risk threatening SAP's existence (€150 million expected loss). For those risks that SAP assesses qualitatively using expert estimations, the proportion of risks with a risk level "high" or "medium" per the risk level matrix in use at SAP steadily decreased: Whereas the proportion of such risks, considering their distribution among the risks continuously monitored using SAP's risk management system, was 9% (high risk) and 35% (medium risk) in the first quarter of 2005, this proportion had decreased to 6% (high risk) and 24% (medium risk) by the end of 2005. As a result, the proportion of risks with risk level "low" increased in the period between the first and fourth quarters of 2005 from 56% to 70%.

Thus, in SAP's view, the risks identified above do not threaten SAP's existence individually or collectively. On the contrary, the consolidated risk profile of the Company developed favorably during the course of 2005 and is significantly exceeded by SAP's business opportunities as described above. SAP is confident that it can continue in 2006 to successfully counter the challenges arising from those risks. SAP's strong position in the market, its technological leadership, its highly motivated employees, as well as structured early risk identification processes will be key factors in supporting this goal.

2006: EARLY NEWS

SAP is not aware of anything in the early months of 2006 so significant to SAP that it would lead to a different view of the Company's assets, finances, or income than at the end of 2005. However, there is some early news that underscores the positive developments the Company is making.

- In its Image Profile 2006 study, German business magazine *Manager Magazin* ranked SAP top in the category for computer and software companies in Germany. SAP also topped this category the last time the study was conducted in 2004. SAP ranked eighth out of 177 in the overall standings of leading companies in Germany (2004: 13th).
- In 2006, Great Place to Work has again named SAP Germany's best employer in the category for companies with 5,000 and more employees. The Company also won special awards in the Gender Equal Opportunities and Diversity categories.
- SAP Labs India has received the Recruiting and Staffing Best in Class Award from Bharati Vidyapeeth's Institute of Management Studies & Research. It was selected by a jury of recruitment and staffing practitioners.

The Company also took various steps to further improve its business.

- At the beginning of 2006, the Company introduced 39 newly qualified mySAP All-in-One solutions developed for SMEs by SAP's partners across the globe. These latest microvertical solutions join more than 100 new partner solutions SAP introduced in 2005. SMEs can now choose from a broad microvertical portfolio of more than 600 qualified mySAP All-in-One partner solutions, available in more than 50 countries and used by more than 7,100 customers. Each of these solutions incorporates SAP Best Practices for the specific business processes of one industry, be it biotechnology or plant engineering, transportation or fashion retailing.
- In January 2006, the Company announced it was uniting its North America and Latin America sales regions to form one consolidated SAP Americas region. This improves utilization of the Company's resources by exploiting synergies and supports the region along its strong growth trajectory. Also in January 2006, SAP announced it was raising its profile in Asia by investing some €7 million over the next few years in a new development center in Korea.
- At the end of January 2006, SAP announced it was expanding its portfolio of support services with the introduction of SAP Premium Support, which can significantly increase the value of SAP solutions. Available on a global basis, the new offering provides an additional option for SAP customers seeking heightened levels of responsiveness and individual attention, enhanced access to SAP expertise, and new opportunities to drive down IT operating costs. SAP Premium Support is based on customer and market research by SAP, revealing customers' increasing recognition of the importance of support and preference for ever closer engagement with SAP throughout the deployment life cycle. The offering provides a new option in between SAP Standard Support and SAP MaxAttention, a high-end offering tailored to match the specific needs of larger global enterprises. SAP emphasized its commitment to offering customer-friendly services by opening a center of expertise for SAP Active Global Support in Saint Petersburg, Russia. The new service center will aid the sustained, dynamic development of SAP's activities in Russia.

- In February 2006, SAP presented an enhancement of its market-leading mySAP CRM solution to include an on-demand option. The SAP CRM on-demand solution is designed for large and midsize organizations to manage sales, service, and marketing in an easy-to-use solution delivered directly over the Internet. The software is offered as a hosted solution through a subscription-based licensing model. IBM provides the hosting services for the SAP CRM on-demand solution. SAP is thus presenting the first hybrid CRM solution that connects a pure on-demand model with local software operation – also known as on-premise. Moreover, the solution enables integration with other business applications. The first on-demand product is the SAP Sales on-demand solution for managing customers, contacts, and sales pipelines. Additional on-demand CRM offerings for marketing and service are intended for release in 2006.
- At the beginning of February, SAP AG as the main SAP SI AG shareholder announced that it had set the cash compensation paid in return for transferring the shares of the remaining SAP SI AG shareholders (minority shareholders) to SAP AG as the main shareholder in accordance with the German Stock Corporation Act, section 327a, paragraph 1 (squeeze-out) at €38.83 per share. The SAP SI Annual General Meeting of Shareholders on April 28, 2006 will resolve on the squeeze-out.

OUTLOOK

FORECAST FOR THE GLOBAL ECONOMY

Bright Skies Ahead

The IMF and the OECD do not expect that the economic climate in 2006 will be much different than it was 2005. Overall, they believe recovery in the global economy will not be stronger than in 2005. According to the IMF's forecast for 2006, global GDP – the total value of all goods and services – will grow 4.3%. Increased commodity prices and continuing subdued demand on the domestic market will hold back progress, especially in the industrialized countries of Europe, the IMF believes. It expects growth to slow in the United States and Japan.

The OECD believes that, compared to many other markets, U.S. growth will still be relatively strong at 3.5%. The IMF expects growth to remain strong in Asia in 2006 – notably in China (where it foresees 8.2% growth) and India (6.3%). It expects the Japanese economy to expand 2.0% in 2006 and again in 2007. Growth is expected to accelerate in the euro zone. The OECD forecasts GDP will increase 2.1% – up from 1.4% in 2005. It expects 2.2% expansion of the euro zone economy in 2007. For Germany, the OECD forecasts GDP growth will accelerate to 1.8% in 2006.

The primary risks to the global economy that the IMF and the OECD identify are further rises in oil prices, deterioration in the U.S. balance of payments, or sudden changes of major trading nations' currency policy. International economic activity could also be severely impacted by major increases in long-term interest rates or a reversal of the current temperate trends in the financial and property markets. The OECD believes these risks could be contained if world trade were further opened up and there were progress in the agricultural policy reform negotiations, which would both stimulate more worldwide economic activity.

FORECAST FOR THE IT INDUSTRY

Confident Outlook for 2006

The generally healthy climate for business in 2006 should help the IT market. IT market intelligence provider IDC estimates that in 2006 the global IT market will expand 5.5% and that the applications segment of that market will do even better, growing 5.9%. Gartner defines the IT market slightly differently – its 2006 growth forecast of approximately 4% reflects an anticipated hesitancy in the hardware and IT services segments. *Red Herring*, a U.S. magazine covering the IT market, foresees sustained pressure on prices in 2006, especially affecting the major vendors. Nonetheless, Gartner expects the applications market to expand 8% worldwide in 2006. That increase could be generated by products such as Microsoft and SAP's shared Mendocino development, *Red Herring* suggests.

Gartner forecasts that SMEs will spend some 7% more on IT in 2006 than in 2005, reasoning that companies will look to advanced IT support for their business processes for the edge in an ever fiercer competitive environment worldwide. Thus, many of them will modernize their systems and applications, Gartner believes.

In IDC's assessment, the SME market that SAP can address comprises some 64,000 companies with a headcount of 1,000 to 2,500 and 1.2 million companies with a headcount in the range 100 to 1,000. Citigroup estimates that SAP's share of that segment is some 10%, which already makes it the leader – ahead of Intuit, Microsoft, Sage, and Oracle.

Gartner expects SMEs to concentrate their IT investment on security, Internet business processes, and expanding their ERP systems. It believes larger companies in the SME spectrum (with 500 or more employees) will spend significantly on ERP. These are precisely the companies that are feeling the impact of more demanding compliance requirements such as those under the U.S. Sarbanes-Oxley Act. Gartner predicts they will also tend to invest in document management and CRM systems.

IT Market Predicted to Grow 5% in the United States

The U.S. IT market is SAP's single most important source of revenue, and here IDC projects 5.0% growth in 2006 (2005: 4.9%). Gartner's corresponding estimate is similar. Despite the rather subdued outlook for the western European economy as a whole, IDC believes the IT market in the region will grow slightly faster than in the United States. Gartner, on the other hand, expects the western European IT market to grow more slowly. In the Asia-Pacific region, IDC predicts that the IT market will expand 5% in 2006, while Gartner projects 4.4% growth. IDC expects growth of 14.9% in eastern Europe and 6.9% in Latin America.

BITKOM estimates that growth of the German IT market in 2006 will comfortably exceed 3%. It bases its forecast on the results of its quarterly membership surveys. In IDC's view, the growth rate for the entire German IT market will rise from 2.7% in 2005 to 4.8% in 2006.

Red Herring warns that the practice of sourcing enterprise application software as Internet services rather than by buying licenses could be unhelpful to the major vendors. It was first observed in 2004, and is expected to reach significant proportions in 2006. IDC predicts that Internet providers of software as services will see their revenue grow 15% in 2006.

FORECAST FOR SAP

Medium-Term Strategy Through 2010

SAP's path of profitable growth can be seen in three stages through 2010:

SAP plans to continue to focus on building world-class processes to drive efficiency. Through 2006, SAP intends to drive incremental growth primarily based on existing solutions including mySAP Business Suite. SAP plans to continue to provide the Safe Passage program to customers who want to switch from other products to SAP. SAP aims at recruiting ISVs and IT vendors to support the ESA standard and provide new applications to complement and enhance solutions such as SAP Analytics, Mendocino, SAP NetWeaver, and the SAP CRM on-demand solution.

In 2007 and beyond, SAP plans to deliver several new products to market, including new SAP industry solutions and an ESA-based solution for SMEs. In addition, SAP expects to see a new set of ISV solutions delivered on SAP NetWeaver and commensurate platform-based revenues.

In 2008 and beyond, SAP intends to further push the adoption of ESA and SAP NetWeaver and massively expand its base of partners driving revenues. mySAP Business Suite is expected to be fully service-enabled, driving down the cost of customization and operations. During this phase, SAP also intends to deliver a wave of next-generation products.

Strategic Priorities for 2006

The Executive Board has established four priorities for 2006:

1. To increase SAP's share of the market, especially in the SME segment
2. To focus on increasing profitability by improving productivity in all areas
3. To better serve SAP users with new products in the field of analytical applications, such as Mendocino and the CRM on-demand solution
4. To help customers transition to and gain benefits from ESA

Operational Goals for 2006: Profitable Growth

In 2006, SAP aims to post double-digit software and product revenue growth for the third year in a row and thus further strengthen its market dominance. At the same time, SAP plans to continue its alignment to volume business to increase the proportion of its revenue derived from SME customers. SAP also wants to continue to invest in research and development to drive forward development of Business Process Platform and bring strategic new products to market. At the beginning of the year, SAP published the following outlook for fiscal year 2006:

- To provide additional transparency, the Company is providing for the first time an outlook for product revenues, which is comprised of software and maintenance revenues. The Company expects full-year 2006 product revenues to increase in a range of 13% to 15% compared to 2005. This growth rate is based on the Company's expectation for full-year 2006 software revenue growth in a range of 15% to 17% compared to 2005. As in 2005, the growth would be driven by the Americas and Asia-Pacific. Low single-digit revenue growth in Germany is likely, while high single-digit growth is expected for the rest of the EMEA region. Consulting and training revenue would grow more slowly than product revenue.
- The Company expects the full-year 2006 pro-forma operating margin, which excludes stock-based compensation and acquisition-related charges, to increase in a range of 0.5 to 1.0 percentage points compared to 2005.
- The Company expects full-year 2006 pro-forma earnings per share, which excludes stock-based compensation, acquisition-related charges, and impairment-related charges, to be in a range of €5.80 to €6.00 per share.

As in previous years, the major portion of the planned investment is earmarked for new hires, who would be taken on as needed to meet the actual requirements of business. If the year unfolds as planned, some 3,500 FTEs would be added to the total headcount. The regional breakdown of headcount growth is planned to be like 2005. A significant proportion of the new jobs will be located in India and China, without reducing numbers in other locations. Some 20% of the increase would be new jobs in Germany, a country in which SAP continues to have faith as a place to do business.

The capital expenditures planned for 2006, which will be covered in full by operating cash flow, will mainly be on the completion of new office buildings at various locations. SAP plans to build liquid assets and reinforce its healthy financial situation.

This outlook assumes that:

- The economy is stable
- The buying behavior of customers will conform to the usual seasonal pattern, with revenue at its strongest in the fourth quarter
- The average U.S. dollar to euro exchange rate is $1.23 per €1.00
- The effective group tax rate is 34.5%
- In 2006, SAP intends to continue seeking opportunities to step up stock repurchasing from the 2005 previous level. The outlook for pro-forma EPS is based on 307 million shares.

Prospects Through 2010

In the medium term, SAP expects further advances and continuing revenue growth. The ESA road map is planned for completion in 2007, which means that SAP NetWeaver will have evolved into Business Process Platform, which will be widely available to other software companies for their developments, and that mySAP Business Suite and mySAP All-in-One will be fully based on Business Process Platform. This will open up new ways for SAP to approach the market. At the same time, SAP wants to strengthen its position in the SME segment and offer new strategic products, enabling it to tap into new markets. The total product revenue volume of the markets in which SAP operates is forecast to grow from the current figure of approximately US$30 billion to approximately US$70 billion by 2010. SAP wants to translate this potential into additional revenue growth. By 2010, SAP aims to earn around half of its software revenue with new, as yet unavailable, products, increase the number of customers to approximately 100,000, and receive 40% to 45% of its orders from customers in the SME segment.

The expected revenue growth, combined with productivity increases in all business processes, should lead to further margin improvements. Therefore, SAP expects its 2007 pro-forma operating margin to be over 30%.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF INCOME

for the years ended December 31,

	Note	2005	2004	2003
		€(000)	€(000)	€(000)
Software revenue		2,782,751	2,361,012	2,147,591
Maintenance revenue		3,175,642	2,823,189	2,568,807
Product revenue		**5,958,393**	**5,184,201**	**4,716,398**
Consulting revenue		2,138,941	1,970,606	1,953,459
Training revenue		342,466	302,443	299,331
Service revenue		**2,481,407**	**2,273,049**	**2,252,790**
Other revenue		**72,629**	**57,243**	**55,418**
Total revenue	(5)	8,512,429	7,514,493	7,024,606
Cost of product		– 993,227	– 916,278	– 962,757
Cost of service		– 1,924,614	– 1,783,453	– 1,694,062
Research and development		– 1,088,632	– 908,056	– 872,225
Sales and marketing	(6)	– 1,746,221	– 1,523,662	– 1,411,004
General and administration		– 435,185	– 366,425	– 354,043
Other operating income/expense, net	(7)	6,182	1,762	– 6,496
Total operating expenses	(8)	– 6,181,697	– 5,496,112	– 5,300,587
Operating income		2,330,732	2,018,381	1,724,019
Other non-operating income/expense, net	(9)	– 25,161	13,274	36,309
Financial income, net	(10)	10,785	40,987	16,287
Income before income taxes and minority interest		2,316,356	2,072,642	1,776,615
Income taxes	(11)	– 817,053	– 757,269	– 692,640
Minority interest		– 2,896	– 4,852	– 6,912
Net income		1,496,407	1,310,521	1,077,063
Earnings per share – basic in €	(12)	4.83	4.22	3.47
Earnings per share – diluted in €	(12)	4.81	4.20	3.46

The accompanying Notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS
as of December 31,

Assets	Note	2005	2004
		€(000)	€(000)
Goodwill	(13)	626,546	456,707
Other intangible assets	(13)	139,697	68,186
Property, plant, and equipment	(14)	1,094,965	999,083
Financial assets	(15)	534,155	100,382
Fixed assets		2,395,363	1,624,358
Inventories	(16)	19,376	11,692
Accounts receivable, net	(17)	2,251,027	1,929,100
Other assets	(18)	635,554	537,645
Accounts receivable and other assets		2,886,581	2,466,745
Marketable securities	(15)	209,565	10,164
Liquid assets	(19)	3,213,572	3,196,542
Non-fixed assets		6,329,094	5,685,143
Deferred taxes	(11)	250,698	205,601
Prepaid expenses and deferred charges	(20)	87,587	70,370
Total assets		9,062,742	7,585,472
thereof total current assets		6,241,125	4,849,537

Shareholders' Equity and Liabilities	Note	2005	2004
		€(000)	€(000)
Subscribed capital [1]		316,458	316,004
Treasury stock		– 775,318	– 569,166
Additional paid-in capital		372,767	322,660
Retained earnings		5,986,186	4,830,156
Accumulated other comprehensive loss		– 117,855	– 305,401
Shareholders' equity	(21)	5,782,238	4,594,253
Minority interests		7,615	21,971
Pension liabilities and similar obligations	(23)	183,619	139,690
Other reserves and accrued liabilities	(24)	1,839,140	1,768,723
Reserves and accrued liabilities		2,022,759	1,908,413
Bonds		6,927	7,277
Other liabilities	(25)	838,778	728,838
Other liabilities		845,705	736,115
Deferred income	(26)	404,425	324,720
Total shareholders' equity and liabilities		9,062,742	7,585,472
thereof current liabilities		2,781,685	2,591,872

[1] Contingent capital €52,930 thousand (2004: €55,247 thousand).

The accompanying Notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
for the years ended December 31,

	Number of shares issued and outstanding	Subscribed capital	Additional paid-in capital	Retained earnings
	(000)	€(000)	€(000)	€(000)
December 31, 2002	314,963	314,963	185,180	2,871,106
Net income				1,077,063
Change in Other comprehensive income/loss, net of tax				
Stock-based compensation			101,173	
Dividends				– 186,346
Gains/Losses from Treasury stock			– 36	
Change in Treasury stock				
Convertible bonds and stock options exercised	451	451	12,243	
Other			– 2,005	– 737
December 31, 2003	315,414	315,414	296,555	3,761,086
Net income				1,310,521
Change in Other comprehensive income/loss, net of tax				
Stock-based compensation			186	
Dividends				– 248,716
Gains/Losses from Treasury stock			8,881	
Change in Treasury stock				
Convertible bonds and stock options exercised	590	590	21,389	
Other			– 4,351	7,265
December 31, 2004	316,004	316,004	322,660	4,830,156
Net income				1,496,407
Change in Other comprehensive income/loss, net of tax				
Stock-based compensation			– 36,356	
Dividends				– 340,425
Gains/Losses from Treasury stock			48,136	
Change in Treasury stock				
Convertible bonds and stock options exercised	454	454	42,294	
Other			– 3,967	48
December 31, 2005	316,458	316,458	372,767	5,986,186

The accompanying Notes are an integral part of these Consolidated Financial Statements.

	Accumulated other comprehensive income/loss							
	Currency translation adjustment	Unrealized gains/losses on marketable securities	Additional minimum pension liability	Unrealized gains/losses on cash flow hedges	Unrealized gains on STAR hedges	Currency effects from inter-company long-term investment transactions	Treasury stock	Total
	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)
	– 103,249	– 3,139	– 20,005	712	0	0	– 373,477	2,872,091
								1,077,063
	– 148,424	19,118	16,283	12,729	23,996			– 76,298
								101,173
								– 186,346
								– 36
							– 88,154	– 88,154
								12,694
								– 2,742
	– 251,673	15,979	– 3,722	13,441	23,996	0	– 461,631	3,709,445
								1,310,521
	– 70,723	– 7,678	– 7,019	– 131	– 15,398	– 2,473		– 103,422
								186
								– 248,716
								8,881
							– 107,535	– 107,535
								21,979
								2,914
	– 322,396	8,301	– 10,741	13,310	8,598	– 2,473	– 569,166	4,594,253
								1,496,407
	120,136	2,867	766	– 22,273	42,814	43,236		187,546
								– 36,356
								– 340,425
								48,136
							– 206,152	– 206,152
								42,748
								– 3,919
	– 202,260	11,168	– 9,975	– 8,963	51,412	40,763	– 775,318	5,782,238

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the years ended December 31,

	Note	2005	2004	2003
		€(000)	€(000)	€(000)
Net income		1,496,407	1,310,521	1,077,063
Minority interest		2,896	4,852	6,912
Income before minority interests		1,499,303	1,315,373	1,083,975
Adjustments to reconcile income from operations to net cash provided by operating activities:				
Depreciation and amortization		203,545	209,669	215,517
Result from equity investments, net	(10)	– 610	342	234
Gains on disposal of property, plant, and equipment and equity securities		– 5,801	– 13,485	– 3,987
Write-downs of financial assets, net		13,519	17,800	15,421
Impacts of STAR hedging		7.399	-7.428	2.967
Stock-based compensation including income tax benefits		50,096	18,828	110,280
Change in accounts receivable and other assets		– 363,050	– 164,798	64,329
Change in reserves and liabilities		165,474	433,545	– 44,284
Change in deferred taxes		– 16,064	19,205	92,622
Change in other assets		– 22,745	– 3,545	21,024
Change in deferred income		76,834	19,821	– 58,609
Net cash provided by operating activities	(27)	1,607,900	1,845,327	1,499,489
Acquisition of minorities in subsidiaries		– 59,964	– 168,103	– 8,971
Other acquisitions, net of cash and cash equivalents acquired		– 176,849	– 19,181	– 54,192
Purchase of intangible assets and property, plant, and equipment		– 261,762	– 192,682	– 218,820
Purchase of financial assets		– 458,154	– 42,749	– 29,308
Proceeds from disposal of fixed assets		31,424	116,735	35,275
Purchase of marketable securities		– 199,401	– 8,812	– 3
Change in liquid assets (maturities exceeding 3 months)		541,251	– 433,530	– 916,607
Net cash used in investing activities		– 583,455	– 748,322	– 1,192,626
Dividends paid		– 340,425	– 248,716	– 186,346
Purchase of treasury stock		– 454,357	– 175,018	– 127,215
Proceeds from reissuance of treasury stock		205,695	55,856	27,435
Proceeds from issuance of common stock (Stock-based compensation)		42,748	15,395	6,944
Proceeds from bonds		0	0	846
Repayment of bonds		– 350	– 2,806	– 430
Proceeds from convertible bonds		0	6,754	5,749
Proceeds from short-term and long-term debt		58	3,909	775
Repayments made of short-term and long-term debt		– 671	– 491	– 3,963
Proceeds from the exercise of equity derivative instruments (STAR hedge)		39,278	0	0
Acquisition of derivative equity instruments (STAR hedge)		– 46,864	– 43,041	– 38,800
Net cash used in financing activities		– 554,888	– 388,158	– 315,005
Effect of foreign exchange rates on cash		88,724	– 41,791	– 50,406
Net increase in cash and cash equivalents		558,281	667,056	– 58,548
Cash and cash equivalents at the beginning of the year		1,505,793	838,737	897,285
Cash and cash equivalents at the end of the year	(19)	2,064,074	1,505,793	838,737

The accompanying Notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. BASIS OF PRESENTATION

(1) GENERAL

The accompanying Consolidated Financial Statements of SAP AG, together with its subsidiaries (collectively, "SAP," the "Group," or the "Company"), have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

SAP is an international corporation with headquarters in Walldorf, Germany. SAP develops, markets, and sells a variety of software solutions, primarily enterprise application software products for organizations including corporations, government agencies, and educational institutions. SAP also offers support and other services (including consulting and training) related to its software offering (see Note 32 for more information).

Certain amounts reported in previous years have been reclassified to conform to the 2005 presentation. These reclassifications include adjustments to the previously reported amounts of Cost of Product and Research and Development expense. See Note 8 for more information. In addition adjustments have been made to the 2004 and 2003 balances of cash and cash equivalents. See Note 19 for more information.

SAP is exempt as outlined in the German Commercial Code Implementation Act (Einführungsgesetz zum HGB-EGHGB), section 58 paragraph 5 and the German Commercial Code (Handelsgesetzbuch – HGB), section 292a, from preparing consolidated financial statements in accordance with German GAAP since its Consolidated Financial Statements are prepared in accordance with U.S. GAAP. The required description of the significant differences between U.S. GAAP and German GAAP is set forth in Note 37.

Amounts included in the Consolidated Financial Statements are reported in thousands of euros ("€(000)") unless otherwise stated.

SAP operates in a dynamic and rapidly changing environment that involves numerous risks and uncertainties, many of which are beyond the Company's control. The Company derives a substantial portion of its revenue from software licenses and services sold to customers in Germany, the United States, the United Kingdom, and Japan (see Note 32). SAP's future revenue and results of operations may be significantly adversely affected by a prolonged economic slowdown in any of these countries or elsewhere. Further, a significant portion of the Company's business is conducted in currencies other than the euro. SAP continually monitors its exposure to foreign currency exchange risk and has a Company-wide foreign currency exchange risk policy under which it may hedge such risks with certain financial instruments. However, fluctuations in foreign currency exchange rates, especially the value of the U.S. dollar, Japanese yen, British pound, Swiss franc, Canadian dollar, and Australian dollar could significantly impact the Company's reported financial position and results of operations.

(2) SCOPE OF CONSOLIDATION

The Consolidated Financial Statements include SAP AG and all of its majority-owned subsidiaries. All significant intercompany transactions and balances relating to consolidated entities have been eliminated.

The following table summarizes the change in the number of legal entities included in the Consolidated Financial Statements:

Number of Companies Consolidated in the Financial Statements

	German	Foreign	Total
December 31, 2004	**15**	**73**	**88**
Additions	2	14	16
Disposals	0	1	1
December 31, 2005	**17**	**86**	**103**

The impact of changes in the scope of companies included in the Consolidated Financial Statements during 2005 did not have a significant effect on the comparability of the Consolidated Financial Statements presented. The addition relates to six newly founded companies and to 10 legal entities added in connection with acquisitions. The disposal is due to the liquidation of a consolidated legal entity.

In 2005 three companies in which SAP does not have a controlling financial interest but in respect of which SAP does have the ability to exercise significant influence over the operating and financial policies ("equity method investments"), are accounted for using the equity method (2004: five companies).

All subsidiaries and equity method investments are listed in Note 38 with ownership percentages, revenues, net income, equity, and numbers of employees.

Under German law, subsidiaries of a holding company are exempt from preparing stand-alone financial statements if they are included in the consolidated financial statements of their holding company and the use of this exemption is disclosed in the notes to the consolidated financial statements.

Pursuant to HGB, section 264 paragraph 3 or section 264b the following subsidiaries are exempt from preparing stand-alone financial statements and a review of operations:

- SAP Deutschland AG & Co. KG, Walldorf
- SAP Hosting AG Co. KG, St Leon-Rot
- Steeb Anwendungssysteme GmbH, Abstatt
- SAP Passau GmbH & Co. KG, Passau
- SAP Projektverwaltungs und Beteiligungs GmbH, Walldorf
- SAP Beteiligungsverwaltung GmbH, Walldorf
- SAP Administrations Beteiligungs GmbH, Walldorf.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. In making its estimates, the Company considers historical and forecast information, as well as regional and industry economic conditions in which the Company and/or its customers participate, changes to which could negatively impact the estimates made by management, in particular when assessing the valuation and recoverability of receivables, investments and other assets, and tax positions. Actual results could differ from SAP's estimates.

SAP's financial position, results of operations, and cash flows are subject to numerous risks and uncertainties. Factors that could affect the Company's future financial statements and cause actual results to differ materially from current expectations include, but are not limited to, further adverse changes in the global economy, consolidation and intense competition in the software industry, decline in customer demand in the most important markets in Europe, the United States, and Asia, as well as fluctuations in currency exchange rates.

Foreign Currencies

The assets and liabilities of foreign operations where the functional currency is not euros are translated into euros using period-end closing exchange rates, whereas items of income and expense are translated into euros using average exchange rates during the respective periods. The resulting foreign currency translation adjustments are included in Other comprehensive income/loss in the Consolidated Statements of Changes in Shareholders' Equity.

Assets and liabilities that are denominated in foreign currencies other than the functional currency are translated at the period-end closing rate with resulting gains and losses reflected in Other non-operating income/expense, net in the Consolidated Statements of Income.

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

Exchange Rates

		Closing rate at December 31,		Annual average exchange rate		
		2005	2004	2005	2004	2003
		to €1	to €1	to €1	to €1	to €1
U.S. dollar	USD	1.1797	1.3621	1.2360	1.2490	1.1394
Japanese yen	JPY	138.90	139.65	137.08	134.73	130.98
British pound	GBP	0.6853	0.7051	0.6827	0.6795	0.6936
Canadian dollar	CAD	1.3725	1.6416	1.4908	1.6163	1.5835
Australian dollar	AUD	1.6109	1.7459	1.6246	1.7003	1.7307
Swiss franc	CHF	1.5551	1.5429	1.5478	1.5421	1.5226

Revenue Recognition

Substantially all of the Company's revenues are derived from the sale or the license of the Company's software products and the sale of maintenance, consulting, development, training, and other services. The Company's standard license agreement provides a perpetual license to use the Company's products based on the number of licensed users. The Company may license its software in multiple element arrangements if the customer purchases any combination of maintenance, consulting, development, training, or other services in conjunction with the software license.

The Company recognizes revenue pursuant to the requirements of American Institute of Certified Public Accountants ("AICPA") Statement of Position 97-2, *Software Revenue Recognition* ("SOP 97-2"), as amended. Revenue is recognized using the residual method when Company-specific objective evidence of fair value exists for all of the undelivered elements (for example, maintenance, consulting, or other services) in the arrangement, but does not exist for one or more delivered elements (for example, software). The Company allocates revenue to each undelivered element based on its respective fair value which is the price charged when that element is sold separately or, for elements not yet sold separately, the price established by management if it is probable that the price will not change before the element is sold separately. The Company defers revenue for the undelivered elements (that is maintenance, consulting, or other services) and recognizes the residual amount of the arrangement fee attributable to the delivered elements (for example, software), if any, when the basic criteria in SOP 97-2 have been met.

Under SOP 97-2, provided that the arrangement does not involve significant production, modification, or customization of the software, revenue is recognized when all of the following four criteria have been met:

1. Persuasive evidence of an arrangement exists
2. Delivery has occurred
3. The fee is fixed or determinable, and
4. Collectibility is probable.

If at the outset of an arrangement the Company determines that the arrangement fee is not fixed or determinable, revenue is deferred until the arrangement fee becomes due and payable by the customer. If at the outset of an arrangement the Company determines that collectibility is not probable, revenue is deferred until payment is received. If an arrangement allows for customer acceptance of the software or services, the Company defers revenue until the earlier of customer acceptance or when the acceptance rights lapse.

The Company occasionally licenses software for a specified time period. Revenue for short-term time-based licenses, which generally include maintenance during the license period, is recognized ratably over the license term. Revenues for multi-year time-based licenses that include maintenance, whether separately priced or not, are recognized ratably over the license term unless a substantive maintenance renewal rate exists, in which case the amount allocated to software based on the residual method is recognized as software revenue when the basic criteria in SOP 97-2 have been met. Revenues from time-based licenses were not material in any of the periods presented.

If an arrangement includes the right to undelivered unspecified additional software products, the entire arrangement is accounted for as a subscription. Revenue from the arrangement is recognized ratably over the term of the arrangement beginning with the delivery of the first product. Revenues from subscriptions were not material in any of the periods presented.

The Company recognizes revenue from resellers upon evidence of sell-through to the end customer. If SAP becomes aware that a reseller has granted contingent rights to an end-customer, the Company defers revenue recognition until a valid license agreement has been entered into without contingencies or, if applicable, until the contingencies expire.

In multiple-element arrangements involving software and consulting, training, or other services that are not essential to the functionality of the software, the service revenues are accounted for separately from the software revenues.

Maintenance revenues are recognized ratably over the term of the maintenance contract. If a maintenance customer is specifically identified as a bad debtor, the Company ceases recognizing maintenance revenue except to the extent that maintenance fees have already been collected. For time-based licenses and subscriptions, SAP allocates a portion of the arrangement fee to maintenance revenue based on the estimated fair value of the maintenance.

Consulting, training, and other service revenues are recognized as the respective services are performed, generally on a time-and-materials basis. Consulting revenues attributed to fixed-price arrangements are recognized using the proportional performance method, based on direct labor costs incurred to date as a percentage of total estimated project costs required to complete the project. Consulting services primarily comprise implementation support related to the installation and configuration of the Company's software products and do not typically involve significant production, modification, or customization of the software. When total cost estimates exceed revenues in a fixed-price arrangement, the estimated losses are recognized immediately based upon an average fully burdened daily rate applicable to the consulting organization delivering the services.

Revenues for arrangements that involve significant production, modification, or customization of the software and those in which services are not available from third-party vendors and therefore deemed essential, are recognized, depending on the fee structure, on a time-and-materials basis or using the percentage of completion method of accounting. If SAP does not have a sufficient basis to measure the progress of completion, revenue is recognized when final acceptance is received from the customer. If the arrangement includes elements that do not qualify for contract accounting (for example maintenance, hosting) such elements are accounted for separately provided that the elements have stand-alone value and company-specific objective evidence of fair value exists. When total cost estimates exceed revenues in a fixed-price arrangement, the estimated losses are recognized immediately based upon an average fully burdened daily rate applicable to the unit delivering the services.

The Company periodically enters into joint development agreements with customers to leverage their industry expertise and provide standard software solutions for selected vertical markets. These customers generally contribute cash, resources, and industry expertise in exchange for license rights for the future solution. The Company recognizes software revenue in conjunction with these arrangements based upon the percentage of completion method. Beginning in 2005, the Company classifies the development costs associated with these arrangements as Cost of Product. See Note 8 for more information.

Hosting services are recognized ratably over the term of hosting contract. Revenues from hosting services were not material in any of the periods presented.

The assumptions, risks, and uncertainties inherent with the application of the percentage of completion method affect the timing and amounts of revenues and expenses reported. Numerous internal and external factors can affect estimates, including direct labor rates, utilization, and efficiency variances.

The Company accounts for out-of-pocket expenses rebilled to customers as maintenance, consulting, and training revenues.

Research and Development

Research and development costs are expensed as incurred. Research and development costs incurred between the date on which technological feasibility is established and the date of which the related product is available-for-sale should be capitalized. Historically, such costs have not been material and consequently have not been capitalized.

Advertising Costs

Advertising costs are expensed as incurred.

Rental Expense

SAP is a lessee of property, plant, and equipment, mainly buildings and vehicles, under operating leases that do not transfer to SAP the substantive risks and rewards of ownership. Rent expense on operating leases is recognized on a straight-line basis over the life of the lease including renewal terms if, at inception of the lease, renewal is reasonably assured.

Some operating leases contain lessee incentives, such as up-front payments of costs or free or reduced periods of rent. Such incentives are amortized over the life of the lease such that the rent expense is recognized on a straight-line basis over the life of the lease.

Earnings per Share

Basic earnings per share is calculated by dividing consolidated net income by the weighted average number of common shares outstanding. Diluted earnings per share reflect the potential dilution that would occur if all "in the money" securities and other contracts to issue common shares were exercised or converted.

Goodwill and Other Intangible Assets

SAP accounts for all business combinations using the purchase method. As of the date of acquisition, the purchase price is allocated to the fair values of the assets acquired and liabilities assumed. Goodwill represents the excess of the cost of an acquired entity over the fair values assigned to the tangible assets acquired, to those intangible assets that are required to be recognized and reported separately from goodwill, and to the liabilities assumed.

Purchased intangible assets with estimable useful lives, are recorded at acquisition cost and generally amortized on a straight-line basis over their estimated useful life of two to 12 years, and reviewed for impairment when significant events occur or there are changes in circumstances that indicate that the carrying amount of the asset or asset group may not be recoverable. All of SAP's intangible assets, with the exception of goodwill and the aggregate minimum pension liability offset, have estimable useful lives and are therefore subject to amortization.

The fair value of acquired identifiable in-process research and development ("in-process R&D"), which represents acquired research and development efforts that have not reached technological feasibility and that have no alternative future use, is expensed immediately.

Goodwill is not amortized, but is tested for impairment at least annually or when significant events occur or when there are changes in circumstances that indicate the fair value of a reporting unit of the Group is less than its carrying value.

Property, Plant, and Equipment

Property, plant, and equipment is valued at acquisition cost plus the fair value of related asset retirement costs, if any, and if reasonably estimable, less accumulated depreciation. Interest incurred during the construction of qualifying assets is capitalized and amortized over the related assets' estimated useful lives.

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

Generally, property, plant, and equipment is depreciated using the straight-line method. Certain assets with expected useful lives in excess of three years are depreciated using the declining balance method.

During the third quarter of 2005, after a comprehensive review of owned property, plant, and equipment, SAP revised its estimates of the depreciable lives and salvage values of certain property, plant, and equipment to better reflect their remaining economic lives and salvage values. The effect of these changes in estimates on the year ended December 31, 2005, was not material.

Leasehold improvements are depreciated using the straight-line method over the shorter of the term of the lease or the useful life of the asset. If a renewal option exists, the depreciation period reflects the additional time covered by the option if exercise is reasonably assured.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant, equipment, and acquired intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Recoverability of assets to be held and used is assessed by comparing their carrying amount to the expected future undiscounted net cash flows they are expected to generate. If an asset or group of assets is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset or group of assets exceeds fair value. Long-lived assets meeting the criteria to be considered as held-for-sale are reported at the lower of their carrying amount or fair value less anticipated disposal costs. In the years presented, the Company recognized no significant impairment charges on long-lived assets.

Financial Assets and Marketable Securities

Marketable debt and equity securities, other than investments accounted for by the equity method, are classified as available-for-sale or held-to-maturity, depending on management's intent with respect to holding such investments. If it is readily determinable, marketable securities classified as available-for-sale are accounted for at fair value. Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported net of tax as a component of other comprehensive income within shareholders' equity. The Company does not classify marketable debt or equity securities as trading.

Investments in privately held companies over which SAP does not have the ability to exercise significant influence are accounted for under the cost method of accounting. An impairment charge is recognized in earnings in the line item Financial income, net in the period a decline in realizable value below carrying value is deemed to be other than temporary. Gains or losses realized on sales of securities are based on the average-cost method.

Investments accounted for under the equity method are initially recorded at acquisition cost and are subsequently adjusted for SAP's proportionate share of the investees' net income or losses and for amortization of any step up in the value of the acquired assets over the investees' book value. The excess of SAP's initial investment in equity method companies over its ownership percentage in the underlying net assets of those companies is attributed to certain fair value adjustments with the remaining portion recognized as goodwill ("investor level goodwill") which is not amortized. An impairment loss on SAP's equity method investments is recognized when the carrying value of the investment exceeds the realizable value on an other-than-temporary basis.

All marketable debt and equity securities, cost method investments, and equity method investments, are evaluated for impairment at least annually or earlier if SAP becomes aware of an event that indicates that the carrying amount of the asset may not be recoverable. To determine whether a decline in value below the carrying amount of an asset is other-than-temporary, SAP considers whether it has the ability and intent to hold the investment until a market price recovery occurs and whether evidence indicating that the carrying value of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the decline in realizable value below cost, changes in value subsequent to the balance sheet date, as well as forecasted performance of the investee. If a decline in value below the carrying amount is determined to be other than temporary, the asset is written down to fair value through an impairment charge and a new cost basis is established.

Non-interest-bearing or below-market-rate loans to employees and to third parties are discounted to their present value. In the event of any delay or shortfall in payments due under employee or third-party loans, SAP performs an individual loan review. The same applies if SAP becomes aware of any change in the debtor's financial condition that indicates a delay or shortfall in payments may result. If it is probable that SAP will not be able to collect the amounts due according to the contractual terms of the loan agreement, an impairment charge is recorded based on SAP's best estimate of the amount that will be recoverable.

Dividend and interest income are recognized when earned.

Non-Fixed Assets

Non-fixed assets are comprised of Inventories, Accounts receivable, Other assets, Marketable securities, and Liquid assets including amounts to be realized in excess of one year. The respective amounts to be realized in excess of one year are disclosed in the Notes.

Inventories

Inventories recorded at the lower of purchase or production cost or market value. Production costs consist of direct salaries, materials, and production overhead.

Accounts Receivable and Other Assets

Accounts receivable are recorded at the invoiced amount and do not bear interest. Included in Accounts receivable are unbilled receivables related to fixed fee consulting arrangements. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable portfolio. The Company determines the allowance for doubtful accounts after giving consideration to specific customer past due amounts based on due dates and regional economic risks. Account balances are charged off against the allowance after all collection efforts have been exhausted and the potential for recovery is considered remote. Non-interest-bearing receivables with a term exceeding one year are discounted to their present value using local interest rates.

With the exception of investments in insurance policies held for employee-financed pension plan, which are recorded at actuarially determined values including premiums paid and guarantied interest, all Other assets are recorded at historical cost which approximates fair value due to their short-term nature.

Liquid Assets

Liquid assets are comprised of cash and cash equivalents and time deposits with original maturities exceeding three months.

Cash and Cash Equivalents

Cash and cash equivalents for purposes of the Consolidated Statements of Cash Flows consist of cash at banks, highly liquid investments with original maturities of three months or less. The Consolidated Statements of Cash Flows are reconciled to cash and cash equivalents, which are reconciled to liquid assets in Note 19.

Prepaid Expenses and Deferred Charges

Prepaid expenses and deferred charges are primarily composed of prepayments of software royalties, operating leases, and maintenance contracts which will be charged to expense in the future periods as such costs are incurred.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and on operating loss carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Deferred tax assets are reduced by a valuation allowance to the extent that it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Commitments and Contingencies

Liabilities for loss contingencies are recorded when it is probable that a liability to third parties has been incurred and the amount can be reasonably estimated. Liabilities for loss contingencies are regularly adjusted as further information develops or circumstances change.

At the time of the sale or license of SAP's software, which includes a warranty provision, SAP records an accrual for warranty costs based on historical experience.

Pension Benefit Liabilities

The measurement of pension-benefit liabilities is based on actuarial computations using the projected-unit-credit method in accordance with SFAS 87, *Employers' Accounting for Pensions* ("SFAS 87"). The assumptions used to calculate pension liabilities and costs are shown in Note 23. Changes in the amount of the projected benefit obligation or plan assets resulting from experience different from that assumed and from changes in assumptions can result in gains or losses not yet recognized in the Group's Consolidated Financial Statements. Amortization of an unrecognized net gain or loss is included as a component of the Group's net periodic benefit plan cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10% of the greater of the projected benefit obligation or the fair value of that plan's assets. In that case, the amount of amortization recognized by the Group is the resulting excess divided by the average remaining service period of the active employees expected to receive benefits under the plan.

The Company also records a liability for amounts payable under the provisions of its various defined contribution plans.

Stock-Based Compensation

Through December 31, 2005, the Company accounted for stock-based compensation based on the intrinsic-value-based method prescribed by Accounting Principles Board Opinion 25, *Accounting for Stock Issued to Employees* ("APB 25"), and related interpretations. Under this method, compensation expense is recorded only if on the date of grant the current market price of the underlying stock exceeds the exercise price or the exercise price is not fixed at the grant date.

SFAS 123 *Accounting for Stock-Based Compensation* ("SFAS 123") and SFAS 148 *Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123* ("SFAS 148") established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by SFAS 123 and SFAS 148, the Company elected to continue to apply the intrinsic-value-based method of accounting described above and adopted only the disclosure requirements of SFAS 123, as currently effective at December 31, 2005. The following table illustrates the effect on net income if the fair-value-based method had been applied to all outstanding and unvested awards in each period.

Net Income

	2005	2004	2003
	€(000)	€(000)	€(000)
As reported	**1,496,407**	**1,310,521**	**1,077,063**
Add: Expense for stock-based compensation, net of tax according to APB 25	31,130	23,445	85,700
Deduct: Expense for stock-based compensation, net of tax according to SFAS 123	138,468	181,323	205,109
Pro-forma	**1,389,069**	**1,152,643**	**957,654**

Earnings per Share

	2005	2004	2003
	€	€	€
Basic – as reported	4.83	4.22	3.47
Diluted – as reported	4.81	4.20	3.46
Basic – pro-forma	4.48	3.71	3.08
Diluted – pro-forma	4.48	3.70	3.08

Derivative Financial Instruments

SAP uses forward exchange derivative financial instruments to reduce the foreign currency exchange risk, primarily of anticipated cash flows from transactions with subsidiaries denominated in currencies other than the euro. As discussed in Note 31, the Company uses call options to hedge its anticipated cash flow exposure attributable to changes in the market value of stock appreciation rights under various plans.

SAP accounts for derivatives and hedging activities in accordance with SFAS 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"), as amended, which requires that all derivative financial instruments be recorded on the balance sheet at their fair value. The effective portion of the realized and unrealized gain or loss on derivatives designated as cash flow hedges is reported net of tax, as a component of other comprehensive income. The portion of gains or losses on derivatives is reclassified from other comprehensive income into earnings in the same period or periods during which the hedged forecasted transaction affects earnings, or in the period the derivative contract is terminated, if earlier. The ineffective portion of gains or losses on derivatives designated as cash flow hedges are reported in earnings when the ineffectiveness occurs. In measuring the effectiveness of foreign currency-related cash flow hedges, SAP excludes differences resulting from time value (that is, spot rates versus forward rates for forward contracts). Changes in value resulting from the excluded component are recognized in earnings immediately. Foreign currency exchange derivatives entered into by SAP to offset exposure to anticipated cash flows that do not meet the conditions for hedge accounting are recorded at fair value in the Consolidated Balance Sheets with changes in fair value included in earnings.

Treasury Stock

Treasury shares are recorded at acquisition cost and are included as a separate component of Shareholders' equity. Gains and losses on the subsequent reissuance of treasury shares are credited or charged to the Additional paid-in capital on an after-tax basis.

Accumulated Other Comprehensive Income/Loss

Comprehensive income is comprised of Net income and Other comprehensive income/loss.

Accumulated other comprehensive income/loss includes foreign currency translation adjustments, changes in additional minimum pension liability, unrealized gains and losses from derivatives designated as cash flow hedges, unrealized gains and losses resulting from STAR hedges, and unrealized gains and losses from marketable debt and equity securities classified as available-for-sale. Other comprehensive income/loss and comprehensive income are displayed separately in the Consolidated Statements of Changes in Shareholders' Equity.

New Accounting Standards Not Yet Adopted

In June 2005 the FASB ratified EITF 05-5, *Accounting for Early Retirement or Postemployment Programs with Specific Features (Such As Terms Specified in Altersteilzeit Early Retirement Arrangements)*. EITF 05-5 provides guidance on the accounting for the German Altersteilzeit ("ATZ") early retirement program and other types of benefit arrangements with the same or similar terms. The ATZ program is a German early retirement program designed to create an incentive for employees, within a certain age group, to change over from full or part-time employment into retirement before their legal retirement age. The ATZ program provides the employee with a bonus which is reimbursed by subsidies from the German government if certain conditions are met. According to EITF 05-5, the bonuses provided by the employer should be accounted for as postemployment benefits under SFAS 112, *Employers' Accounting for Postemployments Benefits – an amendment of FASB Statements No. 5 and 43* ("SFAS 112"), with compensation cost recognized over the remaining service period beginning when the individual agreement is signed by the employee and ending when the active service period ends. The government subsidy should be recognized when the employer meets the necessary criteria and is entitled to the subsidy. The effect of applying EITF 05-5 should be recognized prospectively as a change in accounting estimate under SFAS 154, *Accounting Changes and Error Corrections – a Replacement of APB Opinion No. 20 and FASB Statement No. 3* ("SFAS 154"), in fiscal years beginning after December 15, 2005. SAP expects the adoption of EITF 05-5 in the first quarter of 2006 to have no material effects on SAP's financial statements.

In May 2005, the FASB issued SFAS 154. SFAS 154 requires that the correction of an error, a voluntary change of accounting principles, and the first-time adoption of a new accounting pronouncement without specified transition method shall be applied retrospectively to prior periods' financial statements, unless it is impracticable to do so. Impracticability could occur if the direct period-specific effects or the direct cumulative effect of the accounting change can not be determined. In addition, SFAS 154 contains a new definition of changes in accounting estimates that shall be applied on a prospective basis to financial statements. Under SFAS 154 a change in depreciation, amortization, or depletion method for a long-lived, non-financial asset is a change in estimate affected by a change in accounting principle, SFAS 154 is effective for fiscal years beginning after December 15, 2005. SAP does not expect the adoption of SFAS 154 to have a material impact on the consolidated financial statements.

In December 2004, the FASB issued SFAS 123 (revised 2004), *Share-Based Payment* ("SFAS 123R"). SFAS 123R establishes accounting guidance for share-based payments and transactions in which an entity exchanges its equity instruments for goods or services or incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. Equity-classified awards are measured at grant date fair value and are not subsequently remeasured. Liability-classified awards are remeasured to fair value at each balance sheet date until the award is settled. SFAS 123R originally applied to all awards granted after July 1, 2005, and to awards modified, repurchased, or cancelled after that date. In April 2005, the U.S. Securities and Exchange Commission (SEC) issued a release allowing postponement of the effective date of SFAS 123R. In accordance with the SEC release, SAP will adopt SFAS 123R as of January 1, 2006, using the modified version of prospective application. SAP expects the cumulative effect from the adoption of SFAS 123R including the remeasurement from intrinsic value to fair value of liability classified awards (STAR 2003, STAR 2004, STAR 2005) to be immaterial, due to the fact that the difference between the intrinsic values and the fair values of the STARs outstanding as of December 31, 2005, was immaterial. See Note 22 for information about the effects of applying the fair value method to account for stock-based employee compensation on the Group's Consolidated Financial Statements.

(4) ACQUISITIONS

In 2005, SAP acquired four unrelated companies and completed two business combinations in the form of asset deals, the results from which are included in SAP's results since the respective dates of acquisition. SAP also acquired software (intellectual property) from other companies, without acquiring their related businesses in the meaning of SFAS 141, *Business Combinations* ("SFAS 141"). These transactions were immaterial individually and in the aggregate. Three of the acquired companies developed and sold software, and the one acquired company provided support services. The two businesses acquired through asset deals developed and sold software. The aggregate purchase price of these acquisitions was paid in cash and amounted to €176.8 million net of cash received and was allocated as follows: €91.5 million as identifiable intangible assets with estimated useful lives ranging from two to 12 years, €0.3 million as in-process research and development which was expensed at the acquisition date since the acquired technologies had no alternative future use and €–14.1 million as other assets net of liabilities. The remaining €99.1 million was allocated as goodwill, of which €3 million is expected to be fully deductible for tax purposes. The goodwill recognized in 2005 was assigned to the Product, Consulting, and Training segments in the amounts of €84.2 million, €12.9 million, and €2.0 million, respectively. The aggregate purchase price related to SAP's 2005 acquisitions may increase by approximately €17 million if certain earn-out considerations and milestones are subsequently achieved by the acquired companies.

Also in 2005, SAP acquired shares in its subsidiary SAP Systems Integration AG (SAP SI), increasing its ownership interest from 91.6% as of December 31, 2004, to 96.5% as of December 31, 2005. The acquisition of shares of SAP SI was accounted for like a purchase business combination. The aggregate purchase price for the SAP SI shares acquired in 2005 was €60.0 million (2004: €168.1 million) which was paid in cash. SAP allocated €44.2 million of the aggregate purchase price to goodwill of the Consulting segment, €14.5 million to minority interests and €1.3 million to identifiable intangible assets. The recorded goodwill is not expected to be tax deductible.

In connection with SAP's acquisition of additional SAP SI shares during 2004, SAP AG offered participants of SAP SI's stock option plan a cash settlement for the outstanding convertible bonds. The majority of plan participants accepted the offer. The resulting cash payments amount to approximately €9.0 million. Most of this was paid in 2005 and 2004. As of December 31, 2005 and 2004, convertible bonds outstanding were immaterial.

In connection with the 2005 transactions discussed above, SAP assigned the following amounts to identifiable intangible assets:

Identifiable Intangible assets		**Estimated useful life**
	€ million	years
Customer contracts	12.1	2 – 10
Intellectual property	80.7	3 – 12
In-process research and development	0.3	expensed at the acquisition date
Identifiable Intangible assets acquired	**93.1**	

During the year ended December 31, 2004, SAP completed certain acquisitions, which were immaterial individually and in the aggregate. These acquisitions were accounted for using the purchase method and are included in SAP's Consolidated Financial Statements since the date of acquisition. The aggregate purchase price of these acquisitions in 2004 was €186.6 million, of which €22.3 million was assigned to identifiable intangible assets with estimated useful lives ranging from 0.5 to 6.5 years, €0.5 million as in-process research and development which was expensed at the acquisition date since the acquired technologies had no alternative future use, €42.0 million to minority interests and €–5.1 million as other assets net of liabilities. The remaining €126.9 million was recorded as goodwill. The goodwill recognized in 2004 was assigned to the Product and Consulting segments in the amounts of €1.7 million and €125.2 million, respectively.

B. NOTES TO THE CONSOLIDATED STATEMENTS OF INCOME

(5) REVENUE

Revenue information by segment and geographic region is disclosed in Note 32. Other revenue primarily relates to income derived from marketing events.

(6) SALES AND MARKETING

Sales and marketing expense includes advertising costs, which amounted to €185 million, €170 million, and €162 million in 2005, 2004, and 2003 respectively.

(7) OTHER OPERATING INCOME/EXPENSE, NET

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

	2005	2004	2003
	€(000)	€(000)	€(000)
Bad debt expense	– 3,409	– 1,791	0
Restructuring costs – severance obligations	– 899	– 5,796	– 3,384
Restructuring costs – unused lease space	– 632	– 1,210	– 17,164
Expenses to obtain rental income	0	– 1,517	– 3,297
Other	– 2,983	– 2,834	– 835
Other operating expense	**– 7,923**	**– 13,148**	**– 24,680**
Rental income	6,811	7,135	9,870
Receipt of insurance proceeds	1,618	4,318	2,002
Reductions of bad debt allowance	0	0	5,368
Other	5,676	3,457	944
Other operating income	**14,105**	**14,910**	**18,184**
	6,182	**1,762**	**– 6,496**

Charges to the allowance for doubtful accounts for bad debt expense are based on a systematic, ongoing review, and evaluation of outstanding receivables that is performed every month. Specific customer credit loss risks are also included in the allowance for doubtful accounts, but are charged to the respective cost of product or cost of service sold. Total provisions for allowances for doubtful accounts charged to the respective functional cost category of product or cost of service sold approximated €9.0 million, €0 million and €12.3 million during 2005, 2004, and 2003, respectively.

See Note 24 for more detailed information about costs incurred in connection with exit activities.

(8) FUNCTIONAL COSTS AND OTHER EXPENSES

The information provided below is classified based upon the type of expense. The Consolidated Statements of Income include these amounts in various categories based upon the applicable line of business.

Cost of Services and Materials

Cost of purchased services and materials, which are included in various operating expense line items in the Consolidated Statements of Income for the years ended December 31, are as follows:

	2005	2004	2003
	€(000)	€(000)	€(000)
Raw materials and supplies, purchased goods	30,030	27,124	26,052
Purchased services	827,831	722,727	643,815
	857,861	**749,851**	**669,867**

Personnel Expenses/Number of Employees

Personnel expenses, which are included in various operating expenses in the Consolidated Statements of Income for the years ended December 31, are as follows:

	2005	2004	2003
	€(000)	€(000)	€(000)
Salaries	2,882,828	2,513,791	2,479,416
Social costs	379,240	350,052	346,579
Pension expense	109,479	104,175	110,595
	3,371,547	**2,968,018**	**2,936,590**

Included in personnel expenses for the years ended December 31, 2005, 2004, and 2003, are expenses associated with the stock-based compensation plans as described in Note 22.

The average number of employees in full-time equivalents was as follows:

	2005	2004	2003
Employees in full-time equivalents	34,550	31,224	29,098

Certain employees who are currently employed by SAP but who are not currently operational or who work part-time while finishing a university degree are excluded from the above figures. Also, certain temporary employees are not included in the above figures. The number of such temporary employees is not material.

The Company made certain adjustments to amounts previously reported in 2004 and 2003 as Cost of Product and Research and Development expense. The Company determined that these adjustments were necessary to properly classify certain development costs associated with contracts with one or more customer to jointly produce, modify, or customize software. Such costs were previously reported in Research and Development expense reflecting the fact that the software had not reached technological feasibility. However, these costs should have been reported as contract costs and included in Cost of Product consistent with the accounting for the related contract software development revenue. These adjustments have no effect on the amounts of operating income, net income, cash flows, segment results or any balance sheet line items. The effects of these adjustments are as follows for the years ended December 31, 2004 and 2003:

	As previously reported	Adjustment	As adjusted
	€(000)	€(000)	€(000)
2004			
Cost of product	– 804,312	– 111,966	– 916,278
Research and development	– 1,020,022	+111,966	– 908,056
2003			
Cost of product	– 839,041	– 123,716	– 962,757
Research and development	– 995,941	+123,716	– 872,225

(9) OTHER NON-OPERATING INCOME/EXPENSE, NET

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

	2005	2004	2003
	€(000)	€(000)	€(000)
Foreign currency losses	– 116,628	– 140,881	– 255,749
Losses on disposal of fixed assets	– 2,915	– 6,696	– 3,474
Other	– 16,406	– 8,830	– 6,585
Other non-operating expenses	**– 135,949**	**– 156,407**	**– 265,808**
Foreign currency gains	77,987	152,831	284,288
Gains on disposal of fixed assets	7,641	6,147	5,237
Other	25,160	10,703	12,592
Other non-operating income	**110,788**	**169,681**	**302,117**
	– 25,161	**13,274**	**36,309**

(10) FINANCIAL INCOME, NET

Financial income, net for the years ended December 31 is as follows:

	2005	2004	2003
	€(000)	€(000)	€(000)
Interest and similar income	93,778	63,880	46,988
Interest and similar expenses	– 3,859	– 8,122	– 3,999
Interest income, net	**89,919**	**55,758**	**42,989**
Gain from investments, net	**855**	**1,842**	**22**
– thereof from equity method investments	610	– 342	– 234
Income from marketable securities and loans of financial assets	64,791	2,865	3,084
Write-down of financial assets	– 12,559	– 15,329	– 7,806
Impairment-related charges	– 4,026	– 5,074	– 14,857
Gains on sales of equity securities	1,075	14,034	2,224
Unrealized losses on STAR hedge	– 66,166	– 14,558	– 15,213
Other financial income/expense	– 63,104	1,449	5,844
Other financial loss from investments, net	**– 79,989**	**– 16,613**	**– 26,724**
	10,785	**40,987**	**16,287**

Interest income is derived primarily from Cash and cash equivalents, Long-term investments, and Other assets. In the table above, Income from marketable securities and loans of financial assets and Other financial income/expense both include €62.6 million in 2005 resulting from collateral held to secure capital investments made. While holding the collateral, SAP directly transfers to the debtor any income received on the collateral. Interest income received on the capital investment is included in interest income. SAP decides on a case by case basis whether to require collateral for its financial investments.

See Notes 15 and 22 regarding write-downs of financial assets and unrealized losses on STAR hedge respectively.

(11) INCOME TAXES

Income tax for the years ended December 31 is comprised of the following components:

	2005	2004	2003
	€(000)	€(000)	€(000)
Current taxes – Germany	514,836	470,473	382,786
Current taxes – Foreign	318,281	267,591	217,232
	833,117	**738,064**	**600,018**
Deferred taxes – Germany	15,317	22,120	90,925
Deferred taxes – Foreign	– 31,381	– 2,915	1,697
	– 16,064	**19,205**	**92,622**
Income tax expense	**817,053**	**757,269**	**692,640**

In 2005 and 2004, the German government enacted several new tax laws with minor effect on corporations. Accordingly this legislation does not include any significant changes of relevance for the Company and the effect of this and other changes in tax laws on the Consolidated Statements of Income in 2005, 2004 and 2003 were not material.

Income before income tax and minority interest consists of the following:

	2005	2004	2003
	€(000)	€(000)	€(000)
Germany	1,454,675	1,352,200	1,179,891
Foreign	861,681	720,442	596,724
	2,316,356	**2,072,642**	**1,776,615**

The effective income tax rate for the years ended December 31, 2005, 2004, and 2003, was 35.3%, 36.5%, and 39.0% respectively. The following table reconciles the expected income tax expense computed by applying the Company's combined German corporate tax rate of 36.32% in 2005 (2004: 36.20%; 2003: 37.71%) to the actual income tax expense. The Company's 2005 combined German corporate tax rate includes a corporate income tax rate, after the benefit of deductible trade tax, of 21.62% (2004: 21.66%; 2003: 22.91%) plus a solidarity surcharge of 5.5% thereon and trade taxes of 13.51% (2004: 13.35%; 2003: 13.54%).

	2005	2004	2003
	€(000)	€(000)	€(000)
Income before income taxes	**2,316,356**	**2,072,642**	**1,776,615**
Expected income taxes 36.32% in 2005 (36.20% in 2004, 37.71% in 2003)	841,300	750,296	669,961
Foreign tax rate differential	– 5,717	– 7,800	– 14,735
Tax on non-deductible expenses	12,776	12,631	28,564
Tax effect on losses	6,593	– 471	– 1,507
Tax effect on equity investments and securities	– 34,626	– 7,795	7,110
Other	– 3,273	10,408	3,247
Actual income tax expense	**817,053**	**757,269**	**692,640**

Deferred income tax assets and liabilities as of December 31, 2005 and 2004, are summarized (referring to the underlying items) as follows:

	2005	2004
	€(000)	€(000)
Deferred tax assets		
Intangibles	8,753	34,181
Property, plant, and equipment	38	3,278
Financial assets	14,714	7,206
Accounts receivable	9,684	4,099
Net operating loss carryforwards	9,427	11,993
Pension provisions	28,687	18,332
Stock-based compensation	12,892	8,371
Other liabilities	140,474	91,422
Deferred income	32,829	28,106
Other	127	61
	257,625	**207,049**
Less: Valuation allowance	– 6,927	– 1,448
Deferred tax assets	**250,698**	**205,601**
Deferred tax liabilities		
Intangibles	17,572	0
Property, plant, and equipment	3,123	7,718
Financial assets	28,996	8,944
Accounts receivable	41,307	44,204
Other provisions	3,453	3,130
Other	20	206
Deferred tax liabilities	**94,471**	**64,202**
Net deferred tax assets/liabilities	**156,227**	**141,399**

With regard to their duration, Deferred tax assets and liabilities as of December 31 are classified as follows:

	2005	2004
	€(000)	€(000)
Deferred tax assets		
Short-term	144,542	96,132
Long-term	106,156	109,469
	250,698	**205,601**
Deferred tax liabilities		
Short-term	42,399	47,557
Long-term	52,072	16,645
	94,471	**64,202**

On December 31, 2005, certain foreign subsidiaries of the Company had net operating loss carryforwards amounting to €52,694 thousand (2004: €65,907 thousand), which may be used to offset future taxable income. Of this amount €21,133 thousand predominantly relates to state net operating loss carryforwards in the United States, of which €16,617 thousand expire during the years 2021 and 2025, if not used earlier. The remaining amount is available to be used to offset state taxable income, if any, over the next 15 years. Further €14,122 thousand relates to other net operating loss carryforwards that will expire if not used within three to seven years. The remaining €17,439 thousand relates to other net operating loss carryforwards that do not expire and therefore can be utilized indefinitely.

Deferred tax assets as of December 31, 2005 and 2004, relating to net operating loss carryforwards, have been reduced by a valuation allowance of €6,927 thousand and €1,448 thousand, respectively, to a net amount that management believes is more likely than not to be realized.

The increase of this valuation allowance in 2005 from €1,448 thousand to €6,927 thousand is mainly caused by a change in assessment of the realizability of net operating loss-carryforwards. In the previous year the valuation allowance had decreased from €1,504 thousand to €1,448 thousand.

The Company recorded tax liabilities of €3,935 thousand (2004: €3,240 thousand) for taxes on future dividend distributions from foreign subsidiaries, which are based on €217,000 thousand (2004: €179,000 thousand) of cumulative undistributed earnings of those foreign subsidiaries because such earnings are intended to be repatriated. The Company has not recognized an income tax liability on approximately €2,371 million (2004: approximately €1,824 million) of undistributed earnings of its foreign subsidiaries that arose in 2005 and prior years because the Company plans to permanently reinvest the undistributed earnings. It is not practicable to estimate the amount of unrecognized tax liabilities for these undistributed foreign earnings.

Total income taxes for the years ended December 31, 2005, 2004, and 2003, including those charged against Additional paid-in capital or not affecting the Consolidated Statements of Income (charged or credited to Other comprehensive income) were allocated as follows:

	2005	2004	2003
	€(000)	€(000)	€(000)
Income tax expense from continuing operations	794,018	741,517	678,957
Additional Paid-in Capital	23,035	15,752	13,683
Total income tax expense	817,053	757,269	692,640
Tax effect on items of Other comprehensive income/loss	7,792	– 11,262	31,750
	824,845	**746,007**	**724,390**

See Note 21 for the income tax impact of the components of Accumulated other comprehensive income.

(12) EARNINGS PER SHARE

Convertible bonds and stock options granted to employees under SAP's stock-based compensation programs are included in the diluted earnings per share calculations to the extent they have a dilutive effect. The dilutive impact is calculated using the treasury stock method. Stock options to acquire 6.3 million, 9.4 million and 7.6 million SAP common shares that were issued in connection with the LTI 2000 Plan or SAP SOP 2002 were not included in the computation of diluted earnings per share for 2005, 2004 and 2003, respectively, because the options' underlying exercise prices were higher than the average market prices of SAP common shares in these periods. The number of outstanding stock options and convertible bonds is presented in Note 22.

(in thousands, except per share data)	2005	2004	2003
Net income	**€1,496,407**	**€1,310,521**	**€1,077,063**
Weighted average shares – basic	**309,816**	**310,802**	**310,781**
Stock options	1,020	1,354	628
Weighted average shares – diluted	**310,836**	**312,156**	**311,409**
Earnings per share – basic	**€4.83**	**€4.22**	**€3.47**
Earnings per share – diluted	**€4.81**	**€4.20**	**€3.46**

C. NOTES TO THE CONSOLIDATED BALANCE SHEETS

(13) GOODWILL/INTANGIBLE ASSETS

	Licenses, trademarks, similar rights, and other intangibles	Goodwill	Total
	€(000)	€(000)	€(000)
Purchase cost			
1/1/2005	**262,011**	**552,303**	**814,314**
Exchange rate differences	14,722	31,091	45,813
Change in the scope of consolidation	2,010	0	2,010
Additions	114,129	143,246	257,375
Retirements/disposals	– 13,158	0	– 13,158
Reclassifications	31	0	31
12/31/2005	**379,745**	**726,640**	**1,106,385**
Accumulated amortization			
1/1/2005	**193,825**	**95,596**	**289,421**
Exchange rate differences	11,758	4,498	16,256
Change in the scope of consolidation	1,731	0	1,731
Additions	45,839	0	45,839
Retirements/disposals	– 13,105	0	– 13,105
12/31/2005	**240,048**	**100,094**	**340,142**
Carrying value 12/31/2005	**139,697**	**626,546**	**766,243**
Carrying value 12/31/2004	**68,186**	**456,707**	**524,893**

The additions to goodwill include additions resulting from the acquisitions discussed in Note 4 as well as certain minor purchase adjustments related to prior acquisitions.

All of SAP's intangible assets, other than goodwill and the aggregate minimum pension liability offset (€427 thousand) included in other intangibles, are subject to amortization. Intangibles consist of two major asset classes:

	Software and database licenses	Acquired technology	Other	Licenses, trademarks, similar rights, and other intangibles
	€(000)	€(000)	€(000)	€(000)
12/31/2005				
Purchase cost	160,425	194,217	25,103	379,745
Accumulated amortization	124,432	108,738	6,878	240,048
thereof additions in 2005				
Purchase cost	20,609	80,663	12,857	114,129
Weighed average amortization period in years	3.0	6.0	8.0	–
12/31/2004				
Purchase cost	139,533	110,036	12,442	262,011
Accumulated amortization	112,264	73,350	8,211	193,825

During 2005 the Company acquired software and database licenses from third parties. Software and database licenses consist primarily of technology for internal use whereas acquired technology consists primarily of technology to be incorporated into the Group's products. The additions to software and database licenses in 2005 were acquired from third parties, whereas the additions to Acquired technology and Other result from the acquisitions discussed in Note 4.

Other intangibles consists primarily of trademark licenses and customer contracts acquired. For further information see Note 4.

The estimated aggregate amortization expense for the intangible assets owned by the Company as of December 31, 2005, for each of the five succeeding years ending December 31 is as follows:

	€(000)
2006	40,686
2007	29,626
2008	21,975
2009	18,419
2010	12,423
thereafter	16,141

The carrying amount of goodwill by reportable segment as of December 31, 2005 and 2004, is as follows (for further information see Note 32):

	12/31/2005	Thereof additions in 2005	12/31/2004	Thereof additions in 2004
Segment	€(000)	€(000)	€(000)	€(000)
Product	308,647	84,185	198,046	1,745
Consulting	304,934	56,995	252,675	125,190
Training	12,965	2,066	5,986	0
	626,546	**143,246**	**456,707**	**126,935**

The additions in 2005 include certain minor adjustments related to prior acquisitions.

(14) PROPERTY, PLANT, AND EQUIPMENT

	Land, leasehold improvements, and buildings, including buildings on third-party land	Other property, plant, and equipment	Payments and construction in progress	Total
	€(000)	€(000)	€(000)	€(000)
Purchase cost				
1/1/2005	**918,907**	**938,530**	**4,515**	**1,861,952**
Exchange rate differences	26,501	23,543	102	50,146
Change in the scope of consolidation	244	4,074	0	4,318
Additions	19,737	181,068	39,875	240,680
Retirements/disposals	– 10,893	– 101,352	– 10	– 112,255
Reclassifications	487	494	– 1,012	– 31
12/31/2005	**954,983**	**1,046,357**	**43,470**	**2,044,810**
Accumulated depreciation				
1/1/2005	**253,144**	**609,725**	**0**	**862,869**
Exchange rate differences	8,782	17,556	0	26,338
Change in the scope of consolidation	132	3,157	0	3,289
Additions	35,607	122,099	0	157,706
Retirements/disposals	– 10,269	– 90,088	0	– 100,357
Reclassifications	– 60	60	0	0
12/31/2005	**287,336**	**662,509**	**0**	**949,845**
Carrying value 12/31/2005	**667,647**	**383,848**	**43,470**	**1,094,965**
Carrying value 12/31/2004	**665,763**	**328,805**	**4,515**	**999,083**

The additions and disposals in other property, plant, and equipment relate primarily to the renewal and purchase of computer hardware and cars acquired in the normal course of business.

Interest capitalized has not been material to any period presented.

(15) FINANCIAL ASSETS AND MARKETABLE SECURITIES

	Fixed assets		Non-fixed assets		Total	
	2005	2004	2005	2004	2005	2004
	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)
Equity method investments	**1,407**	**1,595**	**0**	**0**	**1,407**	**1,595**
Marketable equity securities available-for-sale	23,080	17,328	0	0	23,080	17,328
Equity securities at cost	28,262	25,924	0	0	28,262	25,924
Equity securities	**51,342**	**43,252**	**0**	**0**	**51,342**	**43,252**
Debt securities available-for-sale	**431,128**	**231**	**199,310**	**242**	**630,438**	**473**
Investment fund securities	**1,994**	**1,984**	**10,255**	**9,922**	**12,249**	**11,906**
Loans	**48,284**	**53,320**	**0**	**0**	**48,284**	**53,320**
	534,155	**100,382**	**209,565**	**10,164**	**743,720**	**110,546**

No available-for-sale securities were sold in 2005. Proceeds from sales of available-for-sale securities in 2004 were €67.7 million (2003: €4.1 million). Gross gains realized from sales of available-for-sale securities in 2004 were €13.7 million (2003: €2.2 million). Gross losses realized from sales of available-for-sale securities are not material for the periods presented.

Equity and Debt Securities

Amounts pertaining to Marketable equity securities and debt securities as of December 31 are as follows:

	Marketable securities not in loss position		Marketable securities in loss position					
			for less than 12 months		for more than 12 months		Total	
	Fair value	Unrealized gains	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)
2005								
Marketable equity securities available-for-sale	23,080	13,787	0	0	0	0	0	0
Marketable debt securities available-for-sale	174,312	2	456,126	3,643	0	0	456,126	3,643
Investment fund securities	2,329	19	9,920	79	0	0	9,920	79
2004								
Marketable equity securities available-for-sale	14,910	9,006	2,418	569	0	0	2,418	569
Marketable debt securities available-for-sale	0	0	473	133	0	0	473	133
Investment fund securities	1,984	31	9,922	77	0	0	9,922	77

For the year ended December 31, 2005, the Company recorded other-than-temporary impairment charges related to Marketable securities of €0.3 million (2004: €0 million; 2003: €8.7 million).

The carrying value of all equity securities at cost was €28 million and €26 million as of December 31, 2005 and 2004, respectively. Equity securities at cost, which primarily include venture capital investments, are not included in the above table as a market value for those securities is generally not readily obtainable. During 2005, 2004, and 2003, the Company recorded €3.7 million, €5.1 million, and €6.1 million, respectively, in charges related to other-than-temporary impairments of equity securities at cost. The Marketable debt securities as of December 31, 2005, consist of high-quality (investment grade) bonds. The impairments of Marketable debt securities in 2005 resulted from changes in market interest rates and not from changes in the creditworthiness of the underlying debtor. SAP determines these impairments to be temporary given the short duration of the respective declines in value and the Company's intent and ability to hold these investments for a reasonable period of time sufficient for a forecasted recovery.

Other Loans

Other loans include interest-bearing and non-interest or below-market-interest loans to employees and third parties as follows:

	2005	2004
	€(000)	€(000)
Loans to employees	47,846	42,824
Loans to third parties	438	10,496
	48,284	**53,320**

Loans granted to employees primarily consist of interest-free or below-market-rate building loans. SAP discounts interest-free or below-market-rate employee loans based on prevailing market rates. There have been no loans to employees or members of the Executive Board and Supervisory Board to assist them in exercising stock options.

(16) INVENTORIES

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

(17) ACCOUNTS RECEIVABLE, NET

Accounts receivable include costs and estimated earnings in excess of billings on uncompleted contracts of €144,567 thousand and €135,194 thousand as of December 31, 2005 and 2004, respectively.

Amounts presented in the Consolidated Balance Sheets are net of allowances for bad debts of €72,889 thousand and €63,362 thousand as of December 31, 2005 and 2004, respectively. Accounts receivable, net based on due dates as of December 31 are as follows:

	2005	2004
	€(000)	€(000)
Due within 1 year	2,249,482	1,928,557
Due between 1 and 5 years	1,545	543
	2,251,027	**1,929,100**

Concentrations of credit risks are limited due to the Company's large customer base and its dispersion across many different industries and countries worldwide. No single customer accounted for 5% or more of Total revenues or Accounts receivable net in 2005, 2004, or 2003.

(18) OTHER ASSETS

	2005	2004
	€(000)	€(000)
Fair value of STAR hedge and other derivatives	175,256	191,716
Investments in insurance policies held for employee-financed pension plans, semiretirement, and time accounts	181,366	134,003
Income tax receivables	75,408	52,161
Prepaid pensions	38,595	32,035
Rent deposits	27,364	22,823
Others	137,565	104,907
Total other assets	**635,554**	**537,645**
– thereof with a remaining term exceeding 1 year	307,710	224,829

Included in others are interest receivable and short-term loans. Detailed information about SAP's derivative financial instruments are presented in Note 31. Investments in insurance policies relate to the employee-financed pension plans as presented in Note 23. The corresponding liability for investments in insurance policies for semiretirement and time accounts is included in Other reserves and accrued liabilities (see Note 24).

(19) LIQUID ASSETS

Liquid assets as of December 31 consist of the following:

	2005	2004
	€(000)	€(000)
Cash at banks	455,522	458,909
Cash equivalents	1,608,552	1,046,884
Cash and cash equivalents	**2,064,074**	**1,505,793**
Liquid investments with original maturities exceeding 3 months and remaining maturities less than 1 year	910,850	918,272
Liquid investments with remaining maturities exceeding 1 year	238,648	772,477
	3,213,572	**3,196,542**

Liquid assets with remaining maturities exceeding one year are classified as non-current in our consolidated balance sheets.

In 2005, SAP eliminated from cash and cash equivalents variable rate demand notes that contain a right to put the note back to parties other than the issuer within three months and began classifying them as liquid assets with original maturities exceeding one year. The December 31, 2004 and 2003 balances of liquid asset items and the 2004 and 2003 consolidated statements of cash flows have been adjusted accordingly. These adjustments have no effect on the amounts of total liquid assets, total assets, net income or cash flow from operations of the Company. The effects of this adjustment are as follows for the years ended December 31, 2004 and 2003:

	2004			2003		
	As previously reported	Adjustment	As adjusted	As previously reported	Adjustment	As adjusted
	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)
Change in liquid assets (maturities exceeding 3 months)	– 571,846	138,316	– 433,530	– 868,718	– 47,889	– 916,607
Net cash used in investing activities	– 886,638	138,316	– 748,322	– 1,144,737	– 47,889	– 1,192,626
Net increase in cash and cash equivalents	528,740	138,316	667,056	– 10,659	– 47,889	– 58,548
Cash and cash equivalents at the beginning of the year	984,395	– 145,658	838,737	995,054	– 97,769	897,285
Cash and cash equivalents at the end of the year	1,513,135	– 7,342	1,505,793	984,395	– 145,658	838,737
Liquid investments with remaining maturities exceeding 1 year	765,135	7,342	772,477	523,089	145,658	668,747

(20) PREPAID EXPENSES AND DEFERRED CHARGES

Prepaid expenses and deferred charges are mainly comprised of prepayments for software royalties, operating leases, and maintenance contracts.

(21) SHAREHOLDERS' EQUITY

Subscribed Capital

As of December 31, 2005, SAP AG had 316,457,821 no-par common shares issued (including treasury stock) with a calculated nominal value of €1 per share.

The number of common shares increased by 454,221 (corresponding to €454,221) as a result of the exercise of awards granted under certain stock-based compensation plans.

Shareholdings in SAP AG as of December 31, 2005, are as follows:

	Number of shares 2005 (000)	Subscribed capital 2005 %	Number of shares 2004 (000)	Subscribed capital 2004 %
Hasso Plattner GmbH & Co. Beteiligungs-KG	31,650	10.0	31,240	9.9
Dietmar Hopp Stiftung GmbH	27,467	8.7	28,017	8.9
Klaus Tschira Stiftung gGmbH	17,641	5.6	21,155	6.7
Dr. h.c. Tschira Beteiligungs GmbH & Co. KG	15,833	5.0	15,833	5.0
Hasso Plattner Förderstiftung gGmbH	4,763	1.5	5,229	1.6
Golf Club St. Leon-Rot GmbH & Co. Betriebs OHG	4,061	1.3	4,811	1.5
Treasury Stock	6,679	2.1	5,363	1.7
Free float	208,364	65.8	204,356	64.7
	316,458	**100.0**	**316,004**	**100.0**

Golf Club St. Leon-Rot GmbH & Co. Betriebs OHG is wholly owned by Dietmar Hopp.

Authorized Capital

The Articles of Association authorize the Executive Board of SAP AG (the "Executive Board") to increase the Subscribed capital

- up to a total amount of €60 million through the issuance of new common shares in return for contributions in cash until May 11, 2010 ("Authorized Capital I"). The issuance is subject to the statutory subscription rights of existing shareholders
- up to a total amount of €60 million through the issuance of new common shares in return for contributions in cash or in kind until May 11, 2010 ("Authorized Capital II"). Subject to certain preconditions and the consent of the Supervisory Board, the Executive Board is authorized to exclude the shareholders' statutory subscription rights
- up to an aggregate amount of €15 million against contribution in cash by issuing new common shares until May 1, 2007 ("Authorized Capital III"). The new shares may be subscribed by a credit institution only, and only to the extent that such credit institution, releasing SAP from its corresponding obligation, satisfies the conversion and subscription rights granted under the SAP AG 2000 Long Term Incentive Plan ("LTI 2000 Plan") or SAP Stock Option Plan 2002 ("SAP SOP 2002"), respectively. The shareholders' statutory subscription rights are excluded from this capital increase. The Executive Board may exercise this authorization only to the extent that the capital stock attributable to the new shares issued from this Authorized Capital III together with new shares from contingent capital and treasury shares issued or transferred for the purposes of satisfying subscription rights does not amount to more than 10% of the capital stock at the time of adoption of the authorization.

No authorization to increase capital stock was exercised in fiscal year 2005.

Contingent Capital

SAP AG's Capital stock is subject to a contingent increase of common shares. The contingent increase may be effected only to the extent that the holders of the convertible bonds and stock options that were issued by SAP AG under certain stock-based compensation plans (see Note 22) exercise their conversion or subscription rights.

The following table provides a summary of the changes in Contingent capital for 2004 and 2005:

	Contingent capital
	€(000)
12/31/2003	**55,837**
Exercise	– 590
New authorized	0
Reduction	0
12/31/2004	**55,247**
Exercise	– 454
Cancellation	– 32
New authorized	0
Reduction	– 1,831
12/31/2005	**52,930**

Treasury Stock

By resolution of the annual general shareholders' meeting held on May 12, 2005, the Executive Board was authorized to acquire, on or before October 31, 2006, up to 30 million shares in the Company on the condition that such share purchases, together with any previously acquired shares, do not account for more than 10% of the Company's capital stock. Although Treasury stock is legally considered outstanding, SAP has no dividend or voting rights associated with Treasury stock. SAP may redeem or resell shares held in treasury or may use Treasury stock for the purpose of servicing subscription rights and conversion rights under the Company's stock-based compensation plans. Also, SAP may use the shares as consideration in connection with the acquisition of enterprises.

As of December 31, 2005, SAP had acquired 6,679 thousand (2004: 5,363 thousand) of its own shares, representing €6,679 thousand (2004: €5,363 thousand) or 2.1% (2004: 1.7%) of Capital stock. In 2005 3,214 thousand (2004: 1,127 thousand) shares in aggregate were acquired under the buyback program at an average price of approximately €129.77 (2004: €125.49) per share, representing €3,214 thousand or 1.0% (2004: €1,127 thousand or 0.4%) of Capital stock. In connection with stock-based compensation plans, SAP acquired in 2005 an additional 180 thousand (2004: 186 thousand) of its own shares, representing 0.06% (2004: 0.06%) of the total shares outstanding as of December 31, at an average market price of €134.26 (2004: €130.13) per share. Such shares were transferred to employees during the year at an average price of €100.66 (2004: €99.61) per share. See Note 22 for further information. In 2005, certain of SAP AG's foreign subsidiaries purchased an additional 390 thousand (2004: 290 thousand) American Depositary Receipts ("ADRs") (each ADR represents one-fourth of a common share), at an average price of US$41.83 (2003: US$40.61) per ADR. Such ADRs were distributed to employees during the year at an average price of US$35.33 (2004: US$34.57) per ADR by an administrator. The Company held no ADRs as of December 31, 2005 and 2004, respectively.

Other Comprehensive Income/Loss

The changes in the components of Other comprehensive income/loss consist of the following as of December 31:

	2005			2004			2003		
	Pre-tax amount	Tax/ expense or benefit	Net amount	Pre-tax amount	Tax/ expense or benefit	Net amount	Pre-tax amount	Tax/ expense or benefit	Net amount
	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)
Unrealized gains/losses on marketable securities									
Unrealized holding gains/losses	1,571	1,153	2,724	– 699	774	75	14,365	– 814	13,551
Reclassification adjustments for gains/losses included in net income	220	– 77	143	– 8,020	267	– 7,753	5,574	– 7	5,567
Net unrealized gains/losses on marketable securities	**1,791**	**1,076**	**2,867**	**– 8,719**	**1,041**	**– 7,678**	**19,939**	**– 821**	**19,118**
Currency translation adjustments	**120,136**	**0**	**120,136**	**– 70,723**	**0**	**– 70,723**	**– 148,424**	**0**	**– 148,424**
Additional minimum pension liability adjustments	**– 737**	**1,503**	**766**	**– 9,089**	**2,070**	**– 7,019**	**27,249**	**– 10,966**	**16,283**
Unrealized gains/losses on cash flow hedges									
Unrealized cash flow hedge gains/losses	– 30,323	– 10,992	– 19,331	11,691	1,681	10,010	20,261	7,300	12,961
Reclassification adjustments for gains/losses included in net income	– 4,614	– 1,672	– 2,942	– 11,844	– 1,703	– 10,141	– 363	– 131	– 232
Net unrealized cash flow hedge gains/losses	**– 34,937**	**12,664**	**– 22,273**	**– 153**	**22**	**– 131**	**19,898**	**– 7,169**	**12,729**
Unrealized gains/losses on STAR hedge									
Unrealized gains/losses on STAR hedge	78,376	– 27,417	50,959	– 1,094	378	– 716	36,790	– 12,794	23,996
Reclassification adjustments for gains/losses included in net income	– 12,527	4,382	– 8,145	– 22,433	7,751	– 14,682	0	0	0
Net unrealized gains/losses on STAR hedge	**65,849**	**– 23,035**	**42,814**	**– 23,527**	**8,129**	**– 15,398**	**36,790**	**– 12,794**	**23,996**
Currency effects from intercompany long-term investment transactions	**43,236**	**0**	**43,236**	**– 2,473**	**0**	**– 2,473**	**0**	**0**	**0**
Other comprehensive income/loss	**195,338**	**– 7,792**	**187,546**	**– 114,684**	**11,262**	**– 103,422**	**– 44,548**	**– 31,750**	**– 76,298**
Accumulated other comprehensive income/loss at beginning of period	**0**	**0**	**– 305,401**	**0**	**0**	**– 201,979**	**0**	**0**	**– 125,681**
Accumulated other comprehensive income/loss at end of period	**0**	**0**	**– 117,855**	**0**	**0**	**– 305,401**	**0**	**0**	**– 201,979**

Miscellaneous

Under the German Stock Corporation Act (Aktiengesetz), the amount of dividends available for distribution to shareholders is based upon the earnings of SAP AG as reported in its statutory financial statements determined in accordance with the German Commercial Code (Handelsgesetzbuch). For the year ended December 31, 2005, the Executive Board and the Supervisory Board propose a distribution in 2006 of €1.45 per share as a dividend to the shareholders relating to the earnings of SAP AG for the year ended December 31, 2005.

Dividends per share for 2004 and 2003, which were paid in the immediately subsequent year, were as follows:

	2004	2003
	€	€
Dividend per common share	1.10	0.80

(22) STOCK-BASED COMPENSATION PLANS

Total compensation expense recorded in connection with stock-based compensation plans for the year 2005 amounts to €45 million (2004: €37 million; 2003: €125 million).

Employee Discounted Stock Purchase Programs

The Company acquires SAP AG common shares and ADRs under various employee stock purchase plans and transfers the shares to employees. Through December 31, 2005, discounts provided to employees through such plans do not exceed 15% and are treated as a direct reduction of equity.

Stock Appreciation Rights (STAR) Plans

In February 2005 as well as in February 2004 and 2003, the Company granted approximately 4.7 million, 3.5 million and 3.8 million stock appreciation rights ("2005 STARs," "2004 STARs," and "2003 STARs" respectively) to selected employees who are not participants in the LTI 2000 Plan or SAP SOP 2002. The 2005, 2004, and 2003 STAR grant values of €121.87, €134.35, and €84.91, respectively, are based upon the average fair market value of one common share over the 20 business days commencing the day after the announcement of the Company's preliminary results for the preceding fiscal year. The valuation of the STARs is calculated quarterly, over a period of two years. Each quarterly valuation is weighted as follows in determining the final valuation:

Weighting factor							
Quarter ended							
March 31	June 30	Sep. 30	Dec. 31	March 31	June 30	Sep. 30	Dec. 31
5%	5%	10%	20%	10%	10%	10%	30%

The valuations for the quarterly periods ending December 31 are based on the amount by which the grant price is exceeded by the average fair market value of one common share as quoted on Xetra®, the trading system of the Frankfurt Stock Exchange, over the 20 consecutive business days commencing on the day after the announcement of the Company's preliminary annual results. The other quarterly valuations are based on the amount by which the grant price is exceeded by the average fair market value of one common share quoted on Xetra® over the five consecutive business days commencing on the day after the announcement of the Company's quarterly results. Because each quarterly valuation is measured independently, it is unaffected by any other quarterly valuation.

The cash payout value of each STAR will be calculated quarterly as follows: (i) 100% of the first €50 value appreciation for such quarter; (ii) 50% of the next €50 value appreciation; and (iii) 25% of any additional value appreciation. Participants will receive payments with respect to the 2005 STARs as follows: 50% each on both March 31, 2007, and January 31, 2008. Under the terms of the 2004 STAR Program, participants were scheduled to receive an initial payment of 50% on March 31, 2006, and a second installment on January 31, 2007. Participants will receive STAR payments provided that, subject to certain exceptions, they are still employees of the Company on the payment dates.

As SAP's STAR Plans are settled in cash rather than by issuing equity instruments a liability is recorded for such plans, based on the current value of the STARs at the reporting date. Compensation expense – including effects of the changes in the value of the STAR – is accrued over the period the employee performs the related service ("vesting period").

As of December 31, 2005, a STAR provision in the amount of €122 million (€109 million in 2004) is included in Other reserves and accrued liabilities in the consolidated balance sheet (see Note 24). The related STAR expense was reduced by the effects of the STAR hedge – as described in Note 31 – and therefore totaled only €21 million (€38 million in 2004 and €36 million in 2003). The STAR provision as of December 31, 2005, as well as the related STAR expense result from the 2005, 2004, and 2003 STAR Program.

Stock Option Plan 2002

At the 2002 annual general shareholders' meeting, the Company's shareholders approved the SAP SOP 2002. The SAP SOP 2002, which provides for the issuance of stock options to the members of the SAP AG Executive Board, members of subsidiaries' Executive Boards as well as to eligible executives and other top performers of SAP AG and its subsidiaries, is designed to replace the LTI 2000 Plan, described below. Under the SAP SOP 2002, the Executive Board is authorized to issue, on or before April 30, 2007, up to 19,015,415 stock options.

Each stock option granted under the SAP SOP 2002 entitles its holder to subscribe to one share of the Company, against the payment of an exercise price, which is composed of a base price and a premium of 10% thereon. The base price is the average market price of the SAP share on the Frankfurt Stock Exchange during the five trading days preceding the issue of the respective stock option, calculated on the basis of the arithmetic mean of the closing auction prices of the SAP share in the Xetra® trading system. These provisions notwithstanding, the exercise price should not be less than the closing auction price on the day before the issue date. The term of the stock options is five years. Subscription rights cannot be exercised until a vesting period has elapsed. The vesting period of an option holder's subscription rights ends two years after the issue date of that holder's options.

For options granted to members of the Executive Board in and from February 2004, the SAP SOP 2002 plan conditions provide for a potential limitation on the subscription rights to the extent that the Supervisory Board determines that, by exercising the rights, the option holder would make a profit that would be characterized as a windfall by, combined with the profit from earlier exercises of subscription rights issued to the option holder at the same issuing date, exceeding twice the product of (i) the number of subscription rights received by the option holder and (ii) the exercise price. Such profit is determined as the total of the differences, calculated individually for each exercised subscription right, between the closing price of the share on the exercise day and the exercise price. SAP AG undertakes to pay back to the option holders any expenses they may incur through fees, taxes, or deductions related to the limit on achievable income. The subscription rights shall only be limited if the Supervisory Board determines that the windfall results from significant extraordinary, unforeseeable developments that the Executive Board is not responsible for.

The SAP SOP 2002 is generally considered a fixed plan under APB 25. Since the exercise price, which is fixed one day before grant, cannot be less than the share price on that date, no expenses are recorded for awards granted under the SAP SOP 2002. As the number of stock options granted to the members of the Executive Board under the SAP SOP 2002 is not known on grant date due to the above mentioned potential limitation on subscription rights, the SAP SOP 2002 is not considered a fixed plan for those stock options. As such, compensation expense is recorded over the vesting period equal to the difference between the exercise price of the stock options and the market value of the common share at each balance sheet date.

Total compensation expense recorded in connection with options granted from February 2004 to the members of the Executive Board under the SAP SOP 2002 for the year 2005 amounts to €3 million. Since in 2004 the exercise price of the stock options granted from February 2004 exceeded the share price as of December 31, 2004, no compensation expenses were recorded for options granted to the members of the Executive Board under the SAP SOP 2002 in 2004.

A summary of the SAP SOP 2002 activity is as follows:

	Shares available for grant	Number of options outstanding	Weighted average exercise price per option
	(000)	(000)	€
12/31/2002	**19,015**	**–**	**–**
Additional shares authorized	–	–	–
Granted	3,737	3,737	90.48
Exercised	–	–	–
Forfeited	–	109	90.37
12/31/2003	**15,278**	**3,628**	**90.48**
Additional shares authorized	–	–	–
Granted	2,105	2,105	149.99
Exercised	–	–	–
Forfeited	–	99	105.86
12/31/2004	**13,173**	**5,634**	**112.44**
Additional shares authorized	–	–	–
Granted	2,916	2,916	134.20
Exercised	–	1,714	90.37
Forfeited	–	167	136.62
12/31/2005	**10,257**	**6,669**	**127.02**

The following table summarizes information about stock options outstanding as of December 31, 2005:

			Outstanding options		Exercisable options
Range of exercise prices	Number of stock options	Weighted average remaining contractual life	Weighted average exercise price	Number of stock options	Weighted average exercise price
€	(000)	years	€	(000)	€
90.37	1,778	2.16	90.37	1,778	90.37
99.13	45	2.33	99.13	45	99.13
134.20	2,843	4.11	134.20	–	–
149.99	2,003	3.13	149.99	–	–
90.37–149.99	**6,669**	**3.28**	**127.02**	**1,823**	**90.59**

See review of operations for information related to members of the Executive Board.

Long Term Incentive 2000 Plan

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

Under APB 25, SAP records no expenses relating to the convertible bonds issued under its LTI 2000 Plan since the conversion price is equal to the market price of an SAP common share on the date of grant. Because the exercise price for stock options issued under the LTI 2000 Plan is variable, an expense is recorded over the vesting period based upon the stock options' intrinsic value on the reporting date.

In total, 12,305,271 conversion and subscription rights have been issued under the LTI 2000 Plan through March 14, 2002. At the 2002 annual general shareholders' meeting, the Company's shareholders revoked the authorization to issue further convertible bonds and stock options under the LTI 2000 Plan.

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

		Stock options		Convertible bonds	
	Shares available for grant	Number of options outstanding	Weighted average exercise price per option	Number of bonds outstanding	Weighted average exercise price per bond
	(000)	(000)	€	(000)	€
12/31/2002	**0**	**3,067**	**72.51**	**7,803**	**200,74**
Additional shares authorized	–	–	–	–	–
Granted	–	–	–	–	–
Reduction due to option/bond ratio (25% of bonds issued)	–	–	–	–	–
Exercised	–	217	73.93	–	–
Forfeited	–	161	94.45	226	185.05
12/31/2003	**0**	**2,689**	**91.10**	**7,577**	**201.21**
Additional shares authorized	–	–	–	–	–
Granted	–	–	–	–	–
Reduction due to option/bond ratio (25% of bonds issued)	–	–	–	–	–
Exercised	–	511	90.11	–	–
Forfeited	–	63	100.53	307	222.95
12/31/2004	**0**	**2,115**	**97.19**	**7,270**	**200.29**
Additional shares authorized	–	–	–	–	–
Granted	–	–	–	–	–
Reduction due to option/bond ratio (25% of bonds issued)	–	–	–	–	–
Exercised	–	607	104.94	31	150.56
Forfeited	–	41	114.01	314	204.85
12/31/2005	**0**	**1,467**	**107.44**	**6,925**	**200.31**

In 2005 the Company recorded compensation expenses for the LTI 2000 Plan in the amount of €21 million. Due to the development of SAP's common share price appreciation versus the appreciation of the Goldman Sachs Software Index in 2004, the Company recorded a €1 million gain in connection with its LTI 2000 Plan for 2004. In 2003, the Company recorded compensation expenses for the LTI 2000 Plan in the amount of €89 million.

The following tables summarize information about stock options and convertible bonds outstanding as of December 31, 2005:

Stock Options

			Outstanding stock options		Exercisable stock options
Range of exercise prices	Number of stock options	Weighted average remaining contractual life	Weighted average exercise price	Number of stock options	Weighted average exercise price
€	(000)	years	€	(000)	€
73.19–77.95	175	4.14	77.90	175	77.90
92.44–94.72	320	5.15	94.68	320	94.68
105.73	7	5.57	105.73	7	105.73
117.02	965	6.14	117.02	485	117.02
73.19–117.02	**1,467**	**5.69**	**107.44**	**987**	**102.79**

Convertible Bonds

			Outstanding convertible bonds		Exercisable convertible bonds
Range of exercise prices	Number of bonds	Weighted average remaining contractual life	Weighted average exercise price	Number of bonds	Weighted average exercise price
€	(000)	years	€	(000)	€
131.81–159.99	2,639	6.13	151.58	1,755	152.01
183.67–191.25	2,609	5.14	191.22	2,609	191.22
234.79–247.00	18	4.70	242.09	18	242.09
290.32	1,609	4.14	290.32	1,609	290.32
334.67	50	4.19	334.67	50	334.67
131.81–334.67	**6,925**	**5.28**	**200.31**	**6,041**	**207.57**

Pro-Forma Information

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

The fair values of the Company's stock-based awards granted under SAP SOP 2002 were calculated using the following weighted average assumptions:

	2005	2004	2003
Expected life (in years)	3.5 years	2.5 years	2.5 years
Risk-free interest rate	2.82%	2.65%	2.61%
Expected volatility	24%	57%	68%
Expected dividend ratio	0.65%	0.45%	0.73%

The weighted average fair value of stock options granted under the SAP SOP 2002 in 2005 was €20.08 (2004: €43.61; 2003: €28.83).

For pro-forma purposes, the estimated fair value of the Company's stock-based awards is amortized over the vesting period. The Company's pro-forma information is presented in Note 3.

(23) PENSION LIABILITIES AND SIMILAR OBLIGATIONS

The Company maintains several defined benefit and defined contribution plans for its employees both in Germany and at its foreign subsidiaries, which provide for old age, disability, and survivors' benefits. The measurement dates for the domestic and foreign benefit plans are principally December 31. Individual benefit plans have also been established for members of the Executive Board.

The accrued liabilities on the balance sheet for pension and other similar obligations at December 31 consist of the following:

	2005	2004
	€(000)	€(000)
Domestic benefit plans	13,410	5,368
Foreign benefit plans	19,280	22,315
Employee financed plans	146,123	109,079
Other pension and similar obligations	4,806	2,928
	183,619	**139,690**

Domestic Benefit Plans

The Company's domestic defined benefit plans provide participants with pension benefits that are based on the length of service and compensation of employees.

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

	2005	2004
	€(000)	€(000)
Change in benefit obligation		
Benefit obligation at beginning of year	33,236	30,349
Service costs	300	301
Interest costs	1,640	1,587
Actuarial gain/loss	8,361	1,609
Benefits paid	– 792	– 610
Benefit obligation at end of year	**42,745**	**33,236**
Change in plan assets		
Fair value of plan assets at beginning of year	27,536	25,761
Actual return on plan assets	295	199
Employer contributions	1,683	2,186
Benefits paid	– 740	– 492
Assets transferred to defined contribution plan	– 52	– 118
Fair value of plan assets at end of year	**28,722**	**27,536**
Funded status	14,023	5,700
Unrecognized transition assets	– 448	– 490
Unrecognized net actuarial loss	– 16,115	– 7,239
Net amount recognized	**– 2,540**	**– 2,029**
Amounts recognized in the consolidated balance sheets		
Prepaid benefit cost	– 6	0
Accrued benefit liability	13,410	5,368
Intangible assets	– 427	– 25
Accumulated other comprehensive income	– 15,517	– 7,372
Net amount recognized	**– 2,540**	**– 2,029**

The following weighted average assumptions were used for the actuarial valuation of the Group's domestic pension benefit obligation as of the respective measurement date:

	2005	2004	2003
	%	%	%
Discount rate	4.0	5.0	5.3
Rate of compensation increase	2–7	2–7	2–7

The components of net periodic benefit cost of the Group's domestic benefit plans for the years ended December 31 are as follows:

	2005	2004	2003
	€(000)	€(000)	€(000)
Service cost	300	301	409
Interest cost	1,640	1,587	1,624
Expected return on plan assets	– 1,572	– 1,638	– 1,529
Net amortization	804	545	484
	1,172	**795**	**795**

The weighted average assumptions used for determining the net periodic pension cost for the Group's domestic pension plans for 2005, 2004, and 2003, were as follows:

	2005	2004	2003
	%	%	%
Discount rate	5.0	5.3	5.8
Expected return on plan assets	5.5	6.0	5.9
Rate of compensation increase	2–7	2–7	2–7

SAP's investment strategy in Germany is to invest all contributions into stable insurance policies. The expected rate of return on plan assets for the Group's domestic benefit plans is calculated by reference to the expected returns achievable on the insured policies given the expected asset mix of the policies. The assumed discount-rates are derived from rates available on high-quality fixed-income investments for which the timing and amounts of payments match the timing and amounts of SAP's projected pension payments.

Foreign Benefit Plans

The Company's foreign defined benefit plans provide participants with pension benefits that are based upon compensation levels, age, and years of service.

The change of the benefit obligation and the change in plan assets for the foreign plans are as follows:

	2005	2004
	€(000)	€(000)
Change in benefit obligation		
Benefit obligation at beginning of year	189,838	174,792
Service costs	29,872	30,220
Interest costs	9,021	7,817
Employee contributions	2,965	0
Actuarial loss/gain	15,064	– 11,722
Benefits paid	– 7,853	– 5,710
Foreign currency exchange rate changes	17,751	– 7,527
Other changes	0	1,968
Benefit obligation at end of year	**256,658**	**189,838**
Change in plan assets		
Fair value of plan assets at beginning of year	185,628	157,449
Actual return on plan assets	18,087	8,994
Employer contributions	20,385	30,095
Employee contributions	2,965	2,064
Benefits paid	– 6,554	– 4,519
Foreign currency exchange rate changes	21,131	– 10,423
Other changes	0	1,968
Fair value of plan assets at end of year	**241,642**	**185,628**
Funded status	15,016	4,210
Unrecognized transition assets	– 1,888	– 2,074
Unrecognized prior service cost	1,331	1,281
Unrecognized net actuarial loss	– 32,767	– 20,099
Net amount recognized	**– 18,308**	**– 16,682**
Amounts recognized in the consolidated balance sheets		
Prepaid benefit cost	– 37,588	– 31,547
Accrued benefit liability	19,280	22,315
Intangible assets	0	0
Accumulated other comprehensive income	0	– 7,450
Net amount recognized	**– 18,308**	**– 16,682**

There were no plan transfers, divestitures, curtailments, or settlements impacting SAP's foreign benefit plans in 2005 or 2004.

Assumptions regarding discount rates, rates of increase in compensation, and long-term rates of return on plan assets used in calculating the projected benefit obligations vary according to the economic conditions of the country in which the benefit plans are situated. The following are weighted averages of the assumptions that were used for the actuarial valuation of the Group's foreign pension benefit obligation as of the respective measurement date.

	2005	2004	2003
	%	%	%
Discount rate	4.2	4.5	4.7
Rate of compensation increase	4.9	4.9	4.7

The components of net periodic benefit cost of the Group's foreign benefit plans for the years ended December 31 are as follows:

	2005	2004	2003
	€(000)	€(000)	€(000)
Service cost	29,872	30,220	29,503
Interest cost	9,021	7,817	7,691
Expected return on plan assets	– 14,270	– 11,959	– 9,189
Net amortization	184	849	1,646
	24,807	**26,927**	**29,651**

The following are weighted averages of the assumptions that were used to determine net periodic pension cost for the Groups foreign pension plans for 2005, 2004, and 2003:

	2005	2004	2003
	%	%	%
Discount rate	4.5	4.7	5.2
Expected return on plan assets	6.9	6.9	6.5
Rate of compensation increase	5.0	4.7	4.8

The expected return on plan assets assumption is based on weighted average expected long-term rate of returns for each asset class which are estimated based on factors such as historical return patterns for each asset class and forecasts for inflation. Historical return patterns and other relevant financial factors are reviewed for appropriateness and reasonableness and modifications are made when considered necessary. For example, the excessive returns on equity securities in the late 1990s were given less weight to the expected return on plan assets assumption than were the more moderate returns before and since then. The assumed discount-rates are derived from rates available on high-quality fixed-income investments for which the timing and amounts of payments match the timing and the amounts of SAP's projected pension payments. The Group's foreign benefit plan asset allocation at December 31, 2005, as well as the target asset allocation, are as follows:

Asset category	Target asset allocation 2006	Actual % of 2005 plan assets	Target asset allocation 2005	Actual % of 2004 plan assets
	%	%	%	%
Equity	53.8	57.2	59.0	58.1
Fixed income	37.2	31.8	39.7	38.4
Real estate	2.9	0.4	0.0	0.0
Insurance policies	5.5	3.7	0.0	0.0
Other	0.6	6.9	1.3	3.5
	100.0	**100.0**	**100.0**	**100.0**

The investment strategies for SAP's foreign benefit plans vary according to the individual conditions of the country in which the benefit plans are situated. Generally, a long-term investment horizon has been adopted for all major foreign benefit plans. SAP's policy is to invest in a risk-diversified portfolio consisting of a mix of assets within the above target asset allocation range.

Additional Information on Funded Status for Domestic and Foreign Plans

The total accumulated benefit obligation for the Group's principal domestic and foreign benefit plans for the year ended 2005 was €42,147 thousand (2004: €32,755 thousand) and €228,647 thousand (2004: €176,458 thousand), respectively. The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the Group's domestic and foreign defined benefit pension plans with accumulated benefit obligations in excess of plan assets are as follows:

	Projected benefit obligation	Accumulated benefit obligation	Fair value of plan assets	Underfunding of accumulated benefit obligation
	€(000)	€(000)	€(000)	€(000)
12/31/2005				
Domestic plans	42,745	42,147	28,722	13,425
Foreign plans	21,578	16,686	0	16,686
Total	**64,323**	**58,833**	**28,722**	**30,111**
12/31/2004				
Domestic plans	33,141	32,667	27,447	5,220
Foreign plans	78,821	71,823	51,915	19,908
Total	**111,962**	**104,490**	**79,362**	**25,128**

Expected Future Contributions and Benefits

The Group's expected contribution in 2006 is €1,693 thousand for domestic plans and €6,759 thousand for foreign plans, all of which is expected to be paid as cash contributions.

The estimated future pension benefits to be paid over the next 10 years by the Group's domestic and foreign benefit plans for the years ended December 31 are as follows:

	Domestic plans	Foreign plans	Total
	€(000)	€(000)	€(000)
2006	976	8,580	9,556
2007	1,135	9,932	11,067
2008	1,345	12,027	13,372
2009	1,374	13,347	14,721
2010	1,557	14,680	16,237
2011–2015	9,501	104,349	113,850

Contribution Plans

The Company also maintains domestic and foreign defined contribution plans. Amounts contributed by the Company under such plans are based upon a percentage of the employee's salary or the amount of contributions made by employees. The costs associated with defined contribution plans were €82,128 thousand, €76,453 thousand, and €79,955 thousand in 2005, 2004, and 2003 respectively.

Employee-Financed Pension Plan

In Germany SAP maintains an unqualified employee-financed plan, whereby employees may contribute a limited portion of their salary. SAP purchases and holds guaranteed fixed rate insurance contracts, which are recorded in Other assets (see Note 18) and are equal to the obligations under the plan.

(24) OTHER RESERVES AND ACCRUED LIABILITIES

	2005	2004
	€(000)	€(000)
Current and deferred taxes	523,504	632,033
Other reserves and accrued liabilities	1,315,636	1,136,690
	1,839,140	1,768,723

As of December 31, 2005, accrued taxes include current and prior year tax obligations in the amount of €429,033 thousand (2004: €567,831 thousand) and deferred tax liabilities in the amount of €94,471 thousand (2004: €64,202 thousand).

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

	2005	2004
	€(000)	€(000)
Other obligations to employees	736,234	611,567
Obligations to suppliers	180,456	183,069
Vacation and other absences	171,687	145,293
STAR obligations	122,240	108,910
Fair value of foreign exchange contracts	43,919	5,255
Restructuring costs	9,525	16,235
Contribution to employees' accident insurance account	7,677	6,584
Customer claims	6,735	10,902
Auditing and reporting costs	6,688	5,889
Warranty and service costs	2,900	3,852
Other	27,575	39,134
	1,315,636	1,136,690

Other reserves and accrued liabilities payable after one year as of December 31, 2005, are €101,591 thousand (€99,935 thousand in 2004).

Obligations to employees relate primarily to variable bonus payments tied to earnings performance, paid out after the balance sheet date. Other obligations to employees also includes termination benefits required by law in certain foreign subsidiaries that constitute defined benefit plans under SFAS 87. Such benefits are payable in a lump sum upon separation from the Company. The accrued liability for such plans amounts to €16,377 thousand as of December 31, 2005 (2004: €13,382 thousand).

Obligations to suppliers represent services received or goods purchased for which SAP has not yet been invoiced. Warranty and service cost accruals represent estimated future warranty obligations and other minor routine items provided under maintenance. SAP generally provides a six to 12 month warranty on its software. SAP determines the warranty accrual based on the historical average cost of fulfilling its obligations under these commitments. As of December 31, 2005 and 2004, SAP accrued €2,900 thousand and €3,852 thousand, respectively. The aggregate utilization of the warranty accrual in 2005 was €2,737 thousand (2004: €4,366 thousand) and the aggregate warranty expense was net €1,785 thousand in 2005 (2004: €618 thousand).

The majority of vacation accruals included in vacation and other absences relates to employee contracts without a limit on the number of vacation days that can be carried over.

Exit activities include contract termination and similar restructuring costs for unused lease space as well as severance payments. Restructuring costs are included in the Consolidated Statements of Income in the line item Other operating expense, net. The following table presents the beginning and ending balances along with additions and deductions incurred:

	Unused lease space	Severance payments for re-structuring	Total
	€(000)	€(000)	€(000)
Balance as of 1/1/2003	**7,577**	**11,159**	**18,736**
Additions	17,164	3,384	20,548
Utilization	– 5,544	– 9,347	– 14,891
Release	0	– 1,001	– 1,001
Currency	– 1,506	– 666	– 2,172
Balance as of 12/31/2003	**17,691**	**3,529**	**21,220**
Balance as of 1/1/2004	**17,691**	**3,529**	**21,220**
Additions	2,625	6,972	9,597
Utilization	– 7,557	– 3,668	– 11,225
Release	– 1,415	– 1,176	– 2,591
Currency	– 779	13	– 766
Balance as of 12/31/2004	**10,565**	**5,670**	**16,235**
Balance as of 1/1/2005	**10,565**	**5,670**	**16,235**
Additions	2,379	4,203	6,582
Utilization	– 4,404	– 4,846	– 9,250
Release	– 1,547	– 3,304	– 4,851
Currency	833	– 24	809
Balance as of 12/31/2005	**7,826**	**1,699**	**9,525**

Severance benefits that do not vest or accumulate are recognized when it becomes probable that an obligation has been incurred and the amount is reasonably estimable. In 2005, 2004, and 2003 SAP accounted for most of its severance obligations in accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146") since the majority of the severance activities related to one-time events.

Provision for unused lease space relates to costs that will continue to be incurred for vacated space under various operating lease contracts that will have no future economic benefit to the Company. For 2005 and 2004, the charges affected each of the segments, while for 2003 those charges primarily relate to the training segment.

(25) OTHER LIABILITIES

Other liabilities based on due dates as of December 31 are as follows:

	Term less than 1 year	Term between 1 and 5 years	Term more than 5 years	Balance on 12/31/2005	Balance on 12/31/2004
	€(000)	€(000)	€(000)	€(000)	€(000)
Bank loans and overdrafts	22,308	0	1,992	24,300	27,785
Advanced payments received	29,812	40,113	0	69,925	53,537
Accounts payable	383,191	246	0	383,437	340,461
Taxes	210,020	0	0	210,020	175,248
Social security	46,788	0	0	46,788	43,988
Other liabilities	57,124	2,364	44,820	104,308	87,819
	749,243	**42,723**	**46,812**	**838,778**	**728,838**

Liabilities are unsecured, excluding retention of title and similar rights customary in the industry. Effective interest rates of bank loans are 7.22% and 6.14% in 2005 and 2004, respectively.

In 2004, liabilities with a remaining term not exceeding one year amounted to €695,345 thousand and those with a remaining term exceeding five years amounted to €30,813 thousand.

On November 5, 2004, SAP AG entered into a €1 billion syndicated revolving credit facility agreement with an initial term of five years. The use of the facility is not restricted by any financial covenants. Borrowings under the facility bear interest of EURIBOR or LIBOR for the respective currency plus a margin ranging from 0.20 to 0.25% depending on the amount drawn. SAP is also required to pay a commitment fee of 0.07% per annum on the unused available credit.

As of December 31, 2005 and 2004, there were no borrowings outstanding under the facility.

Additionally, as of December 31, 2005 and 2004, SAP AG had available lines of credit totaling €553,400 thousand and €621,500 thousand, respectively. As of December 31, 2005 and 2004, there were no borrowings outstanding under these lines of credit.

As of December 31, 2005 and 2004, certain of SAP's subsidiaries had lines of credit available that allowed them to borrow in local currencies at prevailing interest rates up to €217,712 thousand and €203,806 thousand, respectively. Total aggregate borrowings under these lines of credit, which are predominantly guaranteed by SAP AG, amounted to €24,300 thousand as of December 31, 2005, and €27,785 thousand as of December 31, 2004.

(26) DEFERRED INCOME

Deferred income consists mainly of prepayments for maintenance and deferred software license revenues. Such amounts will be recognized as software, maintenance, or service revenue, depending upon the reasons for the deferral when the basic criteria in SOP 97-2 have been met (see Note 3).

D. ADDITIONAL INFORMATION

(27) SUPPLEMENTAL CASH FLOW INFORMATION

Interest paid included in net cash provided by operating activities in 2005, 2004, and 2003 was €3,830 thousand, €5,503 thousand, and €3,900 thousand, respectively. Income taxes paid in fiscal years 2005, 2004, and 2003, net of refunds, was €975,565 thousand, €481,557 thousand, and €591,012 thousand, respectively.

See the reconciliation from cash and cash equivalents to liquid assets in Note 19.

(28) CONTINGENT LIABILITIES

SAP's software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe a third party's intellectual property rights. To date, SAP has not incurred any material loss as a result of such indemnification and has not recorded any liabilities related to such obligations.

SAP occasionally grants function and/or performance guarantees in routine consulting contracts and/or development arrangements. Based on historical experience and evaluation, SAP does not believe that any material loss resulting from these guarantees is probable. In addition, because the guarantees relate to SAP's own performance, no related liability has been recorded. The Company also generally provides a six to 12 month warranty on its software. Due to the nature of these warranties, which relate to the performance of SAP's software, SAP cannot reasonably estimate the maximum exposure to loss resulting from the warranties. The Company's warranty liability is included in other reserves and accrued liabilities (see Note 24).

As of December 31, 2005 and 2004, no guarantees were provided for performance or financial obligations of third parties.

(29) OTHER FINANCIAL COMMITMENTS

Other financial commitments amounted to €805,089 thousand and €617,298 thousand as of December 31, 2005 and 2004, respectively, and are comprised primarily of commitments under rental and operating leases of €687,487 thousand, and €563,478 thousand as of December 31, 2005 and 2004, respectively. Those commitments relate primarily to the lease of office space, cars, and office equipment. In addition, financial commitments exist in the form of purchase commitments totaling €78,783 thousand, and €26,068 thousand as of December 31, 2005 and 2004, respectively. These commitments relate primarily to the construction of facilities in Germany, office equipment, and car purchase commitments. Historically, the majority of those purchase commitments have been utilized. For financial commitments related to SAP's pension plans see Note 23.

In October 2000 SAP Properties, a wholly owned subsidiary of SAP America, Inc., entered into a seven-year lease arrangement with a sophisticated financial institution for office space and also agreed to serve as an agent to oversee the renovations of the office space. The operating lease agreement was between SAP Properties and the financial institution directly, with no involvement of any variable interest entity. Under the terms of the lease, SAP Properties was required to restrict cash equal to the amount spent by the financial institution on such renovations. This lease was accounted for as an operating lease in accordance with SFAS 13, *Accounting for Leases* ("SFAS 13").

In January 2004 SAP America, Inc., and SAP Properties signed an agreement with a third-party real estate development company to sell a portion of the United States headquarters property in Newtown Square, Pennsylvania. A portion of the property sold was owned and another portion of the property was occupied by SAP America, Inc., and certain subsidiaries pursuant to an operating lease with the sophisticated financial institution noted above. The sale took place in 2004 and released the restricted cash securing the lease obligation.

Commitments under rental and operating leasing contracts as of December 31, 2005:

	€(000)
Due 2006	148,738
Due 2007	109,190
Due 2008	91,066
Due 2009	71,556
Due 2010	59,629
Due thereafter	207,308

Rent expense was €164,544 thousand, €153,418 thousand, and €159,284 thousand for the years ended December 31, 2005, 2004, and 2003, respectively.

(30) LITIGATION AND CLAIMS

In April 2005, U.S.-based ePlus, Inc., instituted legal proceedings in the United States against SAP. ePlus alleges that certain SAP products, methods, and services infringe three U.S. patents owned by ePlus. In its complaint, ePlus seeks unspecified monetary damages, permanent injunctive relief, and up to treble damages for alleged willful infringement. A claims construction hearing was held in November 2005 and a ruling by the court was issued in January 2006. The trial is scheduled to begin March 28, 2006.

In August 2005, U.S.-based AMC Technology, Inc., instituted legal proceedings in the United States against SAP. AMC alleges that SAP breached an agreement with AMC, and that certain SAP technology infringed AMC's copyright and improperly included AMC technology. AMC's complaint seeks unspecified monetary damages and injunctive relief. No trial date has been scheduled.

While the ultimate outcome of these cases cannot be determined presently with certainty, SAP is vigorously defending against the claims, and believes that these actions are not likely to have a material effect on its business, financial position, results of operations, or cash flows. As of December 31, 2005, no amount has been accrued for these matters as a loss is not probable or estimable. Any litigation, however, involves potential risk and potentially significant litigation costs, and therefore there can be no assurance that these actions would not have such a material adverse effect on SAP's business, financial position, results of operations, or cash flows.

(31) FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

The Company utilizes various types of financial instruments in the ordinary course of business. The carrying amounts and fair values of SAP's financial instruments are as follows:

	Carrying value	Fair value	Carrying value	Fair value
	2005	2005	2004	2004
	€(000)	€(000)	€(000)	€(000)
Marketable equity securities – available-for-sale	23,080	23,080	17,328	17,328
Marketable debt securities – available-for-sale	630,438	630,438	473	473
Marketable fund securities – available-for-sale	12,249	12,249	11,906	11,906
Other loans	48,284	48,284	53,320	53,320
Bank loans and overdrafts	– 24,300	– 24,300	– 27,785	– 27,785
Derivative financial instruments				
Forward exchange contracts	– 37,776	– 37,776	81,653	81,653
Call options (STAR hedge)	169,113	169,113	104,808	104,808
	821,088	**821,088**	**241,703**	**241,703**

The market values of these financial instruments are determined as follows:

- Marketable debt and equity securities: The fair values of Marketable debt and equity securities are based upon available quoted market prices on December 31.
- Other loans, Bank loans and overdrafts: The fair values of Other loans, Bank loans and overdrafts approximate their carrying values. The interest-free, below-market-rate employee loans included in other loans are discounted based on prevailing market rates.
- Derivative financial instruments: The fair value of derivatives generally reflects the estimated amounts the Company would pay or receive to terminate the contracts on the reporting date.

Detailed information about the fair value of the Company's financial instruments is included in Notes 15 and 25.

Accounting and Use of Derivative Financial Instruments

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

Foreign Exchange Risk Management

Most of SAP AG's subsidiaries have entered into license agreements with SAP AG pursuant to which each subsidiary has acquired the right to sublicense SAP AG software products to customers within a specific territory. Under these license agreements, the subsidiaries generally are required to pay SAP AG a royalty equivalent to a percentage of the product fees charged by them to their customers within 30 days following the end of the month in which the subsidiary recognizes the revenue. These intercompany royalties payable to SAP AG are mostly denominated in the respective subsidiary's local currency in order to centralize foreign currency risk with SAP AG in Germany. Because these royalties are denominated in the various subsidiaries local currencies, whereas the functional currency of SAP AG is the euro, SAP AG's anticipated cash flows are subject to foreign exchange risks. In addition, the delay between the date when the subsidiary records product revenue and the date when the subsidiary remits payment to SAP AG exposes SAP AG to foreign exchange risk.

SAP enters into derivative instruments, primarily foreign exchange forward contracts and currency options, to hedge anticipated cash flows in foreign currencies from foreign subsidiaries. Specifically, these foreign exchange forward contracts offset anticipated cash flows and existing intercompany receivables relating to the countries with significant operations, including the United States, Japan, the United Kingdom, Switzerland, Canada, and Australia. SAP uses foreign exchange derivatives that generally have maturities of 12 months or less, which may be rolled over to provide continuing coverage until the applicable royalties are received.

Generally, anticipated cash flows represent expected intercompany amounts resulting from revenues generated within the 12 months following the purchase date of the derivative instrument. However, SAP infrequently extends the future periods being hedged for a period of up to two years from the purchase date of the derivative instrument based on the Company's forecasts and anticipated exchange rate fluctuations in various currencies. SAP believes the use of foreign currency derivative financial instruments reduces the aforementioned risks that arise from doing business in international markets and holds such instruments for purposes other than trading.

Foreign exchange derivatives are recorded at fair value in the Consolidated Balance Sheets. Gains or losses on derivatives designated and qualifying as cash flow hedges are included in Accumulated other comprehensive income, net of tax.

When intercompany accounts receivable resulting from product revenue royalties are recorded, the applicable gain or loss is reclassified to Other non-operating income/expense, net. Going forward, any additional gains or losses relating to that derivative are posted to Other non-operating income/expense, net until the position is closed or the derivative expires.

For the year ended December 31, 2005, no gains or losses were reclassified from Accumulated other comprehensive income as a result of the discontinuance of foreign currency cash flow hedges because it was probable that the original forecasted transaction would not occur are included in earnings. For the year ended December 31, 2004, such net gains of €0 thousand were included in earnings (2003: net gains of €26 thousand). It is estimated that €8,963 thousand of net losses included in Accumulated other comprehensive income at December 31, 2005, will be reclassified into earnings during the next year. As of December 31, 2005, SAP held derivative financial instruments with a maximum term of 12 months to hedge its exposure to the variability in future cash flows for forecasted transactions.

Foreign exchange derivatives entered into by SAP to offset exposure to anticipated cash flows that do not meet the requirements for applying hedge accounting are marked to market at each reporting period with unrealized gains and losses recognized in earnings.

STAR Hedge

To a certain extent SAP hedges anticipated cash flow exposures associated with unrecognized non-vested STARs (see Note 22) through the purchase of derivative instruments from independent financial institutions.

As of December 31, 2005 and 2004, the following derivative instruments were designated as a hedge for the STAR 2005, 2004, and 2003, respectively:

2005	Hedge of 3.8 million 2005 STARs	
Buy/sell	Options	Strike price
Buy	3,800,000	121.87
Sell	1,900,000	171.87
Sell	950,000	221.87
Fair value as of Dec. 31, 2005, in €(000): 107,358		

2005	Hedge of 3.0 million 2004 STARs	
Buy/sell	Options	Strike price
Buy	3,000,000	134.35
Sell	1,500,000	184.35
Sell	750,000	234.35
Fair value as of Dec. 31, 2005, in €(000): 22,453		

2004	Hedge of 3.0 million 2004 STARs	
Buy/sell	Options	Strike price
Buy	3,000,000	134.35
Sell	1,500,000	184.35
Sell	750,000	234.35
Fair value as of Dec. 31, 2004, in €(000): 22,308		

2005	Hedge of 2.0 million 2003 STARs	
Buy/sell	Options	Strike price
Buy	2,000,000	84.91
Sell	1,000,000	134.91
Sell	500,000	184.91
Fair value as of Dec. 31, 2005, in €(000): 39,302		

2004	Hedge of 2.0 million 2003 STARs	
Buy/sell	Options	Strike price
Buy	2,000,000	84.91
Sell	1,000,000	134.91
Sell	500,000	184.91
Fair value as of Dec. 31, 2004, in €(000): 82,500		

The terms of the derivative financial instruments are also designed to reflect the eight measurement dates and weighting factors applicable to the STAR program, as described in Note 22. The amount of options, which expire at each measurement date, reflect the respective weighting factor of that date. Payments dates reflect payment terms of the STAR program, which is subject to the respective hedge. Viewed together, SAP will receive from the financial institution 100% of the first €50 in appreciation of SAP's stock price above the strike price of the STAR, 50% of the next €50 in appreciation of SAP's stock price above the strike price of the STAR, and 25% of any additional appreciation of SAP's stock price above the strike price of the STAR.

The terms of the derivative financial instruments require cash settlement and there are no settlement alternatives. These derivative financial instruments are accounted for as Other assets on SAP's Consolidated Balance Sheets.

Hedge effectiveness is assessed based on changes in the intrinsic value of the STAR hedge instrument. Accordingly the change in the fair value attributable to the time value of the derivative instrument will be recorded currently in the Consolidated Statements of Income under Financial income/expense. The change in intrinsic value is recorded in Other comprehensive income with the resulting Deferred tax liability recorded separately. The amount in Other comprehensive income is used to offset compensation expense on the STAR recognized over the vesting period. To the extent SAP entered into a hedge for recognized, vested STARs, the change in intrinsic value of the derivative is recognized currently in Financial income/expense.

As of December 31, 2005, €66 million (2004: €15 million; 2003: €15 million) have been recorded as an expense in Financial income. Compensation expense on STAR has been reduced by €59 million (2004: €22 million; 2003: €16 million); Other comprehensive income increased by €43 million (2004: decreased by €15 million; increased by €24 million), net of tax. See Note 22 for additional information.

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

	Notional value	Fair value	Notional value	Fair value
	2005	2005	2004	2004
	€(000)	€(000)	€(000)	€(000)
Forward exchange contracts				
Gains	435,659	6,143	1,226,531	86,908
Losses	1,178,309	– 43,919	222,487	– 5,255
	1,613,968	**– 37,776**	**1,449,018**	**81,653**
Call options (STAR hedge)	**n/a**	**169,113**	**n/a**	**104,808**

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments. To avoid these counterparty risks, the Company conducts business exclusively with major financial institutions. SAP does not have significant exposure to any individual counterparty.

(32) SEGMENT INFORMATION

SAP discloses segment information in accordance with SFAS 131, *Disclosures about Segments of an Enterprise and Related Disclosures* ("SFAS 131").

SFAS 131 requires financial information about operating segments to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments.

The Company's internal reporting system produces reports in which business activities are presented in a variety of ways. Based on these reports, the Executive Board, which has been identified as the chief operating decision-maker according to the criteria of SFAS 131, evaluates business activities in a number of different ways. Neither the line of business nor the geographic structure can be identified as primary, and accordingly the line of business structure is regarded as constituting the operating segments. SAP has three operating segments: Product, Consulting, and Training.

Accounting policies for each segment are the same as those described in the summary of significant accounting policies as disclosed in Note 3, except for differences in the currency translation and stock-based compensation expenses. Under management's view, certain deferred compensation charges for settlements of stock-based compensation plans are also considered stock-based compensation. Differences in the foreign currency translation result in minor deviations between the figures reported internally and the figures reported in the financial statements.

Through December 31, 2003, SAP accounted for internal sales and transfers between segments either on a cost basis or at estimated market prices, depending on the type of service provided. Effective January 1, 2004, in order to best manage the utilization of its internal resources, SAP started recording all internal sales and transfers based on fully loaded cost rates. The Company adjusted the management reporting of internal revenues such that internal sales and transfers are now reported as cost reduction rather than internal revenues. This change in segment measures resulted in lower revenues and costs for the operating segments. The Company also adopted a new calculation of the segment contribution in 2004 such that acquisition-related charges no longer burden a segment's contribution.

	Product	Consulting	Training	Total
	€(000)	€(000)	€(000)	€(000)
2005				
External revenue	6,044,338	2,078,091	380,209	8,502,638
Segment expenses	– 2,452,470	– 1,619,034	– 247,968	– 4,319,472
Segment contribution	**3,591,868**	**459,057**	**132,241**	**4,183,166**
Segment profitability	**59.4%**	**22.1%**	**34.8%**	
2004				
External revenue	5,292,941	1,910,292	306,591	7,509,824
Segment expenses	– 2,058,099	– 1,483,993	– 209,001	– 3,751,093
Segment contribution	**3,234,842**	**426,299**	**97,590**	**3,758,731**
Segment profitability	**61.1%**	**22.3%**	**31.8%**	
2003				
External revenue	4,797,827	1,884,801	316,088	6,998,716
Segment expenses	– 1,862,679	– 1,442,398	– 221,783	– 3,526,860
Segment contribution	**2,935,148**	**442,403**	**94,305**	**3,471,856**
Segment profitability	**61.2%**	**23.5%**	**29.8%**	

Product

The Product segment is primarily engaged in marketing and licensing the Company's software products, performing software development services, and performing maintenance services. Maintenance services include technical support for the Company's products, assistance in resolving problems, providing user documentation, updates and other support for software products, new versions, and support packages.

Consulting

The Consulting segment assists customers in the implementation of SAP software products. Consulting services also include customer support in project planning, feasibility studies, analyses, organizational consulting, system adaptation, system optimization, release change, and interface setup.

Training

The Training segment provides educational services on the use of SAP software products and related topics for customers and partners. Training services include traditional classroom training at SAP training facilities, customer and partner-specific training, end-user training, as well as e-learning.

Revenues

The revenue figures for the operating segments differ from the revenue figures disclosed in the Consolidated Statements of Income because for internal reporting purposes revenue is generally allocated to the segment that is responsible for the related transaction, whereas in the Consolidated Statements of Income revenue is allocated based on the nature of the transaction regardless of the segment it was provided by.

The following table presents a reconciliation of total segment revenues to total consolidated revenues as reported in the Consolidated Statements of Income:

	2005	2004	2003
	€(000)	€(000)	€(000)
Total revenue for reportable segments	8,502,638	7,509,824	6,998,716
Other external revenues	10,349	4,474	26,074
Other differences	– 558	195	– 184
	8,512,429	**7,514,493**	**7,024,606**

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

Segment Contribution

The segment contributions reflect only expenses directly attributable to the segments and do not represent the actual margins for the operating segments. Indirect costs such as general and administrative, research and development (including cost from software development contracts of €82,325 thousand (2004: €111,966 thousand; 2003: €123,716 thousand)), charges for stock-based compensation and acquisition-related charges, and other corporate expenses are not allocated to the operating segments and therefore are not included in segment contribution. Depreciation and amortization of long-lived assets as well as other facility and IT-related expenses are allocated to each operating segment based on headcount or facility space occupied.

The following table presents a reconciliation of total segment contribution to Income before income taxes and minority interest as reported in the Consolidated Statements of Income:

	2005	2004	2003
	€(000)	€(000)	€(000)
Total contribution for reportable segments	4,183,166	3,758,731	3,471,856
Contribution from activities outside the reportable segments	– 1,773,325	– 1,672,252	– 1,591,996
Acquisition-related charges	– 33,664	– 30,221	– 25,735
Stock-based compensation expenses	– 45,042	– 38,126	– 130,044
Other differences	– 403	249	– 62
Operating income	**2,330,732**	**2,018,381**	**1,724,019**
Other non-operating income/ expenses, net	– 25,161	13,274	36,309
Finance income, net	10,785	40,987	16,287
Income before income taxes and minority interest	**2,316,356**	**2,072,642**	**1,776,615**

Contribution from activities outside the reportable segments primarily consists of general and administrative expenses and research and development expenses. Other differences primarily relate to currency translation differences.

Segment Profitability

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

Segment Assets

The Company currently does not track assets or capital expenditures by operating segments in its internal reporting system nor is such information used by the Executive Board when making decisions about resource allocations.

Geographic Information

The following tables present a summary of operations by geographic region. The amounts included are based on consolidated data, which reconciles to the Consolidated Statements of Income. Income before income taxes is based on unconsolidated data.

Revenue by sales destination is based upon the location of the customer whereas Revenue by operations reflects the location of the SAP subsidiary responsible for the sale.

			Revenue by sales destination			Revenue by operations
	2005	2004	2003	2005	2004	2003
	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)
Germany	1,810,342	1,780,128	1,670,261	1,906,018	1,875,081	1,771,289
Rest of EMEA[1]	2,702,429	2,443,383	2,299,581	2,670,304	2,411,294	2,238,387
Total EMEA	**4,512,771**	**4,223,511**	**3,969,842**	**4,576,322**	**4,286,375**	**4,009,676**
United States	2,342,808	1,893,746	1,736,080	2,343,466	1,880,247	1,728,008
Rest of Americas	656,789	530,043	480,150	653,938	513,586	472,142
Total Americas	**2,999,597**	**2,423,789**	**2,216,230**	**2,997,404**	**2,393,833**	**2,200,150**
Japan	406,173	387,443	441,557	402,226	385,013	440,226
Rest of Asia-Pacific	593,888	479,750	396,977	536,477	449,272	374,554
Total Asia-Pacific	**1,000,061**	**867,193**	**838,534**	**938,703**	**834,285**	**814,780**
	8,512,429	**7,514,493**	**7,024,606**	**8,512,429**	**7,514,493**	**7,024,606**

			Income before income tax[2]			Total assets
	2005	2004	2003	2005	2004	2003
	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)
Germany	2,001,816	1,528,052	1,368,735	4,202,554	3,567,090	2,597,173
Rest of EMEA[1]	345,573	335,768	285,565	1,368,949	1,376,879	1,295,265
Total EMEA	**2,347,389**	**1,863,820**	**1,654,300**	**5,571,503**	**4,943,969**	**3,892,438**
United States	417,124	265,344	178,372	2,361,033	1,866,987	1,710,432
Rest of Americas	68,821	21,593	40,170	528,741	288,370	318,451
Total Americas	**485,945**	**286,937**	**218,542**	**2,889,774**	**2,155,357**	**2,028,883**
Japan	39,176	38,752	61,891	153,137	151,712	163,616
Rest of Asia-Pacific	93,717	62,027	23,618	448,328	334,434	240,928
Total Asia-Pacific	**132,893**	**100,779**	**85,509**	**601,465**	**486,146**	**404,544**
	2,966,227	**2,251,536**	**1,958,351**	**9,062,742**	**7,585,472**	**6,325,865**

			Property, plant, and equipment			Capital expenditures
	2005	2004	2003	2005	2004	2003
	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)
Germany	764,175	702,500	699,863	170,358	117,187	159,019
Rest of EMEA[1]	129,427	128,347	128,872	27,586	27,003	17,460
Total EMEA	**893,602**	**830,847**	**828,735**	**197,944**	**144,190**	**176,479**
United States	154,650	132,590	158,805	22,030	11,689	9,009
Rest of Americas	8,531	5,371	4,244	4,568	3,226	2,145
Total Americas	**163,181**	**137,961**	**163,049**	**26,598**	**14,915**	**11,154**
Japan	4,383	5,377	7,518	1,981	1,959	1,840
Rest of Asia-Pacific	33,799	24,898	20,355	14,157	10,924	14,217
Total Asia-Pacific	**38,182**	**30,275**	**27,873**	**16,138**	**12,883**	**16,057**
	1,094,965	**999,083**	**1,019,657**	**240,680**	**171,988**	**203,690**

1) Europe/Middle East/Africa.
2) Figures of the unconsolidated stand-alone Statements stand-alone.

	Depreciation			Employees as of December 31, in full-time equivalents		
	2005	2004	2003	2005	2004	2003
	€(000)	€(000)	€(000)			
Germany	101,097	109,714	105,797	13,916	13,525	13,026
Rest of EMEA[1)]	24,916	24,862	27,895	7,813	7,133	6,808
Total EMEA	**126,013**	**134,576**	**133,692**	**21,729**	**20,658**	**19,834**
USA	18,001	18,211	24,022	6,019	5,143	4,621
Rest of Americas	2,798	1,985	2,673	1,934	1,541	1,435
Total Americas	**20,799**	**20,196**	**26,695**	**7,953**	**6,684**	**6,056**
Japan	2,958	3,778	4,587	1,264	1,340	1,350
Rest of Asia-Pacific	7,936	5,916	5,038	4,927	3,523	2,370
Total Asia-Pacific	**10,894**	**9,694**	**9,625**	**6,191**	**4,863**	**3,720**
	157,706	**164,466**	**170,012**	**35,873**	**32,205**	**29,610**

1) Europe/Middle East/Africa.

The majority of research and development costs are incurred in Germany as SAP AG has title to the majority of internally developed software. As of December 31, 2005, approximately 56.8% of the research and development personnel are located in Germany, 11.3% in the rest of EMEA, 8.8% in the United States, 1.9% in the rest of the Americas and 21.2% in the Asia-Pacific region.

Six groups of industry sectors generated the following revenues for the year ended December 31:

	Total revenue by industry sectors			Software revenues by industry sectors[1)]		
	2005	2004	2003	2005	2004	2003
	€(000)	€(000)	€(000)	€(000)	€(000)	€(000)
Process industries	1,765,909	1,469,136	1,381,279	659,346	489,024	404,409
Discrete industries	1,986,113	1,807,871	1,659,334	638,441	550,444	496,127
Consumer industries	1,457,006	1,349,825	1,243,809	463,504	426,547	359,958
Service industries	1,946,026	1,673,901	1,664,525	552,120	455,054	525,061
Financial services	543,360	519,115	474,135	179,046	197,511	172,544
Public services	814,015	694,645	601,524	290,294	242,432	189,492
	8,512,429	**7,514,493**	**7,024,606**	**2,782,751**	**2,361,012**	**2,147,591**

1) Based on actual customer assignment.

The following table presents software revenues allocated to specific software solutions including revenues from integrated solution contracts, which are allocated based on customer usage surveys:

	2005	2004	2003
	€(000)	€(000)	€(000)
Enterprise Resource Planning (ERP)	1,157,569	989,972	801,221
Customer Relationship Management (CRM)	602,629	501,007	440,121
Supply Chain Management (SCM)	508,884	479,993	477,131
Product Lifecycle Management (PLM)	161,635	166,924	156,043
Business Intelligence/Enterprise Portals/Supplier Relationship Management (SRM)/Marketplaces	n/a	n/a	273,075
SRM	175,983	147,091	n/a
SAP NetWeaver and other related components	176,051	76,025	n/a
	2,782,751	**2,361,012**	**2,147,591**

Beginning in 2004, the Company changed its usage surveys for determining software revenues by solution. The usage surveys no longer include certain technology components, including Business Intelligence and Portals since all technology components are now integrated with SAP NetWeaver. Accordingly, prior year comparable figures are not available for certain solutions using the new method.

(33) BOARD OF DIRECTORS

Executive Board	Membership on other supervisory boards and comparable governing bodies of enterprises, other than subsidiaries of the Company, in Germany and other countries, on December 31, 2005[1)]
Prof. Dr. Henning Kagermann Chief Executive Officer Overall responsibility for SAP's strategy and business development, Global Communications, Global Intellectual Property, Internal Audit, Top Talent Management	Supervisory Board, Deutsche Bank AG, Frankfurt am Main, Germany Supervisory Board, DaimlerChrysler Financial Services AG, Berlin, Germany Supervisory Board, Münchener Rückversicherungs-Gesellschaft AG, Munich, Germany
Shai Agassi Product development and technology, Industry solutions Product and industry marketing	
Léo Apotheker Sales, Consulting, Education, Marketing	Board of Directors, Enigma, Inc., Burlington, Massachusetts, United States (until December 31, 2005) Supervisory Board, AXA, Paris, France (from February 23, 2005) Supervisory Board, Ginger Group, Paris, France (from June 2, 2005)
Dr. Werner Brandt Chief Financial Officer Finance and Administration, Shared Services, SAP Ventures	Supervisory Board, LSG Lufthansa Service Holding AG, Neu-Isenburg, Germany
Prof. Dr. Claus E. Heinrich Labor Relations Director Global Human Resources, Quality Management, Internal IT, SAP Labs	
Gerhard Oswald Global Service and Support, Custom Development	
Dr. Peter Zencke Research, Application Platform	Supervisory Board, SupplyOn AG, Hallbergmoos, Germany

1) Memberships on supervisory boards and comparable governing bodies of subsidiaries can be obtained from the Company upon request.

Supervisory Board	Membership on other supervisory boards and comparable governing bodies of enterprises other than the Company, in Germany and other countries on December 31, 2005
Prof. Dr. h.c. mult. Hasso Plattner[2), 4), 5), 7)] Chairman of the Supervisory Board	
Helga Classen[1), 4), 7)] Deputy Chairperson Deputy Data Protection Officer	
Pekka Ala-Pietilä[5)] Executive Advisor to the CEO of Nokia Corporation, Espoo, Finland	
Willi Burbach[1), 4), 5)] Developer	
Prof. Dr. Wilhelm Haarmann[2), 6), 7)] Attorney-at-law, certified public auditor, certified tax advisor HAARMANN Partnerschaftsgesellschaft, Rechtsanwälte Steuerberater, Wirtschaftsprüfer, Frankfurt am Main, Germany	Supervisory Board, Aareon AG (formerly Depfa IT Services), Mainz, Germany Supervisory Board, Vodafone Deutschland GmbH, Düsseldorf, Germany
Bernhard Koller[1), 3)] Manager of idea management	
Christiane Kuntz-Mayr[1), 5), 7)] Development manager	
Lars Lamadé[1), 6)] Risk Manager Service & Support	
Dr. Gerhard Maier[1), 2), 6)] Development project manager	
Dr. h.c. Hartmut Mehdorn[4)] Chairman of the Executive Board, Deutsche Bahn AG, Berlin, Germany	Supervisory Board, DB Station & Service AG, Frankfurt am Main, Germany (until April 28, 2005) Supervisory Board, Stinnes AG, Berlin, Germany (until April 28, 2005) Supervisory Board, DB Personenverkehr GmbH, Berlin, Germany (until April 28, 2005) Supervisory Board, DB Netz AG, Frankfurt am Main, Germany Supervisory Board, DEVK Deutsche Eisenbahn Versicherung Lebensversicherungsverein a.G., Cologne, Germany Supervisory Board, DEVK Deutsche Eisenbahn Versicherung Sach- und HUK-Versicherungsverein a.G., Cologne, Germany Supervisory Board, Dresdner Bank AG, Frankfurt am Main, Germany Supervisory Board, Bayerische Magnetbahnvorbereitungs-gesellschaft mbH, Munich, Germany (until October 4, 2005)

Prof. Dr. Dr. h. c. mult. August-Wilhelm Scheer[5), 6)]
Professor at Saarland University, Saarbrücken, Germany

Supervisory Board, IDS Scheer AG, Saarbrücken, Germany
Supervisory Board, imc information multimedia communication AG, Saarbrücken, Germany
Board of Trustees, Hasso Plattner Stiftung für Softwaresystemtechnik, Potsdam, Germany
Supervisory Board, Saarbrücker Zeitung Verlag und Druckerei GmbH, Saarbrücken, Germany (from April 26, 2005)
Member of the Senate, Fraunhofer-Gesellschaft zur Förderung der angewandten Forschung e.V., Munich, Germany (from January 1, 2005)

Dr. Barbara Schennerlein[1), 7)]
Principal consultant

Dr. Erhard Schipporeit[3)]
Member of the Executive Board, E.ON AG, Düsseldorf, Germany

Supervisory Board, Commerzbank AG, Frankfurt am Main, Germany
Supervisory Board, Degussa AG, Hamburg, Germany
Supervisory Board, Deutsche Börse AG, Frankfurt am Main, Germany (from October 7, 2005)
Supervisory Board, Talanx AG, Hanover, Germany
Supervisory Board, E.ON Ruhrgas AG, Essen, Germany
Supervisory Board, E.ON IS GmbH, Hanover, Germany (from January 11, 2005)
Supervisory Board, HDI V.a.G., Hanover, Germany
Supervisory Board, E.ON Risk Consulting GmbH, Düsseldorf, Germany
Supervisory Board, E.ON Audit Services, Düsseldorf, Germany
Supervisory Board, E.ON UK plc, Coventry, UK
Supervisory Board, E.ON US Investment Corp., Delaware, USA

Stefan Schulz[1), 3), 5)]
Development Project Manager

Dr. Dieter Spöri[7)]
Head of Corporate Representation Federal Affairs, DaimlerChrysler AG, Berlin, Germany

Advisory Council, Contraf Nicotex Tobacco GmbH, Heilbronn, Germany

Dr. h.c. Klaus Tschira[3)]
Managing Director, Klaus Tschira Foundation gGmbH, Heidelberg, Germany

Supervisory Board, SRH Learnlife AG, Heidelberg, Germany
Member of the Senate, Max-Planck-Gesellschaft zur Förderung der Wissenschaften e.V., Munich, Germany

1) Elected by the employees.
2) Member of the Company's Compensation Committee.
3) Member of the Company's Audit Committee.
4) Member of the Company's Mediation Committee.
5) Member of the Company's Technology Committee.
6) Member of the Company's Finance and Investment Committee.
7) Member of the Company's General Committee.

The total compensation of the Executive Board members for fiscal year 2005 amounted to €29,688 thousand. This amount includes €3,306 thousand fixed and €20,520 thousand performance-related compensation as well as €5,862 thousand long-term incentive compensation elements. The long-term incentive elements correspond to the fair value of the 291,925 stock options issued to Executive Board members during the year.

Subject to the adoption of the dividend resolution by the shareholders at the Annual General Shareholders' Meeting on May 9, 2006, the total annual compensation of the Supervisory Board members amounted to €879.2 thousand. This amount includes €439.6 thousand fixed and €439.6 thousand variable compensation. The Supervisory Board members do not receive any stock-based compensation for their services. As far as members who are employee representatives on the Supervisory Board receive stock-based compensation, such compensation is for their services as employees only and unrelated to their status as members of the Supervisory Board.

During fiscal year 2005 the pension payments to former Executive Board members were €474 thousand (2004: €247 thousand). The projected benefit obligation as of December 31, 2005, for former Executive Board members was €12,830 thousand (2004: €10,819 thousand).

SAP did not grant any compensation advance or credit to, or enter into any commitment for the benefit of, any member of the Executive Board or Supervisory Board in fiscal year 2005, or in 2004, or 2003.

On December 31, 2005, members of the Executive Board held a total of 31,346 shares, members of the Supervisory Board held a total of 70,396,026 shares.

Detailed information on the different elements of the compensation as well as to the number of shares owned by members of the Executive Board and the Supervisory Board are disclosed in SAP's Compensation Report which is part of SAP's Review of Operations, SAP's Annual Report on Form 20-F and which is available on SAP's Web site.

(34) RELATED PARTY TRANSACTIONS

Certain board members of SAP AG currently held or have held within the last year positions of significant responsibility with other entities as presented in Note 33. The Company has relationships with certain of these entities in the ordinary course of business, whereby it buys and sells a wide variety of services and software at arm's length.

August-Wilhelm Scheer is the major shareholder and head of the Supervisory Board of IDS Scheer AG, a German software and IT services company. Until early 2004, SAP owned a minority stake in IDS Scheer (approximately 2.5% of IDS Scheer's shares outstanding as of December 31, 2003). SAP sold this stake in February 2004. IDS Scheer and SAP have relationships in the ordinary course of business and at arm's length, whereby IDS Scheer mainly provides services for SAP.

After his move from SAP's Executive Board to SAP's Supervisory Board, Hasso Plattner entered into a contract with SAP AG under which he provides consulting services for SAP. The contract is expenses-only. Therefore SAP only incurred expenses for reimbursements of out-of-pocket expenses incurred by Hasso Plattner under this contract.

Hasso Plattner is the sole proprietor of H.P. Beteiligungs GmbH, which itself holds 90% of Bramasol, Inc., Palo Alto, United States. Bramasol is a SAP partner, with which SAP generated revenues of €2.0 million in fiscal year 2005 (2004: €1.9 million). SAP received services from Bramasol worth €58 thousand in 2005 (2004: €57 thousand).

In March 2005, SAP entered into agreements with Besitzgesellschaft der Multifunktionsarena Mannheim mbH & Co. KG, a company owned by members of the immediate family of Dietmar Hopp, pursuant to which a multipurpose arena in Mannheim, Germany, was named "SAP Arena" (together with the right to use the SAP logo for certain purposes) and SAP received the right to use certain reserved seating in the arena and to hold certain events in the arena. The fees required to be paid by SAP pursuant to these agreements are immaterial to SAP.

Until January 1, 2006, Wilhelm Haarmann practiced as a partner of Haarmann Hemmelrath in their Frankfurt offices. Since January 1, 2006, he has practiced in HAARMANN Partnerschaftsgesellschaft in Frankfurt. Haarmann Hemmelrath (HH or "the firm") was an international group of advisory firms in the fields of legal, tax, audit, and management consultancy services with around 900 employees in 22 offices worldwide. HH provided valuation services, tax, and legal counsel services for entities of the SAP Group. The total amount charged to SAP for those services in 2005 was €0.3 million (2004: €1.6 million; 2003: €0.5 million). SAP was informed by HH that revenues generated with SAP represented approximately 1% of HH's revenue of the respective years. Additionally HH is a customer of SAP. Amounts paid by HH to SAP for products and services were €3 thousand, €2 thousand, and €20 thousand in the years 2005, 2004, and 2003, respectively.

At no point in the years ended December 31, 2005, 2004, or 2003, did the Company grant loans to any member of the Executive Board and Supervisory Board. During the years ended December 31, 2005, 2004, and 2003, there were no significant transactions between the Company and the major shareholders as outlined in Note 21.

As discussed in Note 15, SAP has issued loans to employees other than to directors and officers with aggregate outstanding balances of €47.8 million and €42.8 million at December 31, 2005 and 2004, respectively. Loans granted to employees primarily consist of interest-free or below-market-rate building loans which SAP discounts for financial reporting purposes based on prevailing market rates. SAP's default experience on loans to employees has been insignificant. There have been no loans to employees or executives to assist them in exercising stock options.

(35) PRINCIPAL ACCOUNTANT FEES AND SERVICES

In SAP AG's annual general shareholders' meeting held on May 12, 2005, SAP's shareholders appointed KPMG Deutsche Treuhand-Gesellschaft AG Wirtschaftsprüfungsgesellschaft, Frankfurt am Main/Berlin (KPMG Germany), to serve as SAP AG's independent auditors for the 2005 fiscal year. KPMG Germany and other firms in the global KPMG network billed the following fees to SAP for audit services for each of the last two fiscal years and for other professional services in each of the last two financial years:

	2005	2004	2003
	€(000)	€(000)	€(000)
Audit fees	5,234	4,328	3,670
Audit-related fees	1,090	888	569
Tax fees	154	1,198	84
All other fees	196	38	239
	6,674	**6,452**	**4,562**

"Audit fees" are the aggregate fees billed by KPMG for the audit of SAP AG's consolidated annual financial statements as well as audits of statutory financial statements of SAP AG and its subsidiaries. "Audit-related fees" are fees charged by KPMG for assurance and related services that are reasonably related to the performance of the audit or review of SAP's financial statements and are not reported under "Audit fees". This category comprises fees billed for accounting advice on actual or contemplated transactions and other agreed-upon procedures. "Tax fees" are fees for professional services rendered by KPMG for tax advice on group restructuring, transfer pricing and other actual or contemplated transactions, tax compliance, and employee-related tax queries. The category "All other fees" include other support services, such as training and expert advice on issues unrelated to accounting and taxes.

For services provided by KPMG Germany SAP recorded in 2005 expenses of €2,490 thousand out of which €1,778 thousand were for audit services, €62 thousand for tax services, and €650 thousand for other services.

(36) GERMAN CODE OF CORPORATE GOVERNANCE

The German federal government published the German Code of Corporate Governance in February 2002. The Code contains statutory requirements and a number of recommendations and suggestions. Only the legal requirements are binding for German companies. With regard to the recommendations, the German Stock Corporation Act, section 161, requires that listed companies publicly state every year the extent to which they comply with them. Companies can deviate from the suggestions without having to make any public statements.

In 2005, 2004, and 2003, the Executive Boards and Supervisory Boards both of SAP AG and SAP's publicly traded subsidiary SAP Systems Integration AG issued the required compliance statements. These statements are available on the Web sites of SAP and SAP SI respectively.

(37) SIGNIFICANT DIFFERENCES BETWEEN GERMAN AND U.S. ACCOUNTING PRINCIPLES

Introduction

Because SAP AG is a German holding corporation that owns the majority of voting rights in other enterprises, it is generally obliged to prepare consolidated financial statements in accordance with the accounting regulations set out in the German Commercial Code (Handelsgesetzbuch – HGB). The German Commercial Code Implementation Act, (Einführungsgesetz zum HGB-EGHGB), section 58 paragraph 5 and the German Commercial Code (Handelsgesetzbuch – HGB), section 292a, offer an exemption from this obligation if consolidated financial statements are prepared and published in accordance with an internationally accepted accounting principle (such as U.S. GAAP or IFRS). To make use of this exemption, the Company is required to describe the significant differences between the accounting methods applied and German accounting methods.

Fundamental Differences

German HGB accounting rules ("German GAAP") and U.S. GAAP are based on fundamentally different perspectives. While accounting under German GAAP emphasizes the principle of prudence and creditor protection, providing all relevant information to investors in order to facilitate future investment decision-making is a primary emphasis of U.S. GAAP.

Revenue Recognition

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

Generally, software maintenance agreements are executed in conjunction with the software license agreement. Maintenance fees are mostly based upon a standard percentage of the related software license fee. Under German GAAP, the expected costs of the maintenance service are accrued if a free-of-charge service period is provided. SOP 97-2 regards both maintenance fees below the standard percentage and the provision of free maintenance service as discounts to be considered in recognizing software revenue. Therefore, the fair market value of nonstandard maintenance arrangements including free service periods reduces the related software license revenue and is recognized as maintenance revenue when such services are provided in subsequent periods.

STAR Plan

Under German GAAP, the compensation expense is recognized over a period beginning with the granting of the STARs and ending with the measurement date. Under U.S. GAAP, the expense is recognized over a period beginning with the granting of the STARs and ending with the payment of the last installment.

LTI 2000 Plan/SAP SOP 2002

Under German GAAP, the Company records expense over the vesting period only to the extent the Company provides shares it acquired from the market to the participant upon conversion or exercise. The expense amount is based upon the intrinsic value of awards on the reporting date. No expense is recorded if the Company issues shares from Contingent capital to the participant. Under U.S. GAAP (as applicable until end of 2005), no expense needs to be recorded for stock options granted under SAP SOP 2002 and convertible bonds issued under LTI 2000 since the grant price is not less than the fair market value of an SAP AG common share on the date of grant. Because the exercise price for stock options granted under the LTI 2000 Plan is variable, U.S. GAAP requires recognition of an expense over the vesting period based upon the stock options' intrinsic value on the reporting date.

Employee Discounted Stock Purchase Program

Under certain employee discounted stock purchase programs, SAP employees are provided a discount on the purchase of SAP shares. Under German GAAP, discounts provided under these programs are expensed whereas under U.S. GAAP (as applicable until end of 2005), discounts provided are recorded as a direct reduction of additional paid-in capital.

Goodwill and Intangible Assets

According to German GAAP, goodwill and intangible assets acquired in business combinations are capitalized and subject to amortization and impairment testing. According to SFAS 142, goodwill and intangible assets with an indefinite life acquired in business combinations are only subject to impairment testing but not to amortization.

Marketable Securities

Under German GAAP, marketable debt and equity securities are valued at the lower of acquisition cost or market value at the balance-sheet date. Unrealized losses are included in earnings. Under U.S. GAAP, marketable debt and equity securities are categorized as either trading, available-for-sale, or held-to-maturity. The Company's securities are considered to be either trading or available-for-sale and, therefore, are valued under U.S. GAAP at fair market value as of the balance-sheet date. Unrealized gains and losses for available for sale securities are reported net of tax in Accumulated other comprehensive income. A write-down in the value through a charge to finance expense occurs if a decline in market value is deemed to be other than temporary, that is, if the fair market value remains below cost for an extended period. Unrealized gains and losses from trading securities are included in earnings.

Derivative Financial Instruments

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

Treasury Stock

According to German GAAP, treasury stock is considered a marketable security and is valued at the lower of cost or market at the balance-sheet date. Unrealized and realized losses and realized gains are included in earnings. Under U.S. GAAP, treasury stock is recorded at cost within shareholder's equity. Changes in value, whether realized or unrealized, are not recognized.

(38) SUBSIDIARIES, EQUITY METHOD INVESTMENTS, AND OTHER INVESTMENTS

as of December 31, 2005 Name and location of company	Ownership %	Sales revenues in 2005[1)] €(000)	Net income/ loss (–) for 2005[1)] €(000)	Equity as of Dec. 31, 2005[1)] €(000)	Number of employees as of Dec. 31, 2005[2)]
I. Subsidiaries					
Germany					
SAP Deutschland AG & Co. KG, Walldorf	100	1,841,042	436,365	417,187	3,257
SAP Systems Integration AG, Dresden[4), 5)]	97	325,444	34,005	232,851	1,720
SAP Hosting AG & Co. KG, St. Leon-Rot[6)]	100	63,247	1,940	5,666	224
Steeb Anwendungssysteme GmbH, Abstatt	100	61,085	0	5,768	240
SAP Passau GmbH & Co. KG, Passau[3)]	100	3,378	157	0	0
SAP Beteiligungs GmbH, Walldorf	100	3	3	36	0
SAP Portals Europe GmbH, Walldorf[4)]	100	0	1,187	603,235	0
SAP Beteiligungsverwaltungs GmbH, Walldorf	100	0	21	105	0
SAP SI Consulting GmbH, Walldorf	100	0	1	27	0
SAP Projektverwaltungs und Beteiligungs GmbH, Walldorf[3), 4)]	100	0	0	323,127	0
SAP Administrations Beteiligungs GmbH, Walldorf	100	0	0	323,127	0
SAP Retail Solutions Beteiligungsgesellschaft mbH, Walldorf	100	0	0	39	0
SAP Investment- und Beteiligungs GmbH, Walldorf	100	0	0	35	0
eSAP Beteiligungs GmbH, Walldorf	100	0	0	28	0
SAP Hosting Beteiligungs GmbH, St. Leon-Rot	100	0	0	26	0
SAP Foreign Holdings GmbH, Walldorf	100	0	0	26	0
SAP Portals Holding Beteiligungs GmbH, Walldorf[4)]	100	0	– 5	642,978	0
Rest of Europe, Middle East, Africa					
SAP (UK) Limited, Feltham, Great Britain	100	441,237	44,612	81,252	678
SAP France S.A., Paris, France	100	342,695	17,495	38,434	568
SAP (Schweiz) AG, Biel, Switzerland	100	334,353	41,328	87,530	560
S.A.P. ITALIA Sistemi Applicazioni Prodotti in data processing S.p.A., Milan, Italy[4)]	100	226,465	12,938	110,736	433
S.A.P. Nederland B.V., 's-Hertogenbosch, The Netherlands[4)]	100	213,966	25,509	122,729	355
SAP Österreich GmbH, Vienna, Austria	100	163,780	10,790	42,351	461
SAP España Sistemas, Aplicaciones y Productos en la Informática, S.A., Madrid, Spain[4)]	100	138,650	10,112	70,580	328
SYSTEMS APPLICATIONS AND PRODUCTS IN DATA PROCESSING (NV SAP BELGIUM SA), Brussels, Belgium[4)]	100	120,660	5,457	36,842	231
Limited Liability Company "SAP CIS", Moscow, Russia	100	112,226	12,477	38,342	398
SAP Danmark A/S, Copenhage, Denmark	100	104,861	7,398	18,371	181
Systems Applications Products (Africa) (Pty) Ltd, Johannesburg, South Africa	100	92,852	6,396	2,688	275
SAP Svenska Aktiebolag, Stockholm, Sweden	100	90,118	6,395	13,142	140
SAP ČR, spol. s r.o., Praha, Czech Republic	100	85,352	7,966	27,216	193
SAP Portugal – Sistemas, Aplicações e Produtos Informáticos, Sociedade Unipessoal, Lda., Paço de Arcos, Portugal	100	59,414	5,596	25,029	152
SAP Norge AS, Lysaker, Norway	100	56,824	4,238	12,034	114
SAP Finland Oy, Espoo, Finland	100	55,359	2,500	11,704	107
SAP Public Services (Pty) Ltd, Johannesburg, South Africa[4)]	70	46,604	5,276	17,036	57
SAP SSC (Ireland) Limited, Dublin, Ireland	100	45,890	2,771	19,334	675
SAP Portals Israel Ltd., Ra'anana, Israel[4)]	100	43,336	1,301	11,857	279

as of December 31, 2005

Name and location of company	Ownership %	Sales revenues in 2005[1)] €(000)	Net income/ loss (–) for 2005[1)] €(000)	Equity as of Dec. 31, 2005[1)] €(000)	Number of employees as of Dec. 31, 2005[2)]
SAP Polska Sp. z o.o., Warsaw, Poland	100	42,961	1,970	11,595	126
SAP Hungary Rendszerek, Alkalmazások és Termékek az Adatfeldolgozásban Informatikai Kft., Budapest, Hungary	100	37,725	1,416	11,864	321
SAP Slovensko s.r.o., Bratislava, Slovakia	100	26,906	3,137	13,312	87
SAP Labs Israel Ltd., Ra'anana, Israel	100	23,982	520	3,118	274
SAP HELLAS SYSTEMS APPLICATIONS AND DATA PROCESSING S.A, Athens, Greece	100	20,028	– 2,647	– 1,229	87
SAP Türkiye Yazilim Üretim ve Ticaret A.S., Istanbul, Turkey	100	18,537	895	4,084	45
SAP LABS France S.A.S., Mougins, France	100	16,119	587	4,897	154
SAP sistemi, aplikacije in produkti za obdelavo podatkov d.o.o., Ljubiljana, Slovenia	100	13,487	430	3,799	25
Limited Liability Company "SAP Ukraine", Kiev, Ukraine	100	12,973	1,636	5,260	36
SAP Labs Bulgaria EOOD, Sofia, Bulgaria	100	11,026	454	676	283
SAP Ireland Limited, Dublin, Ireland	100	8,264	– 652	– 2,072	18
SAP Kazakhstan LLP, Almaty, Kazakhstan	100	7,549	617	621	17
SAP Business Services Center Europe s.r.o., Praha, Czech Republic	100	6,996	– 251	– 597	137
SAP d.o.o., Zagreb, Croatia	100	6,991	– 20	443	12
SAP Manage Ltd, Ra'anana, Israel	100	4,251	23	1,225	35
SAP BULGARIA LTD, Sofia, Bulgaria[4)]	100	3,822	481	193	2
SAP CYPRUS LTD, Nicosia, Cyprus[4)]	100	1,385	– 303	– 2,135	1
Systems Applications Products Limited, Abuja, Nigeria[4)]	100	624	– 735	– 1,832	4
TomorrowNow (UK) Ltd., Feltham, Great Britain[3), 4)]	100	98	– 1,086	– 1,077	12
SAP Romania SRL, Bucarest, Rumania[3)]	100	95	38	98	0
Ithinqcom (Pty) Ltd, Johannesburg, South Africa[4)]	100	0	207	– 318	0
SAP Public Services BEE Investment Trust (Pty) Ltd, Johannesburg, South Africa[4)]	100	0	0	0	0
Ambin Properties (Pty) Ltd, Johannesburg, South Africa[4)]	100	0	– 75	– 246	0
TomorrowNow Nederland B.V., Amsterdam, The Netherlands[3)]	100	0	– 107	– 87	3
SAP PORTALS UK LIMITED, Guildford, Great Britain[4)]	100	0	– 226	0	0
Americas					
SAP America, Inc., Newtown Square, Pennsylvania, USA	100	2,281,608	266,093	1,288,401	4,138
SAP Canada Inc., Toronto, Canada	100	258,229	12,439	152,836	607
SAP Labs, LLC, Palo Alto, California, USA[4)]	100	250,096	11,907	61,845	1,189
SAP Public Services, Inc., Washington, D.C., USA[4)]	100	226,378	15,990	246,777	211
SAP Brasil Ltda, São Paulo, Brazil	100	167,107	9,238	35,978	468
SAP Global Marketing Inc., New York, New York, USA	100	160,028	1,057	8,775	276
SAP México, S.A. de C.V., Mexico City, Mexico	100	115,632	506	17,185	268
SAP Andina y del Caribe, C.A., Caracas, Venezuela	100	96,349	96	13,105	228
SAP ARGENTINA S.A., Buenos Aires, Argentina	100	57,354	932	12,668	220
SAP International, Inc., Miami, Florida, USA[4)]	100	17,606	776	4,197	51
TomorrowNow, Inc., Bryan, Texas, USA[3), 4)]	100	6,709	– 1,459	7,021	72
Triversity Inc., Toronto, Canada[3), 4)]	100	4,359	– 2,465	101,052	148
SAP Georgia LLC, Newtown Square, Pennsylvania, USA[4)]	100	3,019	– 3,840	11,645	0
SAP Government Support and Services, Inc., Newtown Square, Pennsylvania, USA[4)]	100	2,521	– 472	– 803	22

as of December 31, 2005

Name and location of company	Ownership %	Sales revenues in 2005[1) €(000)	Net income/ loss (–) for 2005[1) €(000)	Equity as of Dec. 31, 2005[1) €(000)	Number of employees as of Dec. 31, 2005[2)
Triversity Corporation, Bristol, Pennsylvania, USA[3), 4)	100	914	– 202	– 9,111	70
SAP Properties, Inc., Newtown Square, Pennsylvania, USA[4)	100	593	9	6,467	0
Triversity CRM Solutions, Bristol, Pennsylvania, USA[3), 4)	100	4	4	– 1,766	0
SAP Financial Inc., Toronto, Canada[4)	100	0	31,715	– 72,487	0
SAP Investments, Inc., Wilmington, Delaware, USA[4)	100	0	14,778	606,453	0
Trimax Finance Inc., Wilmington, Delaware, USA[3), 4)	100	0	0	10,382	0
Transact In Memory, Inc., Menlo Park, California, USA[3)	100	0	0	6,186	0
Trimax Retail Systems Inc., Atlanta, Georgia, USA[3), 4)	100	0	0	149	0
Trimax US Holdings Inc., Wilmington, Delaware, USA[3), 4)	100	0	0	0	0
Asia, Pacific					
SAP JAPAN Co., Ltd., Tokyo, Japan	100	424,808	20,967	173,406	1,266
SAP Australia Pty Limited, Sydney, Australia	100	181,413	14,611	53,629	380
SAP INDIA SYSTEMS, APPLICATIONS AND PRODUCTS IN DATA PROCESSING PRIVATE LIMITED, Bangalore, India	100	95,908	17,072	57,555	604
SAP (Beijing) Software System Co., Ltd., Beijing, China	100	81,616	10,812	14,264	891
SAP Asia Pte Ltd, Singapore	100	77,591	2,895	4,084	381
SAP Korea Ltd., Seoul, Korea	100	65,754	3,111	6,104	182
SAP Labs India Private Limited, Bangalore, India	100	55,562	1,499	9,066	2,119
SAP MALAYSIA SDN BHD, Kuala Lumpur, Malaysia	100	29,944	3,133	10,279	121
SAP HONG KONG CO. LIMITED, Hong Kong, China	100	26,511	3,231	5,321	43
SAP New Zealand Limited, Auckland, New Zealand	100	22,555	1,833	10,933	39
SAP TAIWAN CO., LTD., Taipeh, Taiwan	100	20,590	2,130	12,325	48
SAP SYSTEMS, APPLICATIONS AND PRODUCTS IN DATA PROCESSING (THAILAND) LTD., Bangkok, Thailand	100	18,325	2,191	16,321	26
PT SAP Indonesia, Jakarta, Indonesia	100	10,474	1,463	10,595	37
SAP PHILIPPINES, INC., Makati, Philippines	100	8,525	1,496	4,365	23
TIM System Inc., Seoul, Korea[3), 4)	100	1	– 409	5,942	28
Triversity Asia/Pacific PTY Limited, Sydney, Australia[3), 4)	100	0	0	0	0
SAP INDIA (HOLDING) PTE LTD, Singapore	100	0	– 4	293	0
SAPMarkets Asia Pacific Solutions Pte Ltd, Singapore	100	0	– 304	– 7,543	0
TomorrowNow Singapore Pte Ltd., Singapore[3), 4)	100	0	– 329	– 338	9
II. Equity Method Investments					
Global Virtual Marketplace GmbH i.L., Munich, Germany	50	0	46	– 750	0
Pandesic LLC i.L., Newtown Square, Pennsylvania, USA	50	0	0	0	0
Procurement Negócios Eletrônicos S/A, Rio de Janeiro, Brazil	17	8,045	1,529	9,142	62

as of December 31, 2005

Name and location of company
III. Other Investments (ownership 5 or more percent)
Abaco Mobile, Inc., Alpharetta, Georgia, USA
Apriso Corporation, Long Beach, California, USA
Avokia, Inc., Toronto, Canada
Datria Systems, Inc., Englewood, Colorado, USA
Deutsches Forschungszentrum für Künstliche Intelligenz GmbH, Kaiserslautern, Germany
e-millenium 1 GmbH & Co. KG, Munich, Germany
Factory Logis, Inc., Austin, Texas, USA
Grau Data Storage AG, Schwäbisch Gmünd, Germany
HUBWOO.com SA, Paris, France
Human Resource Management & Consulting Co. Ltd., Tokyo, Japan
IBSN, Inc., Denver, Colorado, USA
Ignite Technologies, Inc., Dallas, Texas, USA
imc information multimedia communication AG, Saarbrücken, Germany
Intalio, Inc., Redwood City, California, USA
iTAC Software AG, Dernbach, Germany
Marketline Internet Szolgáltató Részvénytársaság i.L., Budapest, Hungary
MVP Strategic Partnership Fund GmbH & Co. KG, ehemals Munich Venture Partners Managementgesellschaft mbH, Grünwald, Germany
Onventis GmbH, Stuttgart, Germany
OpsTechnology, Inc., San Francisco, California, USA
Orbian Corporation Ltd., Bermuda, USA
Particle Computer GmbH, Karlsruhe, Germany
Ping Identity Corporation, Denver, Colorado, USA
Powersim Corporation, Herndon, Virginia, USA
Realize Corporation, Tokyo, Japan
SocialText, Inc., Palo Alto, California, USA
SteelEye Technology, Inc., Palo Alto, California, USA
SupplyOn AG, Hallbergmoos, Germany
T3C, Inc., Mountain View, California, USA
Venture Capital Beteiligung GbR mbH, Frankfurt am Main, Germany
VoiceObjects Inc., San Mateo, California, USA
Zend Technologies Ltd., Ramat Gan, Israel

1) These figures do not include eliminations resulting from consolidation and therefore do not reflect the contribution of these companies included in the consolidated financial statements.
2) As of December 31, 2005, including managing directors.
3) Consolidated for the first time in 2005.
4) Represents a wholly or majority owned entity of a subsidiary.
5) Publicly held company.
6) A portion of SAP's external hosting revenue is not included here but in the revenue numbers of the subsidiaries which sell the services to the customers.

Walldorf, March 9, 2006

SAP AG
Walldorf, Baden

Executive Board

Kagermann

Agassi

Apotheker

Brandt

Heinrich

Oswald

Zencke

FINANCIAL STATEMENTS OF SAP AG – SHORT VERSION

Prepared in accordance with German GAAP (HGB)

INCOME STATEMENT

	2005	2004
	€(000)	€(000)
Total revenue	3,780,683	3,316,699
Other operating income	280,292	306,914
Cost of services and materials	– 1,211,127	– 1,071,065
Personnel expenses	– 847,484	– 748,834
Depreciation and amortization	– 206,672	– 335,306
Other operating expenses	– 897,114	– 765,664
Finance income	641,154	490,348
Income from ordinary activities	1,539,732	1,193,092
Income taxes	– 468,200	– 435,414
Net income	1,071,532	757,678

BALANCE SHEET

	12/31/2005	12/31/2004
	€(000)	€(000)
Intangible assets	103,067	156,443
Property, plant, and equipment	673,992	619,178
Financial assets	1,749,301	1,871,577
Fixed assets	2,526,360	2,647,198
Inventories	3,569	2,949
Accounts receivable	1,630,584	1,099,042
Marketable securities	855,204	579,088
Liquid assets	1,704,375	1,371,798
Non-fixed assets	4,193,732	3,052,877
Deferred taxes	43,479	39,806
Prepaid expenses and deferred charges	26,591	30,045
Total assets	6,790,162	5,769,926
Shareholder’s equity	4,464,495	3,691,794
Reserves and accrued liabilities	856,064	929,061
Other liabilities	1,465,184	1,143,780
Deferred income	4,419	5,291
Total shareholders’ equity and liabilities	6,790,162	5,769,926

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

FIVE-YEAR SUMMARY

SAP GROUP

(in millions of €, unless otherwise stated)	2001	2002	2003	2004	2005
Revenue and income					
Software revenue	**2,581**	**2,291**	**2,147**	**2,361**	**2,783**
– thereof EMEA	1,413	1,387	1,245	1,292	1,393
– thereof Americas	840	629	627	780	1,027
– thereof Asia-Pacific	328	275	275	289	363
Product revenue	**4,702**	**4,714**	**4,716**	**5,184**	**5,958**
Total revenue	**7,341**	**7,413**	**7,025**	**7,514**	**8,513**
% product revenue	64%	64%	67%	69%	70%
Operating income	**1,312**	**1,626**	**1,724**	**2,018**	**2,331**
Operating margin in %	18%	22%	25%	27%	27%
Stock-based compensation charges	98	36	130	38	45
Acquisition-related charges	61	26	26	30	34
Pro-forma operating income[1)]	**1,471**	**1,688**	**1,880**	**2,086**	**2,410**
Pro-forma operating margin[1)]	20.0%	22.8%	26.8%	27.8%	28.3%
Interest income, net	34	25	43	56	90
Financial income, net	– 233	– 555	16	41	10
Income before income taxes	**1,069**	**1,108**	**1,777**	**2,073**	**2,316**
Profit sales ratio (income before income taxes as a % of total revenue)	15%	15%	25%	28%	27%
Return on equity (net income as a % of average equity)	19%	17%	33%	32%	29%
Income taxes	– 476	– 599	– 693	– 757	– 817
Net income	**581**	**509**	**1,077**	**1,311**	**1,496**
Liquidity and Cash flow					
Net cash provided by operating activities	989	1,681	1,499	1,845	1,608
Net cash used in investing activities	– 1,066	– 326	– 1,193	– 748	– 583
Net cash used in/provided by financing activities	– 126	– 936	– 315	– 388	– 555
Cash and cash equivalents	459	842	839	1,506	2,064
Liquid assets	866	1,238	2,096	3,197	3,214
Marketable securities	98	1	1	10	210
Days sales outstanding (DSO)	94	87	76	71	68

1) Excluding stock-based compensation and acquisition-related charges.

SAP GROUP

(in millions of €, unless otherwise stated)	2001	2002	2003	2004	2005
Assets and Equity					
Accounts receivable	2,212	1,967	1,771	1,929	2,251
Current assets	3,540	3,512	5,380	4,850	6,241
Long-term assets	2,656	2,097	946	2,735	2,822
Current liabilities (including deferred income)	2,796	2,397	2,237	2,592	2,782
Long-term liabilities (including deferred income and minority interest)	290	339	379	399	499
Shareholders' equity (incl. temporary equity)	**3,110**	**2,872**	**3,709**	**4,594**	**5,782**
Total assets	**6,196**	**5,609**	**6,326**	**7,585**	**9,063**
Equity ratio (Equity as a % of the Total assets)	50%	51%	59%	61%	64%
Debt-Equity ratio (Liabilities as a % of Total assets)	50%	49%	41%	39%	36%
Purchase of intangible assets, property, plant, and equipment (including acquisitions)	800	309	275	338	498
Depreciation and amortization	280	221	216	210	204
Depreciation and amortization as a % of purchase	35%	72%	78%	62%	41%
Employees[2] and personnel expenses					
Number of employees, year-end	28,410	28,797	29,610	32,205	35,873
Number of employees, annual average	27,072	29,054	29,098	31,224	34,550
Personnel expenses	2,908	2,965	2,937	2,968	3,372
Personnel expenses – excluding stock-based compensation	2,810	2,930	2,807	2,930	3,327
Personnel expenses per employee – excluding stock-based compensation in thousands of €	104	101	96	94	96
Research and development expenses					
Research and development expenses	898	909	872	908	1,089
as a % of total revenue	12%	12%	12%	12%	13%
Number of employees in R&D, year-end[2]	7,491	7,966	8,854	9,882	11,629

[2] Based on full-time equivalents.

SAP GROUP

(in millions of €, unless otherwise stated)	2001	2002	2003	2004	2005
Financial performance measures					
Subscribed capital	314,826	314,963	315,414	316,004	316,458
Weighted average shares – basic	314,309	313,016	310,781	310,802	309,816
Earnings per share in €	1.85	1.63	3.47	4.22	4.83
Earnings per share for stock-based compensation in €[3]	n/a	0.07	0.28	0.08	0.10
Earnings per share for acquisition-related charges in €[3]	n/a	0.05	0.05	0.06	0.07
Earnings per share for impairment-related charges in €[3]	n/a	1.33	0.04	0.01	0.01
Pro-forma earnings per share €[4]	n/a	3.08	3.84	4.37	5.01
Weighted average shares – diluted	314,412	313,980	311,409	312,156	310,836
Earnings per share – diluted in €	1.85	1.62	3.46	4.20	4.81
Dividend per common share in €[5]	0.58	0.60	0.80	1.10	1.45
Dividend distributions[5]	182	186	249	342	449
Dividend distributions as a % of net income[5]	31%	37%	23%	26%	30%
Stock prices at year-end – common share	146.30	75.52	133.15	131.40	153.16
Stock prices – common share – peak	180.70	176.30	134.00	142.70	156.45
Stock prices – common share – lowest	100.00	41.65	67.65	116.12	110.63
Market capitalization in billions of €	46.1	23.8	42.0	41.5	48.5
Return on SAP common shares 1 year investment period in %[6]	19.50	– 49.04	80.28	– 1.32	17.75
Return on SAP common shares 5 years investment period in %[6]	33.30	– 4.05	2.10	– 3.80	4.96
Return on SAP common shares 10 years investment period in %[6]	43.10	29.19	36.75	22.88	15.60
Cash earnings according to DVFA/SG	1,021	1,374	1,478	1,606	1,784

[3] Net of taxes.
[4] Excluding stock-based compensation, acquisition-related and impairment-related charges.
[5] For the year 2005 proposed dividend and based on 2005 closing level of Treasury Stock.
[6] Assuming all dividends are reinvested (no tax credit).

Financial Calendar

2006

April 20
Preliminary results for the first quarter of 2006

May 9
Annual General Meeting of Shareholders, Mannheim, Germany

May 10
Dividend payment

July 20
Preliminary results for the second quarter of 2006
Analyst conference

October 19
Preliminary results for the third quarter of 2006

2007

January 24
Preliminary results for fiscal year 2006
Press and analyst conference and teleconference

May 10
Annual General Meeting of Shareholders, Mannheim, Germany

May 11
Dividend payment

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Publications for Shareholders

The following publications are available from SAP Investor Relations:

- **SAP Group Annual Report** (in English or German)
- **Annual Report on Form 20-F** (in English)
- **SAP AG Statutory Financial Statements and Review of Operations** (in German)
- **SAP Quarterly Reports** (in English or German)
- **SAP INVESTOR magazine** (in English or German)

All of these documents, plus financial data spreadsheets and other shareholder services, are also available on the Internet at www.sap.com/investor, or in German at www.sap.de/investor.

Full information on the governance of SAP is available at www.sap.com/corpgovernance
Materials include:

- SAP's Articles of Incorporation
- SAP's Principles of Corporate Governance
- German Stock Corporation Act, Section 161, Declaration Concerning SAP AG's Implementation of the German Corporate Governance Code
- SAP's Principles of Corporate Governance
- SAP's Code of Business Conduct
- Information about the management of the company, including the directors on the governing bodies
- Details of the directors' dealings in SAP shares
- Shareholder meeting papers and ballot results

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