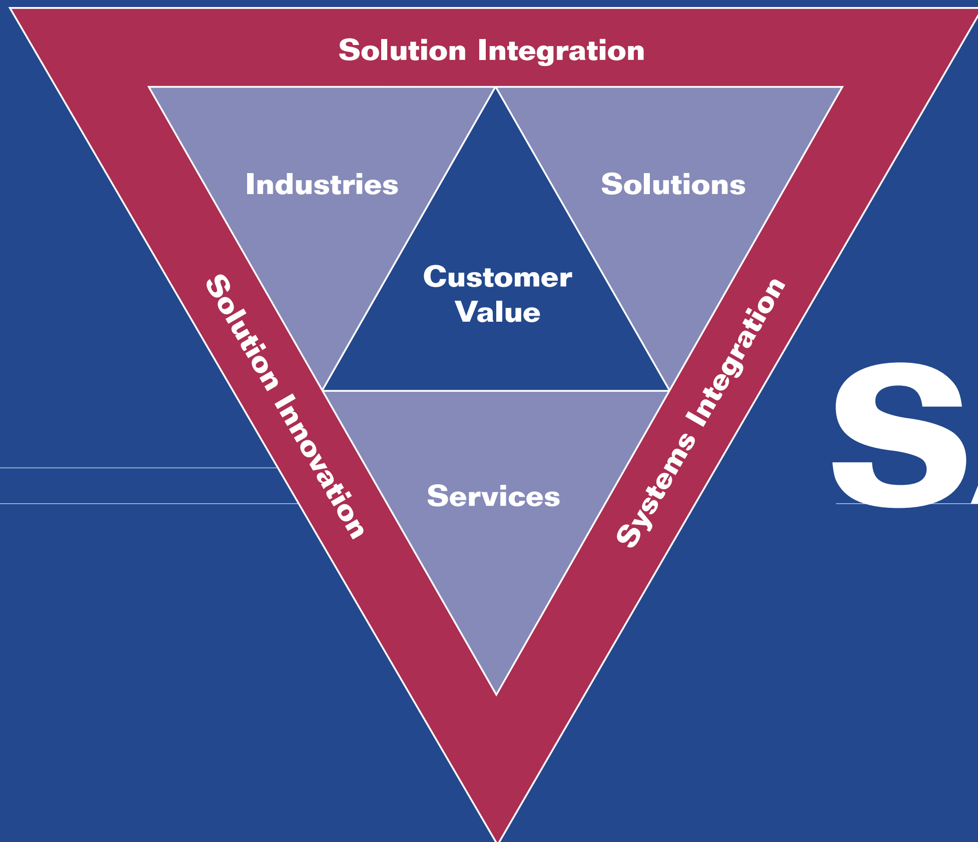
SAP Systems Integration AG
Annual Report 2002



SAP SI

Industries
We have a thorough understanding of consumer and process industries, financial services, manufacturing and service industries. Add to this our comprehensive portfolio of services for the entire lifecycle of IT systems, and our cross-industry expertise — we have all the skills to tailor solutions to our customers' specific needs.

Solutions
The implementation of cross-industry, generic solutions, such as Customer Relationship Management or Supply Chain Management, and their integration into existing processes, creates significant added value. We support our customers to make the most of generic solutions and leading-edge integration technologies.

Services
Our full service portfolio includes IT strategy consulting, development, implementation, operation, optimization and maintenance. With services for the entire IT lifecycle, we provide optimum support for business processes and create tangible customer value.

WE MAKE IT RUN

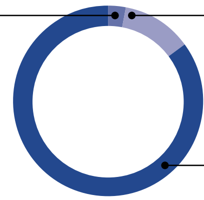
By integrating processes and systems SAP SI delivers added value to customers' operating system landscapes based partially or largely on SAP.

Our core competencies enable us:
· to develop optimum IT-strategies
· to ensure their smooth implementation
· to run and continuously improve customer solutions

Integration for Customer Value

Distribution of revenue

in € millions / percent / change year to year



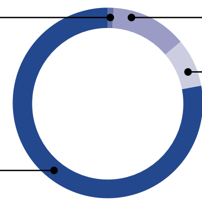
Products
8.7 / 3.0 % / +31.4 %

Outsourcing & Application Services
35.0 / 11.9 % / +33.6 %

Consulting & Project Development, other revenue
249.5 / 85.1 % / +5.7 %

Distribution of revenue according to region

in € millions / percent / change year to year



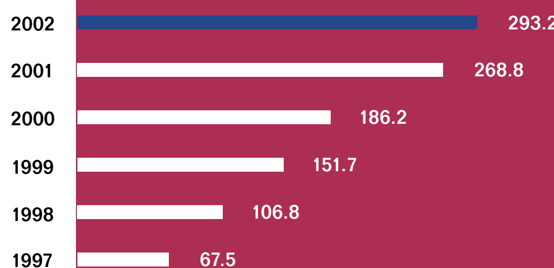
Rest of world
2.9 / 1.0 % / +55.1 %

USA
37.9 / 12.9 % / +42.3 %

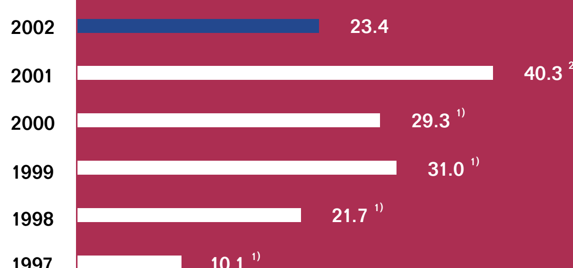
Germany
228.4 / 77.9 % / +8.2 %

Europe outside Germany
24.0 / 8.2 % / -17.9 %

Development of revenue in € millions



Operating profit in € millions



1) As-if financial statement before goodwill amortization
2) Financial statement before goodwill amortization

Key performance indicators as of December 31, 2002 (US GAAP)

SAP Systems Integration AG

	Jan 01, 2002 – Dec 31, 2002	Jan 01, 2001 – Dec 31, 2001	Change in %, %-points
Revenue/earnings figures			
Revenue in € thousands	293,239	268,839	9.1%
of which foreign in € thousands	64,820	57,769	12.2%
Amortization of goodwill in € thousands	0	47,287	N/A
Restructuring costs in € thousands	9,769	0	N/A
Operating profit before restructuring costs in € thousands	33,206	40,306	-17.6%
Operating profit before restructuring costs as a percent of revenue	11.3%	15.0%	-3.7PP
Operating profit in € thousands 2)	23,437	40,306	-41.9%
Operating profit as a percent of revenue 2)	8.0%	15.0%	-7.0PP
EBITDA in € thousands	28,187	45,801	-38.5%
EBITDA as a percent of revenue	9.6%	17.0%	-7.4 PP
EBIT in € thousands 2)	22,901	40,827	-43.9%
EBIT as a percent of revenue 2)	7.8%	15.2%	-7.4PP
EBT in € thousands 2)	26,230	45,570	-42.4%
EBT as a percent of revenue 2)	8.9%	17.0%	-8.1PP
Balance-sheet figures			
Equity-to-total-assets ratio	78.3%	76.8%	1.5PP
Cash and cash equivalents/total assets	44.3%	42.8%	1.5PP
Working capital in € thousands	149,492	135,167	10.9 %
Capital investment excluding goodwill in € thousands	3,552	6,415	-44.6%
Other key figures			
Undiluted earnings per share in € 2)	0.41	0.77	-46.8%
Diluted earnings per share in € 2)	0.41	0.77	-46.8%
Cash flow in € thousands 1)	20,777	32,960	-37.0%
Average number of employees	1,819	1,536	18.4%
Revenue per employee in € thousands	161	175	-8.0%

1) All values as of December 31

2) Previous year's figure excludes goodwill amortization

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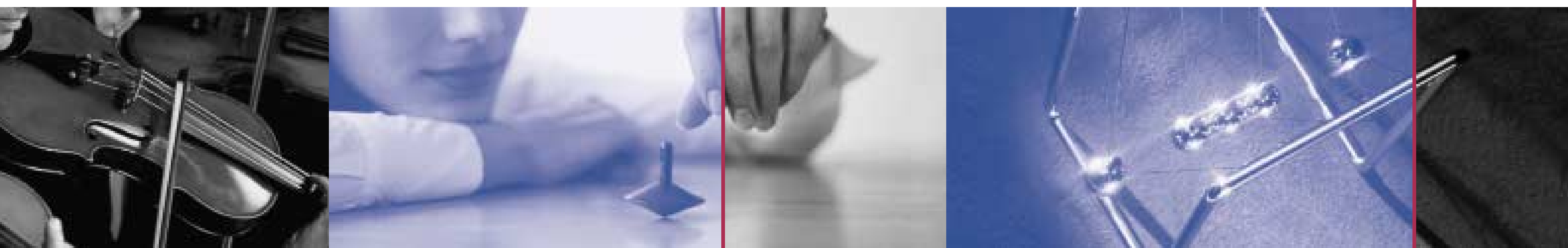

RELIABLE

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EFFICIENT

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Dear Stockholders,

Fiscal 2002 was a difficult but significant year for the Company. Against the background of a market in upheaval, we strengthened our position, winning major new contracts from customers in diverse sectors. The dynamic growth of the IT industry experienced in previous years has given way to a period of stagnation. Competition for projects is fierce, yet these have shrunk in number and size. Companies are feeling the pinch, and cost is becoming their first concern, even for small-scale projects. The drivers of growth, innovation and technological progress are having to take a back seat. Today's focus is on integrating the IT applications already in place to create end-to-end, optimized support for business processes.

TO OUR STOCKHOLDERS

In light of the sea change on the IT consulting market, the Company has taken proactive steps to ensure sustainable, profitable growth. Regrettably, the need for strict cost control led to the first-ever reduction in the Company payroll. The SAP SI services portfolio was also realigned, focusing to a greater extent on the integration of SAP and non-SAP systems. SAP NetWeaver, a new integration technology platform from our parent company, will play a vital role in seamlessly combining diverse solutions.

SAP SI revenue and earnings for fiscal 2002 prove that we are on the right path, despite the difficult market environment – sales growth and profitability were in line with the targets set in July. Company revenue rose 9.1% to €293 million. The lion's share of this growth was attributable to the first-time consolidation of COPA GmbH following the acquisition of a majority shareholding. Organic growth was 0.6% in 2002, with an operating profit margin before restructuring costs of 11.3%. SAP SI America had a particularly successful year. It posted an increase in revenue of nearly 50%, and a significantly increased operating profit margin before restructuring costs of 14.5%. COPA, with its unrivalled beverage solutions expertise, performed well and reported positive figures.

Dr. Bernd-Michael Rumpf

Born in 1964, Dr. Bernd-Michael Rumpf moved to SAP AG, Zurich after holding various positions at Cap Gemini Ernst & Young. During his three years with the SAP Group, Dr. Rumpf has held a variety of posts, including Regional Director, Consulting, and member of the SAP SI Supervisory Board, before being appointed to the SAP SI Executive Board in February 2002. Dr. Rumpf has been Chairman of the Executive Board (CEO) since September 2002.

Joachim Müller

Born in 1959, Joachim Müller worked for a number of years in auditing, and held senior managerial positions at various companies in financial accounting. He was most recently Vice President, Finance and Control, at Software AG. Since July 2002, Mr Müller has been member of the Executive Board and Chief Financial Officer (CFO) at SAP SI AG.

Alfred Ermer

Born in 1961, Alfred Ermer originally worked in software development in the manufacturing industry. Since 1987, he has held a number of positions in consulting and development at SAP and became Head of Development at SAP Solutions GmbH. Mr Ermer oversaw the development of a new industry-specific solution and saw the new solution through to market launch as SAP Group Consulting Manager. Mr Ermer has been a member of the SAP SI AG Executive Board since 2000.

In spite of today's difficult market climate, there are still growth segments. These include decision-support systems, solutions for greater IT openness and integration, and industry-specific software that optimizes core business processes. Our response has been a corresponding realignment of services, with greater focus on customer-specific and industry-specific integration. Our mission is reflected in our slogan, "Integration for customer value – we make it run". SAP SI's strategy is balanced, but takes account of areas with exceptional growth potential. These include industries such as banking, insurance, beverages and utilities; solutions such as business intelligence, customer relationship management; and services such as enterprise application integration, hosting and solution management.

We believe that to be successful on the market, IT consultants need to be partners embedded within customer ecosystems, with special solution integration expertise. SAP SI fulfills this requirement. We have a long track record of integrating SAP and non-SAP solutions, extensive knowledge of industries and applications, and strong ties to our parent company, SAP. Not only are we among the very first to learn of new SAP innovations, such as SAP NetWeaver, we are also involved in the development of SAP solutions, including industry-specific capabilities, at a very early stage of the product lifecycle.

Against this background, we are cautiously optimistic about our opportunities in 2003. The economy and political events, both notoriously hard to forecast, will affect our business, as will intense competition and downward pressure on prices. Given the current market situation, an increase in profitability will continue to be our topmost priority in 2003.

SAP SI stock lost significant ground in 2002. This was due to the general slump in world share prices, and also to the downward revision, in the summer, of our ambitious revenue and profit targets in light of the weak economy. In the second half-year, however, we saw a recovery in stock price when the measures described above were vindicated, and Company profit margin returned to strong double digit figures. We also expect Deutsche Börse's new segmentation of the German stock market to have a positive long-term effect upon SAP SI share value: SAP SI has been a member of the new Prime Standard segment since January 1, 2003. The Company will also be included in the TecDAX index of 30 leading German technology stocks, to be formed on March 24, 2003.

A consulting company stands or falls by its employees and their ability to generate revenue. It is our employees' expertise, motivation and social skills that attract customers to the Company. Our reputation is founded on our employees, and the quality of SAP SI's services is directly attributable to them. We would like to take this opportunity to thank all SAP SI employees for their hard work and commitment over the past year, and for their sustained efforts toward achieving our common goals. We would also like to thank our customers, partners and stockholders. Our success is founded on their trust and support.

Dresden, Germany, January 31, 2003

B.-M. R

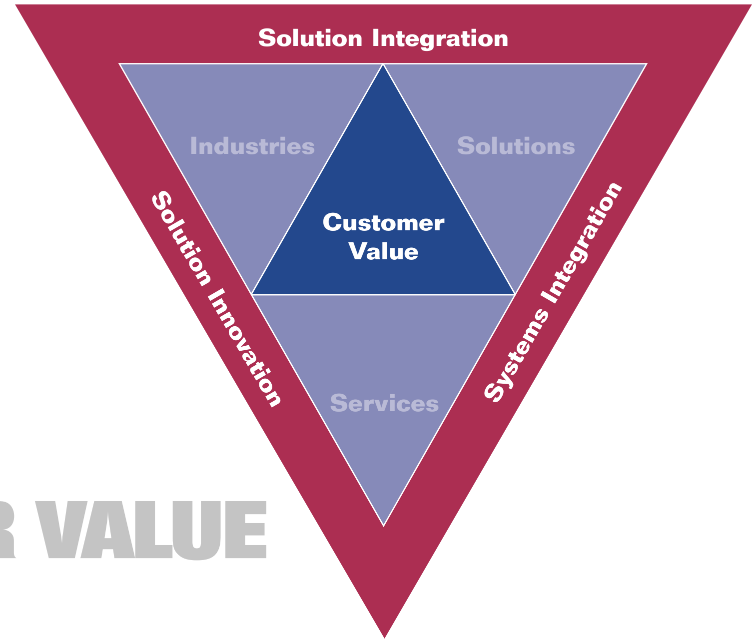
Dr. Bernd-Michael Rumpf
Chairman of the Executive Board (CEO)

Alfred Ermer

Joachim Müller

STRATEGIC

Industry-specific focus, a full range of services, integration expertise and an international presence are the foundations of our growth strategy.



INTEGRATION FOR CUSTOMER VALUE

IT consulting remains a growth industry

Business processes are becoming ever more complex. The smooth interaction of all value chain participants is now vital to economic success. In response, vendors such as SAP have developed business software that enable effective intra-enterprise and inter-enterprise collaboration. These end-to-end solutions provide support for planning, executing and monitoring all key business processes. They are vital to the effective management of information. However, simply purchasing software of this kind is insufficient. It needs to be tailored to the specific needs of the company, and seamlessly integrated into the existing IT landscape.

The demand for expert advice on planning, implementing and operating IT systems continues to grow. In 2001, the 25 leading system integrators and IT consultants in Germany posted revenue of more than €6.2 billion (source: Lünendonk). Analysts expect the market to expand further over the next few years. However, the weak global economy and a widespread reluctance to invest has dampened near-term expectations, with the German IT consulting market likely to stagnate in 2003. Market researchers expect the sector to rebound thereafter, reaching again higher annual growth rates.

The current lack of investment, largely a result of the poor economic climate, varies considerably from segment to segment. There are still areas enjoying dynamic growth. The combination of conventional Enterprise Resource Planning (ERP) solutions with e-business applications is a particularly promising segment. Software for Supply Chain Management (SCM), Customer Relationship Management (CRM), Business Intelligence (BI) and Portals is also of increasing importance. Moreover, these generic solutions are converging, creating end-to-end IT support for the entire value chain.

Systems integrators such as SAP SI combine systems from different vendors, optimizing business processes as a result. This enables companies to make more effective use of available resources and to offer their customers added value.

Changing customer expectations

Expectations in terms of consulting and customer service continue to rise. Companies are unwilling to simply accept the status-quo process support provided by their current IT environment. They want to consolidate and optimize their landscape to streamline processes and to achieve greater cost-effectiveness. Stand-alone solutions that are implemented in response to the most recent trends are losing their appeal. The average value of IT projects is shrinking, and the emphasis is on clearly defined budgets. Customers are looking for a demonstrable, rapid return on investment (ROI). Furthermore, they want transparent, predictable costs, leading to greater demand for outsourcing.

Responding to customer needs is the key to growth

Demand is set to grow for services that consolidate and optimize existing IT environments and that meet customers' most pressing requirements. This includes online portals and Web enablement, as these provide employees, partners and customers with better access to information, applications and services, and improve decision support. In 2002, the portals and Web enablement market in Germany was worth approximately €600 million, and analysts expect annual growth of more than 30% between now and 2006. Other growth drivers include systems integration and Enterprise Application Integration (EAI). In 2002, this segment was valued at €1.2 billion. The market for solutions for Customer Relationship Management (CRM), Supply Chain Management (SCM), and e-procurement, human resources and quality management is likely to enjoy annual growth of 10%. The demand for Business Intelligence (BI) applications, which capture data from diverse sources and make it available for decision-support, is predicted to increase by around 15% annually.

SAP SI within the IT consulting sector

SAP SI is already well positioned in the IT consulting and integration market. We provide services to more than 1,000 customers in Germany and abroad, in almost all industries. On the back of a long and successful track record, SAP SI enjoys a high profile for high-quality implementation and integration. According to the findings of two studies by Meta Group, SAP SI is one of Germany's most well-known IT service providers.

In fact, when implementing e-business solutions, almost one in three of the companies surveyed had requested a bid from SAP SI. More impressive still, SAP SI achieved the number-one awareness rating for Business Intelligence and data warehousing. We are also one of the few players to enjoy a close relationship with SAP, giving us greater insight into SAP technology and its future development. However, our skills are by no means limited to the SAP world. Further, a key competitive differentiator is our ability to provide services for the entire lifecycle: IT strategy, architecture, project planning, implementation, and operation.

Integration for customer value

Our mission is to create value for our customers, and this is reflected in our approach to all aspects of our work. We do not ask "What is technically feasible", instead we concentrate on achieving significant and lasting benefit for our customers through seamless integration of their IT systems.

And we see integration as being much more than simply linking SAP and non-SAP components. The letters that make up the suffix "SI" in our company name stand for three aspects of our mission:

SI stands for:

- Solution integration
- Systems integration
- Solution innovation

Solution integration: In-depth understanding of business processes

The design and implementation of a powerful, made-to-measure IT environment depends on a thorough understanding of standard enterprise software. However, that is not enough. Developing and, above all, tailoring an IT solution to the specific requirements of a given organization calls for in-depth knowledge of the customer's processes, business model and industry. The goal of solution integration is to optimize processes and to harmonize them with the IT systems landscape to add tangible value. In many successful projects for companies in practically all industries, we have demonstrated a profound understanding of our customers' requirements, and the ability to meet them in full.

Systems integration: Expertise in key technologies

Systems integration calls for the ability to combine and blend diverse solutions. Our broad, proven skills in a variety of technologies enable us to ensure systems interact seamlessly. As a subsidiary of the world's leading vendor of business software, we are familiar with the architecture and features of SAP technology. However, our horizons are not limited to SAP solutions. We can create strong, flexible links between SAP and non-SAP applications, and integrate them with customer-specific solutions. We create a robust integration platform by means of technologies from SAP, such as SAP NetWeaver, and from other vendors. And we go a step further, plugging any functional gaps by building customer-specific add-ons. All in all, we are able to create a powerful, consolidated environment from a variety of individual components.

Solution innovation: Long-term investment protection

The value of any IT system is ultimately measured in terms of its ability to fulfill the business and technological needs of the enterprise over time. SAP SI pays close attention to future flexibility and scalability from the very first analysis. What is more, as result of our close relationship with SAP, we are involved in upcoming changes and new solutions at an early stage.

We also actively participate in many non-SAP research projects. For example, as part of a project conducted in association with the University of St. Gallen in Switzerland, we are currently researching "smart objects". Smart objects are components with integrated microchips, which, when installed in everyday products, enable remote monitoring. Ubiquitous computing, as this research direction is also known, enables checks to be made on wear and tear, or on inventory levels, for example.

Moreover, we focus on creating flexible, future-proof infrastructures that are open to emerging technologies and new solutions. Our environments are designed to grow and change as our customers' businesses grow and change.

TAILOR-MADE

Software expertise and industry-specific knowledge – leveraged to create made-to-measure solutions and integrated IT environments.

A COMPREHENSIVE SERVICE PORTFOLIO FOR TAILOR-MADE INTEGRATION

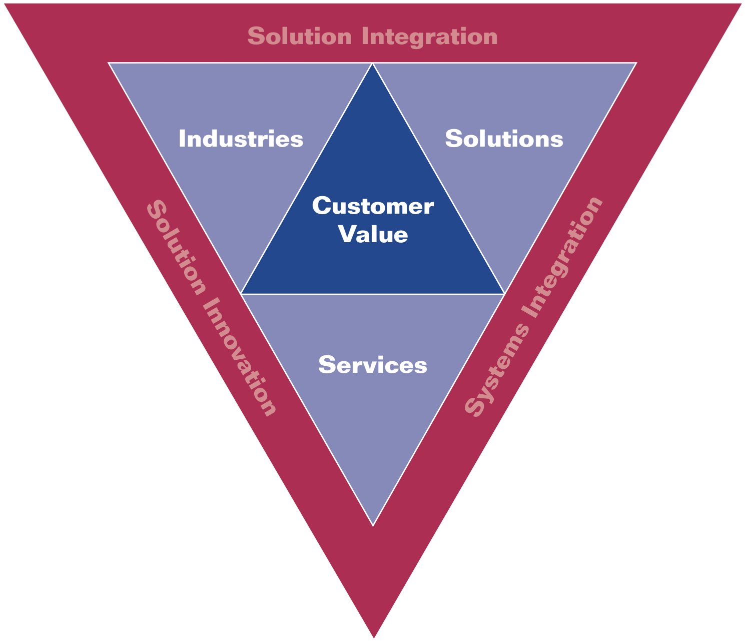
Customer needs met by a clear focus on specific industries

With a clear focus on customer benefits, SAP SI develops and deploys solutions geared to the requirements of companies and other organizations in specific sectors. SAP SI's excellent market position comes from concentrating on the industries in which we have proven skills, from a product and service portfolio that supports the entire IT lifecycle, and from our expertise in cross-industry solutions.

The industries that SAP SI serves are reflected in four dedicated business divisions. The Consumer and Process Industries division covers consumer goods, and process manufacturing industries with similar production methods, such as beverages, chemicals and pharmaceuticals. The Financial Services division meets the needs of banks and insurers. Manufacturing division serves industries with more discrete manufacturing processes, including the automotive, high-tech and engineering sectors. The Service Industries division takes in healthcare, media, the public sector, higher education and utilities. Of these areas, we believe that banking, insurance, beverages and utilities offer us the greatest potential for growth in the mid-term.

Solutions

SAP SI does more than find IT answers to industry-specific tasks. We also help customers to introduce and operate cross-industry solutions that optimize business processes across the enterprise. The ideal technology for this is SAP NetWeaver, the new integration platform from our parent company. Enterprise Application Integration (EAI), for example, creates homogeneous IT environments from a variety of diverse systems, while Strategic Enterprise Management (SEM) supports value-based management. In addition, we provide conversion services for the rapid, reliable migration of IT landscapes in the event of mergers or spin-offs, or for other standardization projects.



We also assist with the implementation of customer relationship management solutions, to create a coherent, comprehensive approach to managing interaction with customers. The integration of supply chain management systems enables customers to streamline the planning and execution of logistics throughout the value chain.

Business intelligence solutions, based on data warehousing technology, facilitate the effective management and analysis of information, providing easy access to data from multiple sources – both internal and external.

Services for the entire IT lifecycle

SAP SI combines industry-specific and generic software to provide customers with end-to-end solutions. And we deliver services for the entire lifecycle of these solutions: IT strategy, consulting, implementation and continuous support.

In the scope of IT strategy consulting, we work hand in hand with customers to design made-to-measure solutions which will effectively model their business processes, contributing significantly to sustainable, long-term success.

Implementation is summed up neatly at SAP SI as “We make it run”. During this phase, we tailor standard software, and combine it with custom applications and SAP SI-developed add-ons. Our strength is the ability to integrate individual systems to create end-to-end environments. The result is leading-edge solutions that cover our customers’ business and technology requirements. (See the Strategy section of this report).

Continuous support from SAP SI entails not only hardware operation, but also a broad portfolio of services, including application management, hosting and technical support. With our application management offering, customers who prefer to operate their own hardware infrastructures can nevertheless outsource a range of services – from systems administration to end-user support. The advantage for customers is that they do not nurture or maintain SAP or systems expertise in-house, but can take advantage of our skills, as and when they need them.

FINANCIAL SERVICES DIVISION

Creating a standardized, coherent IT environment

Dr. Walter Klein, CIO at Deutscher Ring insurance group, sums up the problem: “Our legacy systems landscape was very heterogeneous, and was not always able to model changes to business processes in the way we wanted.”

The situation is one that many financial service providers know only too well. The world of finance is currently undergoing far-reaching structural change. Globalization and deregulation have greatly increased competition and cost pressure. The spread of digital communications and the need for integrated, multichannel communications are further major challenges. The industry is characterized by large multinational players on the one hand, and specialist banks on the other, with service offerings such as online banking and direct brokerage. As the world of finance becomes more transparent, service providers have to create offerings that are more integrated, and of higher quality, if they are to retain and win customers. New requirements such as BASEL II or the adoption of IAS or US GAAP accounting standards are increasing the demand for timely, reliable facts and figures. BASEL II requires all companies to demonstrate their credit-worthiness by providing clear evidence of their financial situation. Banks rate companies’ credit-worthiness using standardized criteria. And this calls for the kind of data gathering and integration that only data warehousing can deliver.

These various complex tasks are currently handled by a vast number of disparate IT systems. To date, there is still no standard end-to-end software solution that covers all banking processes. While there are many custom solutions and stand-alone products, strategic and financial advantages can be achieved only by integrating system landscapes to create a standardized, coherent IT environment.

SAP SI – your expert partner

By leveraging financial service providers’ great need for effective information systems, we intend to become a key IT player in this sector. We have over ten years’ experience in the banking industry, gained through many successful software implementation projects. We are familiar with the various service portfolios that exist in the sector, and the processes on which these are based. We utilize our in-depth knowledge of the industry to deploy mySAP Banking for a variety of processes, tailored to our customers’ specific requirements.

Our customers also benefit from our involvement in the development of SAP products for this sector. Moreover, we have considerable expertise when it comes to popular banking applications such as KORDOBA and MBS. And if customers so wish, we can also assume full responsibility for systems operations.

In the insurance sector, many core processes are handled by legacy applications developed in-house. The heterogeneous landscapes that have formed over the years mean that the entire infrastructure is very delicately balanced. As a result, the complex interdependencies between individual components have to be analyzed thoroughly prior to implementing new solutions. Strategic analysis and consulting are part of SAP SI's core competency. As a systems integrator and provider of made-to-measure solutions, we can precisely tailor the best practices of SAP's industry solution to insurance companies' individual requirements. In addition, we work hand in hand with the customer to identify areas in which mySAP-based applications or complementary software are required to support enterprise-specific processes.

INDUSTRY-SPECIFIC SOFTWARE FOR DEUTSCHER RING

"By introducing SAP's industry-specific modules, we have taken the first step toward an integrated, flexible end-to-end solution, which will grow with all areas of our business," states Dr. Klein.

For some 90 years, Deutscher Ring has focused on providing security and a wide range of life and other insurance products for private customers. The Deutscher Ring group comprises five companies, representing all the key segments of the financial services market, and delivering comprehensive coverage for private customers.

Within the scope of the project, which has a timescale of some two years, we are implementing various SAP solutions. In addition, we will replace the insurance group's existing customer database with the SAP Business Partner solution, integrate the newly installed SAP systems into the group's landscape, and develop interfaces allowing customer master data in Business Partner to be accessed from the group's legacy systems. SAP SI will enhance the systems landscape by adding industry-specific modules, and provide advice and support during migration to an end-to-end SAP environment.

CONSUMER AND PROCESS INDUSTRIES DIVISION

Added value through strong partnership

Companies served by the Consumer and Process Industries division make particularly high demands of their IT systems when it comes to production, logistics, packaging, empties management, and contract administration. And they need an implementation partner who understands their particular processes and problems. Throughout this segment, the emphasis is on tasks such as consolidation of master data, integration of various local SAP R/3 systems, and recycling management. SAP SI sees particular potential in the beverages industry, including companies in wholesale and distribution.

COPA – specialist for the beverages industry

SAP SI acquired a majority stake in COPA GmbH at the beginning of 2002, and since January 1, 2003, the company has been a wholly-owned subsidiary. As a result of this acquisition, we are able to provide comprehensive support for the implementation of SAP solutions in national and international beverages companies. For more than 20 years, COPA has focused on IT solutions for mid-sized to large enterprises in the beverages industry. It has been an SAP consulting partner since 1995, and COPA-developed software formed the basis for the industry-specific solution, SAP Beverage. The unique expertise of this specialist company is now available to all SAP SI customers.

SAP Beverage delivers preconfigured support for the core processes of brewers, soft drinks manufacturers, distillers, distributors and bottlers. Partnership with SAP SI gives COPA customers long-term investment protection for their SAP solutions. They benefit from COPA's in-depth understanding of their industry, and from SAP SI's proven skills in SAP technology.

As is the case with the consumer goods sector as a whole, the beverages industry is currently riding a wave of consolidation and globalization. The IT solutions of the future must support processes on an international level, and beyond enterprise boundaries. The demands placed on enterprise software are becoming all the more complex. SAP SI believes that this will whet customers' appetite for integrated solutions, and for outsourcing services. With COPA, we are ideally placed to meet the need in the beverages industry for SAP consulting, development and implementation.

VELTINS BREWERY: IMPLEMENTATION OF SAP BEVERAGE

As a result of acquisitions and mergers, Veltins has grown considerably during recent years – and this was the main reason the brewery decided to migrate to SAP Beverage. The industry-specific solution has the benefit of unifying Veltins' systems landscape, reducing IT costs, streamlining communications with business partners, and ensuring transparent financial accounting and reporting throughout the group. Veltins' decision to task SAP SI with implementation was based on our knowledge of the relevant processes, technical integration skills, experience of projects in the industry, close relationship with SAP, and the commitment of our consultants.

The mid-term IT strategy includes consolidation of Veltins' diverse systems landscapes. When considering suitable platforms, Veltins soon realized that SAP Beverage was the only real candidate. The initial implementation project at a sales subsidiary is currently underway. Introducing SAP Beverage also provides a basis for extending the existing SAP environment at Veltins.

MANUFACTURING DIVISION

Falling investments call for process optimization and enhanced services

The weak world economy has led to a significant fall in demand for capital goods. As a result, competition has greatly increased in this sector. To maintain and strengthen their market position, companies have to keep a tight reign on costs and provide their customers with ever better services. It is essential to significantly accelerate development lifecycles to get innovative products to market earlier. In other words, time-to-market is becoming increasingly important to success.

At the same time, manufacturers have to leverage all opportunities to cut costs if they are to maintain their competitive edge. The measures available range from process optimization to moving production abroad to reducing payroll, spin-offs and closures.

Manufacturers' IT landscapes also have to accommodate these changes. Instead of costly "big-bang" implementations, companies are now trying to reduce costs by streamlining their existing systems environments. However, enterprises are increasingly investing in solutions to handle their critical business processes. Business processes are perceived as critical if they quickly yield tangible benefits, minimize risks and/or deliver a rapid ROI. In the manufacturing industry, these include service management, quality assurance, logistics, warranty claims management, foreign trade, cross-plant supply chain management and product lifecycle management.

IT-STANDARDIZATION AT HEIDELBERG WEB SYSTEMS

“The experience and commitment of SAP SI’s consulting team set them apart from the competition. I wouldn’t hesitate to task this team with future projects,” states Jim McDevitt, project manager at Heidelberg Web Systems.

A division of Heidelberger Druckmaschinen AG, Heidelberg Web Systems supplies Web offset printing presses for the production of catalogs and magazines. Employees at a number of sites in the Netherlands, the USA and France now benefit from standardized and optimized business processes. The extensive consulting skills needed to harmonize the processes were provided by SAP SI subsidiary SAP Systems Integration America.

The challenge

Heidelberg Web Systems has set itself the ambitious goal of presenting one face to the customer – no easy task, given the complex machines the company produces, and the international nature of its manufacturing operations. “Our sites had developed their own business processes. This means they worked with different systems in production, sales and accounting,” explains McDevitt. The result was disparate types of master data. What is more, customer service could not be provided on a global basis, and it was difficult to compare costs. For example, there was no easy way of monitoring inventory, financial results or other key data throughout the entire division. Nor was it possible to leverage economies of scale by effectively managing the division as a whole.

The solution: Standardization

SAP SI America supported Heidelberg Web Systems throughout the implementation of a mySAP.com E-Business, and helped centralize the company’s hardware resources. The software and hardware are now managed at a single site by a dedicated support unit. McDevitt describes one of the benefits: “The SAP system provides our management with accurate, timely financial data that is consistent with the logistics system.”

Previously, time-consuming analysis was required to identify discrepancies between the logistics and financial systems. In some cases, the time and effort required meant that the cross-checks could only be performed annually at project level (for example, forming or adjusting reserves for warranty claims). The SAP solution now carries out monthly calculations, enabling the management to quickly identify budget overruns. The new system gives over 1,800 users direct access to strategic business data and applications at five international sites.

SERVICE INDUSTRIES DIVISION

Proven in many successful projects

"Until about two years ago, our legacy systems fulfilled their tasks perfectly. But to meet the challenges of the e-business age, we need a future-proof, Web-based system," says Hans Bittlinger, Head of IT/Applications at Gelsenwasser AG, Germany's largest privately-owned water utility.

This sums up the far-reaching changes that have taken place in the utilities sector following market liberalization. Energy companies who used to operate at national or regional level are now entering into collaborations, merging, or going international. Groups are being founded to create one-stop providers of all services for private households – from electricity to water, gas, and wastewaster. The industry is launching new products and systems. While this means steadily rising competition, it also opens up completely new opportunities. Efficiency and flexibility in pricing and product design, increased marketing and the exploitation of potential for new services are becoming decisive competitive parameters. Against this background, what is needed is detailed knowledge of customer requirements, cost transparency in all areas, effective deployment of all available resources, and timely, sound capital investment decision-making. In these deregulated markets, powerful IT systems are essential to maintain competitive edge. And effectively modeling processes subject to frequent change presents a major challenge.

Concentrated expertise

SAP SI has chosen to focus on the utilities sector. Over 50 successful projects have given us a unique insight into this industry. We offer proven solutions in the form of mySAP Utilities and a variety of SAP components. On the basis of mySAP Utilities, we have developed our own packaged solution, incorporating preconfigured best practices that save time and money during implementation. SAP SI delivers services that ensure transparency for all business processes and workflows: from investment management to customer service.

NEW SOFTWARE FOR GELSENWASSER

Integrated SAP applications for the challenges of tomorrow

"When we came to select IT consultants for the implementation of SAP R/3 and the IS-U industry solution, we were looking for a company with proven experience in the utilities sector. The success of our project shows that we made the right decision when we opted for SAP SI," states Joachim Basler, project leader at Gelsenwasser.

Gelsenwasser AG is an international water and energy utility. Germany's leading provider of water serves a large part of the Ruhr area, the regions around Münster, and the Lower Rhine area. E.ON Energie AG holds a majority stake in the company. By implementing and integrating SAP solutions, Gelsenwasser has equipped itself for the e-business age and prepared for increased competition in the water market.

Efficiency and a customer-driven approach are now becoming more important than ever. But business considerations were not the only reason for deciding to implement new software at Gelsenwasser. "We could no longer guarantee effective maintenance of our legacy systems for metering and financial accounting. By choosing SAP software, we were choosing state-of-the-art technology, and protecting our investment in the long term," explains Joachim Basler.

Industry experience and solution expertise

"Once we had opted for SAP applications, we started looking for an implementation partner. The successful candidate had to have two key qualifications: extensive experience of the utilities industry and expertise in the SAP solution landscape," states Bittlinger. SAP SI more than satisfied these requirements. The new, end-to-end business solution delivers comprehensive functionality for financial accounting and control, sales, materials management and plant maintenance. In addition, the environment is linked to a Geographic Information System (GIS). And a Business Intelligence solution allows users to access strategic business information.

The future is integrated

According to Hans Bittlinger, the SAP platform has a key role to play in the company's plans for the future: "The synergy achieved to date is a strong argument in favor of integrating other SAP applications into our IT environment." The company is currently considering the introduction of the SAP portal as an information and integration platform, as well as further enhancements to customer management and implementation of a management information tool, such as SEM.

TEAM-ORIENTED

Close cooperation
spells success.

HIGHLY SKILLED EMPLOYEES SERVING CUSTOMERS ALL OVER THE WORLD

We make it run

Any IT solution is only as good as its implementation. It is our vision “We make it run” that motivates our employees, and it is their quality, experience and industry-specific expertise that underpin our outstanding reputation in the IT consulting world.

The quality of human capital is important to all companies. At SAP SI, however, it is more than that – it is vital to our surviving and thriving in today’s competitive IT services market. We do not earn money directly from hardware or software, but from the skills of our employees. Our offering is based on people, and their ability to ensure IT solutions live up to expectations.

Nevertheless, the difficult market conditions of the past year led to unavoidable, painful measures. Increased sales activities and cost-savings were not enough to guarantee positive development of SAP SI – for the first time in our history, we were forced to make cuts to the Company payroll.

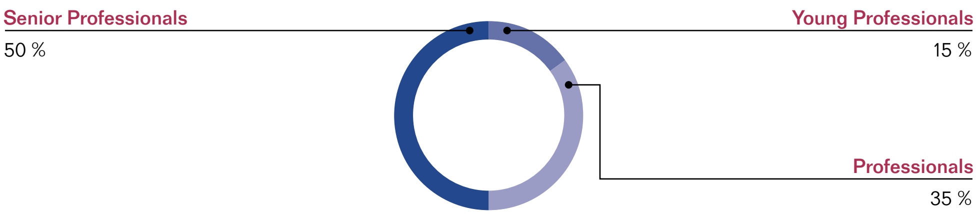
Our long-term human resources strategy, however, is geared to ensuring staff retention, to offering opportunities for continous training, and to fostering team spirit. This approach played a crucial role in SAP SI’s successful return to healthy profitability in the face of adverse market conditions.

In search of excellence

SAP SI has a broad portfolio of services, and this is reflected in the diverse skills of our consultants, allowing us to create project teams tailored to each customer's requirements. Our employees have qualifications in economics, business studies, information technology, mathematics, physics, industrial engineering, and science. About 50% of our consultants are senior professionals with at least four years' industry experience. Nearly 90% of employees boast a university degree.

A breakdown of our professionals by experience

in % / total 1,442 employees



The benchmark for prospective SAP SI employees is as high as that set for our own consulting and integration achievements. We look for staff with business and technological expertise, who have the ability to put that knowledge into practice. They need flexibility, decisiveness, creativity, as well as strong social and communication skills. And they must be mobile, with a willingness to take up challenges within the group, wherever they may be.

Working hand-in-hand for the future

We favor flat hierarchies and direct, unbureaucratic communications, with a working environment and management style based on mutual respect and recognition of achievements. SAP SI's strengths build on the credibility, loyalty and trust of our workforce. This leads to a lively and dynamic corporate culture, characterized by cooperation at all levels. We offer a challenging environment for our employees, in which they are encouraged and expected to take on responsibility. This climate of openness and trust forges strong links between the Company and its employees.

SAP SI has developed guidelines for HR management that are applied at local level. These are designed to provide employees with ample opportunity for professional and personal development. Managers use specially designed tools to analyze the potentials of each employee and to optimize his contribution to the Company's success. All new employees are enrolled in our mentoring system, whereby an experienced staff member guides them through the Company structure, culture and customer relations.

We plan to strengthen skills development for employees throughout the Company, including senior executives. Our comprehensive training programs aim to create employees who can meet the needs of customers in today's fast-moving markets. These programs focus on sales, value-based selling, IT strategy and project management.

SAP SI's ability to recruit and retain staff naturally also depends on salaries and benefits. Our remuneration package includes performance-related components that reward achievements on an individual, team, and division basis. Nearly all employees signed up to our convertible bond program.

Our employees also benefit from our links with SAP. By participating in the SAP Group's pension plan, employees of SAP SI companies can secure an attractive pension program in later life.

Talking the same language

Internal communications are an essential part of our corporate culture. Timely, transparent bulletins and updates are part and parcel of an open, cooperative working environment and flat hierarchies. Employees are kept informed through electronic means and hardcopy documents. Members of the Executive Board and other senior managers meet with employees regularly to answer questions and explain Company strategy. The works council and other employee representatives are fully integrated into internal communications channels.

Every two years, we survey the entire SAP SI workforce at all levels. Analysis of the results allows us to identify weaknesses at an early stage, and provides valuable feedback on the effectiveness of measures already taken to enhance SAP SI's corporate culture.

RELIABLE

Reliable, timely and transparent reporting are central to our investor relations policy.

TRANSPARENT COMMUNICATIONS PROMOTE TRUST

General stock market trends

Global financial markets were under sustained pressure throughout 2002. The general slowdown of the world economy caused share prices to fall for most of the year, but in particularly during the first three quarters. The situation was further compounded by the global political and economic implications of accounting scandals in the USA, conflict in the Middle East, and the Iraq crisis. Shares only began to bottom out in the fourth quarter of the year.

The German stock market was particularly disappointing, with indices hitting record lows in the second half of the year. The weak economy was mirrored on Germany's DAX index, which posted its worst performance for 50 years in the third quarter (-36%). Over the year, the DAX fell 43.9%. Stock markets were characterized by high volatility and low trading volumes throughout the year. Companies quoted on Deutsche Börse's Neuer Markt suffered from shaken investor confidence as a result of insolvencies and scandals in the New Economy.

SAP SI share price affected by stock market and business performance

The Company share price could not buck the stock market trend in 2002. An increasing unwillingness of customers to invest in IT systems and services led to growth forecasts throughout the industry being revised downwards. This in turn put pressure on tech stocks. In July, the weak development of the market culminated in us lowering our 2002 revenue and earnings targets. As a result of both factors, the SAP SI stock price fell, but recovered slightly toward the end of the year.

SAP SI stock closed at €22.40 on the first day of Xetra trading in 2002. By January 9, it had already reached its 2002 high, closing the session at €25.10. Against a background of sluggish growth in the economy as a whole, coupled with July's downward revision of 2002 guidance figures, SAP SI shares fell sharply over the year, hitting a 2002 low of €5.68 on October 7. As a result of improving stock market sentiment, and spurred on by signs of improvement in Company earnings, which became apparent in the SAP SI third-quarter report, Company shares recovered in the fourth quarter to close the year with a Xetra listing of €8.90.

SAP SI stock performance in comparison with relevant indices

Jan. 2, 2002 = 100

The Company share price lost around 60% of its value in 2002. This was largely in line with the NEMAX IT Services index, which fell 57% over the year. The NEMAX50 slid around 69%.

In mid-year, the Neuer Markt's image problems led to the Company giving serious consideration to leaving this Deutsche Börse segment, despite the fact that SAP SI was one of the segment's solid growth stocks. Against the background of a consolidation process, and the decision of Deutsche Börse AG (DBAG) to introduce a new segmentation, SAP SI decided in July to persevere with a Neuer Markt listing.

New segmentation of the German stock market

In November 2002, DBAG decided to introduce a new segmentation of the German stock market, effective January 1, 2003. Two new segments were created for listed companies: General Standard and Prime Standard. The Neuer Markt is scheduled to close on December 31, 2003.

Companies seeking listing on the Prime Standard are required to meet higher transparency and disclosure criteria than the legal minimum. These higher hurdles are intended to bring the market in line with international standards. SAP SI applied for entry to the Prime Standard on December 12, 2002, and was admitted by DBAG on December 27.

SAP SI share information

Code	501 111
ISIN	DE0005011118
Symbol	SSI
Stock type	Common stock (bearer shares)
Number of shares	35,800,000
Free float as of December 31, 2002	32.1 %
Initial public offering	September 13, 2000
Stock market	Neuer Markt, Frankfurter Stock Exchange, Prime Standard (since January 1, 2003)

Stock development in fiscal 2002

Closing price, first trading day 2002 (XETRA)	€ 22.40
Closing price, last trading day 2002 (XETRA)	€ 8.90
2002 high (XETRA)	€ 25.10
2002 low (XETRA)	€ 5.68
Stock performance in 2002	- 60.3 %
Average 2002 market capitalization	approx. € 475 million
Average 2002 daily trading volume	68,606 shares
Earnings per share	€ 0.41
Price/earnings ratio as of December 31, 2002	21.7
Price/cash flow ratio as of December 31, 2002	15.3

As part of the new segmentation, DBAG is also restructuring its index family. Below the level of the DAX, which will remain unaltered, a distinction will be made between traditional and technology-led industries. For reasons of continuity, the NEMAX50 will be calculated for existing Neuer Markt companies until the end of 2004. However, companies listed on the NEMAX50 index will, in fact, also be part of the new index world as of March 24, 2003. From this date, SAP SI is to be included on the new TecDAX index. The TecDAX will comprise the 30 largest Prime Standard tech stocks, and will become the main point of reference for international investors with regard to German technology companies.

Investor Relations

Transparent and timely communications – be it with analysts, investors or media representatives – is paramount. This was particularly important in such a turbulent stock market year as 2002.

The Company entered into intensive dialog with analysts and institutional investors at around 130 one-on-one and group meetings. The Executive Board presented the Company to Europe's most important markets at six roadshows, as well as providing information on strategy and business development during a series of conference calls. In addition, we also attended several analyst and investor events during 2002. Coverage on SAP SI stock is now provided by around 20 national and international investment banks and financial institutions, and more than 50 SAP SI share studies were published in 2002.

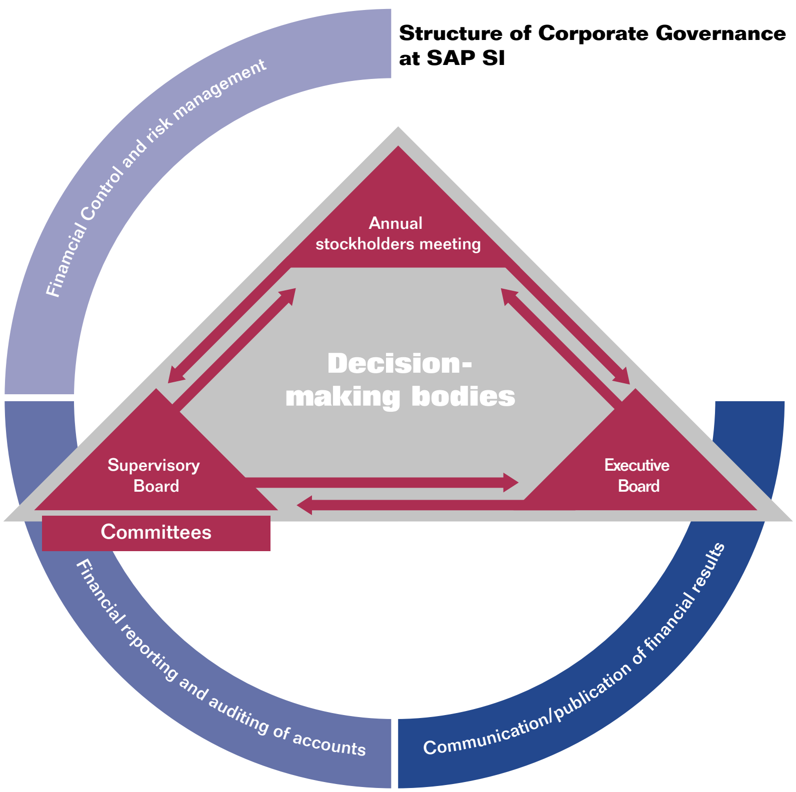
As part of efforts to improve online investor relations, we have enhanced our Web content to provide stockholders and potential investors with comprehensive information on the Company and its stock. Parts of the May 2002 annual stockholders' meeting were broadcast live over the Internet; and we plan to exploit the Internet more extensively as a medium for financial communications.

In July of the same year, German business weekly Focus Money voted SAP SI Company of the Year in the "NEMAX50 category". The 2001 results of the top 205 German corporations were analyzed, and their annual reports rated for transparency and quality of information. This is testimony to our efforts to ensure transparent, investor-oriented financial communications.

Stockholder structure

SAP SI had 35,800,000 shares outstanding during fiscal 2002, unchanged from the previous year. At the beginning of fiscal 2002, SAP AG held a 60.4% stake, and Software AG a 11.4 per cent stake in SAP SI capital stock. Free float accounted for 28.2%. Software AG reduced its stockholding to below 5% on June 28, 2002. This took free float, including the remaining stock held by Software AG, to 39.6% of total capital stock. At the close of the fiscal year, SAP AG remained the sole major stockholder in SAP SI, with a 67.9% stake, taking free float to 32.1% on December 31.

Structure of Corporate Governance at SAP SI



CORPORATE GOVERNANCE

Corporate Governance entails responsible management and supervision of publicly listed stock corporations, effective cooperation between the Executive Board and Supervisory Board, and due consideration of stockholders' interests. A further key aspect is open and transparent corporate communications.

SAP SI saw the publication of the German Corporate Governance Code as an opportunity to review internal rules for the Supervisory Board, Executive Board and annual stockholders' meeting. It also took a fresh look at other areas of Corporate Governance, including financial control, risk management and financial communications. The review painted a predominantly positive picture of Corporate Governance at SAP SI, revealing only few areas with room for improvement. The opposite diagram shows a breakdown of SAP SI´s Corporate Governance systems and processes.

In December 2002, the Executive and Supervisory Boards of SAP SI submitted the first Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz). There were five documented departures from the recommendations of the code, further details of which are given in the consolidated management report and management report on page 51. The Declaration of Compliance can be found online at www.sap-si.com/company/corp_gov/.

Decision-making bodies

In line with the German Corporate Governance system, SAP SI's Corporate Governance structure separates executive and supervisory tasks by delegating them to two distinct bodies - the Executive Board and the Supervisory Board. The third decision-making body described in the German Stock Corporation Act is the meeting of stockholders, by means of which the stockholders exercise their rights.

Executive Board

The Executive Board is responsible for the day-to-day management of the company, and must at all times act in the interests of the company, and of shareholder value. The tasks of the Executive Board include SAP SI's strategy, planning and corporate budgeting, and overseeing the work of company divisions and business units. It is responsible for the quarterly, annual, and consolidated financial reports, and appoints key positions within the company. The Executive Board collaborates closely with the Supervisory Board, giving regular, in-depth updates on relevant issues. Details of members of the Executive Board can be found in the notes to the consolidated financial statements on page 78.

The activities of the Executive Board are defined according to rules of procedure (terms of reference) laid down by the Supervisory Board in accordance with the German Corporate Governance Code.

Supervisory Board

The SAP SI Supervisory Board's primary tasks are advising and supervising the SAP SI Executive Board. In Germany, the number of members and composition of supervisory boards depend on the size of the company. The Supervisory Board of SAP SI currently has six members – four are elected by stockholders, and two by employees. Members of the Supervisory Board hold office until 2006.

Made up of its own members, the Supervisory Board of SAP SI has formed two committees, (members of the Supervisory Board and its committees are listed on page 78). The Compensation Committee has three members, and is responsible for the signing of, changes to, or termination of Executive Board contracts of employment, as well as for the remuneration of the Executive Board. The Audit Committee, meanwhile, also consists of three members, with responsibility for matters concerning financial accounting and reporting. It defines priorities for audit of the annual and consolidated financial statements.

Compensation of Supervisory and Executive Board members

The Executive Board remuneration package consists of fixed and variable components, which together make up target annual income. Basic remuneration is paid in fixed monthly installments, with complementary performance-related bonuses. Compensation of Supervisory Board members is at a fixed rate. Further details on compensation levels for members of the Executive Board and Supervisory Board can be found on page 78.

Conflicts of interest

Members of the Executive Board must declare all possible conflicts of interest to the Supervisory Board. For the duration of their period of office, Executive Board members are subject to a total embargo on activity that competes with SAP SI. The prior approval of the Supervisory Board is required before they may take seats on the supervisory boards of other companies, or engage in activities liable to result in a material gain of any kind from association with SAP SI Group companies – for themselves, their relatives, their business associates, or any other related party.

Members of the Supervisory Board must declare to the Chairman of the Supervisory Board all possible conflicts of interest that could arise from consulting work, or from serving on decision-making bodies of other companies. Any contracts for consulting or services with SAP SI Group companies must be first approved by the Chairman of the Supervisory Board.

Annual stockholders' meeting

SAP SI stockholders exercise their rights at the annual stockholders meeting, which takes decisions on all matters for which it is given responsibility under legislation. These include distribution of earnings, formal approval of the actions of the Executive and Supervisory Board, election of independent public accountants, and changes to the Articles of Incorporation. The annual stockholders' meeting is held in the first five months of the fiscal (calendar) year. Stockholders must be given one month's notice of the venue and date of the meeting of stockholders, as well as the agenda and proposed resolutions. Each stockholder is entitled to vote in person, to nominate a proxy, or to allow SAP SI's nominated proxy to vote in accordance with their instructions. There are equal voting rights for all shares.

The date of the annual stockholders meeting is published in the Financial Calendar, the annual report, and the quarterly reports.

Observance of stockholder rights

SAP SI observes the rights of its stockholders. By appointing one or more representatives to exercise stockholders' voting rights in accordance with their instructions, the company ensures that stockholders can express their views when not personally present at the annual stockholders' meeting. In recognition of the increasing importance of the Internet, the annual stockholders' meeting shall be available as a Webcast. The outcome of votes taken, or changes to the articles of incorporation, shall also be made available online.

In communicating information to parties outside the company, SAP SI has regard to the principles of transparency, timeliness, openness, clarity, and appropriate, equitable treatment. This includes a timely provision of financial information.

Accounting standards and audit of financial statements

SAP SI prepares its financial statements according to US GAAP (United States Generally Accepted Accounting Principles). To meet German commercial and tax law requirements, accounts were also drawn up according to the requirements of the German Commercial Code (HGB). In accordance with HGB, the annual accounts must give a valid picture of the true state of the company, relating to its assets, finances and earnings situation. SAP SI's financial statements are drawn up each year by the Executive Board, examined by the auditors, and examined and approved by the Supervisory Board.

Further information pertaining to the accounting principles applied can be found in the notes to the consolidated financial statements on page 57 onward, and in the management report on page 44 onward.

Financial control and risk management

The Executive Board is responsible for ensuring that the risk management system at SAP SI is in place and continuously developed.

The SAP SI risk management system comprises the following elements:

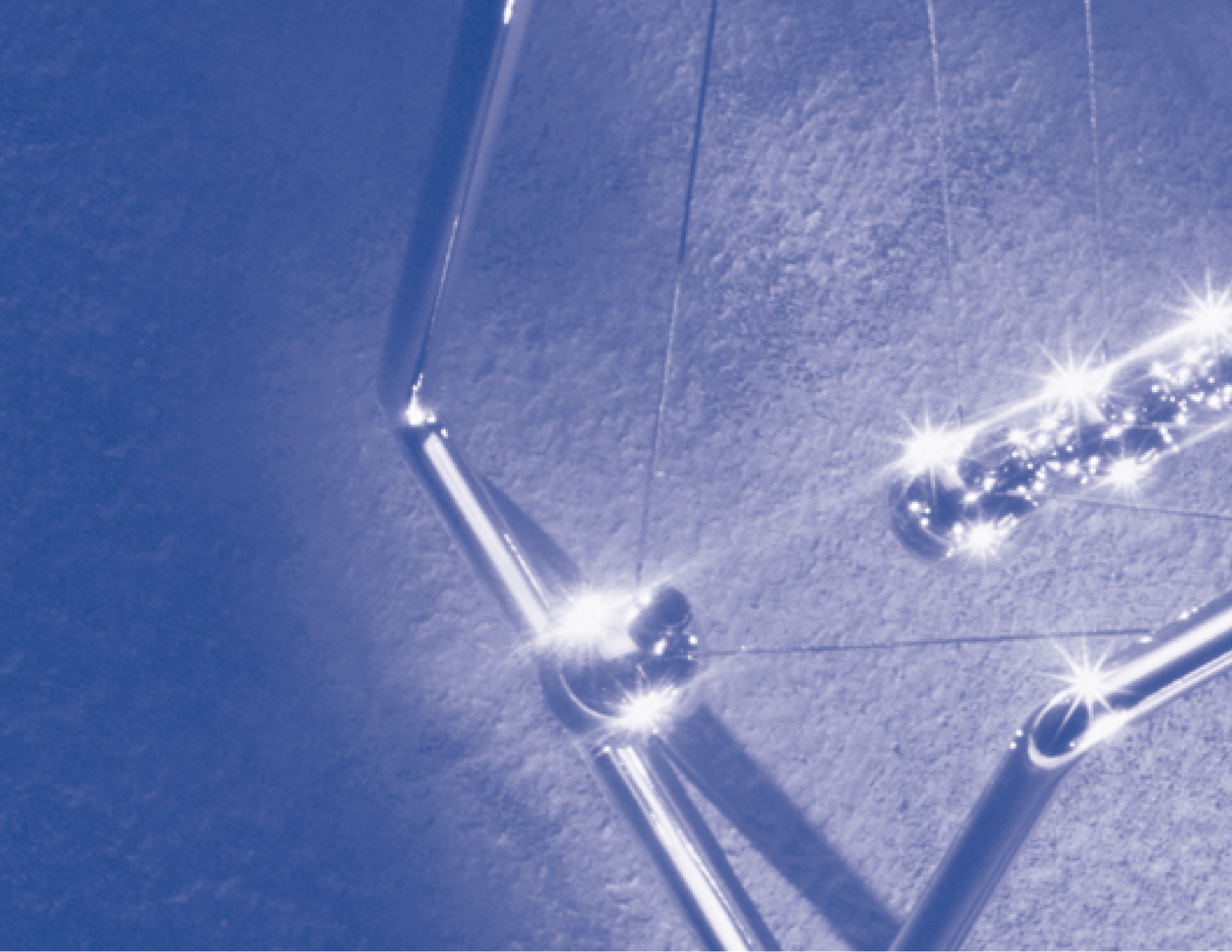
- The rules of procedure (terms of reference) laid down by the Supervisory Board for the Executive Board.
- Approval procedures laid down by the Executive Board for divisions and business units.
- An annual budget, approved by the Supervisory Board, and including a description of company strategic planning.
- Monthly reporting on the operations of SAP SI divisions and business units, for the identification, monitoring and effective control of relevant risk.

The primary purpose of the risk management system is avoiding risks that could endanger the Company's long-term viability, and leveraging opportunities for systematically increasing the value of the company. The risk management system establishes guidelines, responsibilities, and business processes in such a way as to ensure correct and timely reporting of all transactions, providing early warning of risks and opportunities, as well as up-to-date information on the financial position of the company.

In the industry in which we operate, risk is unavoidable. Details of the risks in current and planned business activities can be found on page 50.

Communication and publication of financial results

SAP SI has a policy of timely and open communications with institutional and private investors, analysts, and the media. Results are published at regular intervals in the form of quarterly reports, press releases, and the annual report. Reports and presentations, the performance of SAP SI stock, a comprehensive financial calendar, and other key information on the company can be found on the SAP SI Website at http://www.sap-si.com/investor/basics.



EFFICIENT

An effective business model is reflected in the company's results.

CONSOLIDATED MANAGEMENT REPORT AND MANAGEMENT REPORT OF SAP SYSTEMS INTEGRATION AG (SAP SI)

Highlights

- Revenue growth of 9.1 %
- Operating profit margin before restructuring costs of 11.3 %
- Significantly improved financial situation in the second half-year, thanks to strict cost control and adjustment of staffing levels
- Strong growth and increased profitability at SAP SI America and successful integration of COPA GmbH
- Significant expansion of outsourcing and application services

Preliminary remarks

SAP SI prepares its financial statements according to US GAAP (United States Generally Accepted Accounting Principles). To meet German commercial and tax law requirements, accounts were also drawn up according to the requirements of the German Commercial Code (HGB).

On January 1, 2002, SAP SI adopted the provisions of SFAS (Statement of Financial Accounting Standard) 142, "Goodwill & Other Intangible Assets". As of this date, goodwill is no longer amortized, but tested for impairment on an annual basis. To allow effective year-on-year comparison, figures for 2001 are also presented without amortization of goodwill. Further details on the impairment test carried out in fiscal 2002, can be found under note (4) in the consolidated financial statements.

Until December 31, 2001, COPA was valued at equity. Since January 1, 2002 – following SAP SI increasing its stake in the company from 25.1% to 50.1% – COPA has been fully consolidated in SAP SI financial accounts. The effects of the initial consolidation of COPA are shown in the statement of cash flows under "changes to net cash from financing activities".

Figures for 1998, 1999 and 2000 are based on as-if-merged financial statements for these years.

The management report gives information on the development of the Company. As well as analyzing the income statements, it explains the relevant accounting principles and SAP SI's risk management system.

Economic context

General economic climate

The global economy improved slightly in 2002. According to the Kiel Institute for World Economics (IfW), real GDP (gross domestic product) in the industrial nations rose 1.4% in 2002, after a 0.7% increase in 2001. However, growth was not evenly distributed, with GDP rising 2.4% in the USA (0.3% in 2001), but only 0.8% in the eurozone (1.4% in 2001).

According to preliminary calculations by Germany's Federal Statistical Office, GDP growth in the country was near flat in 2002, rising just 0.2%. This leaves SAP SI's primary market lagging far behind other industrial countries. According to IfW, the German economy is not likely to recover in the first half of 2003, with only moderate GDP growth forecast for the second half of the year. IfW expects full-year real GDP growth to reach 1.0%.

IT industry developments

Following the IT boom of recent years, the industry has been hit particularly hard by the global economic downturn. After moderate growth in 2001, the fresh impetus forecast for 2002 never transpired. According to Gartner Dataquest, the global IT services market only grew 2.8% over the year. Throughout the course of 2002, research institute IDC cut its full-year growth forecasts for the entire IT industry from 6.1 to 1.5%.

The German IT services sector significantly underperformed the global market in 2002. According to research by IT industry association BITKOM, the market contracted by 0.3%. Analyst group Pierre Audouin Conseil went so far as to put the fall at 4.0%. The extent of the decline took everyone by surprise, with research organizations being forced to lower forecasts several times during the year, and an increasing tendency to consolidation on the IT services market.

The consensus of research suggests there will be a slight recovery on international level in 2003. While IDC expects the global IT services industry to grow 4.0 % over the year, Gartner Dataquest puts the figure at 6.8 %. The German market is not likely to grow this year: PAC forecasts only 1.0% growth, BITKOM believes the market will decline by 0.3%.

In spite of zero growth expectations for the German IT services sector as whole, there are still areas where IT analysts forecast significantly increased demand for the years until 2006. According to PAC, systems integration and EAI/XI have 30% average annual growth potential, with 25% for Portals and Web Enablement, 15% for Business Intelligence, and more than 10% for outsourcing. Investment in 2003 is likely to take the form of optimization and enhancement of existing IT environments, with only sluggish uptake of new technologies. As a systems integration expert, SAP SI is well placed to profit from this trend.

SAP SI Group business development according to US GAAP

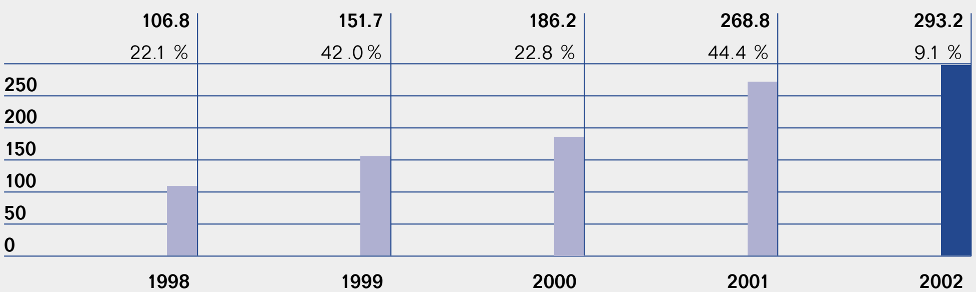
Revenue development

Against the background of a weak economy, SAP SI 2002 revenue was up 9.1% on 2001, rising from €268.8 million to €293.2 million. COPA, included for the first time in the consolidated financial statements in fiscal 2002, contributed €22.7 million to group revenue. Revenue from SAP SI America, meanwhile, rose 49.4% – from €23.9 million to €35.7 million.

The following graph shows the development of revenue over the past five years:

Revenue development

in € millions / change year to year

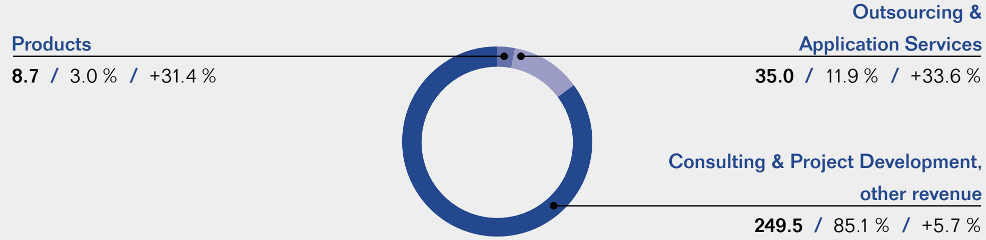


Software license sales and maintenance revenue increased 31.4 % to €8.7 million; outsourcing and application services revenue jumped 33.6% to €35.0 million; and services revenue rose by around 6.3% to €246.9 million.

The following pie charts show the distribution of revenue, according to region and segment:

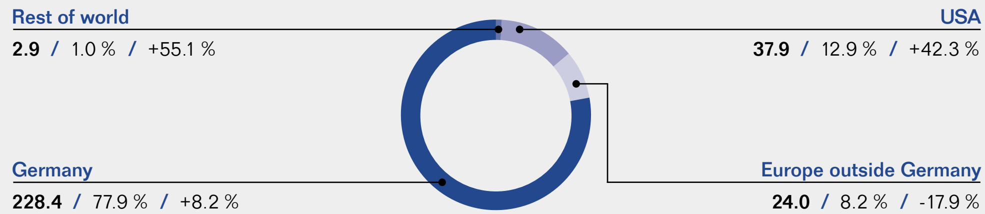
Distribution of revenue

in € millions / percent / change year to year



Distribution of revenue according to region

in € millions / percent / change year to year



SAP SI's fees for consulting services fell slightly during 2002.

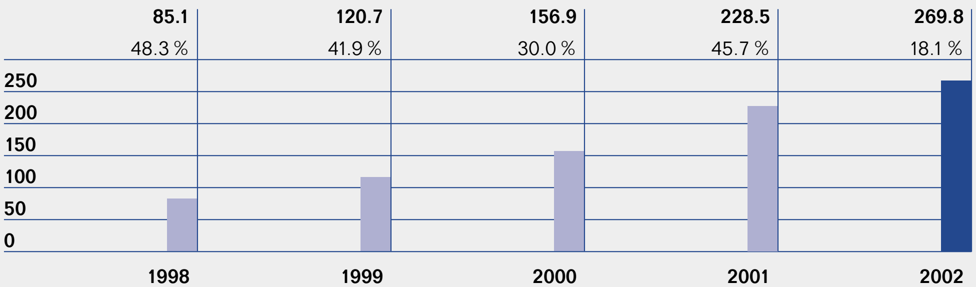
Costs

Operating costs including exceptional items (such as restructuring costs) and the initial consolidation of COPA rose 18.1% to €269.8 million (€228.5 million in 2001). Excluding COPA, costs increased 9.3% to €249.8 million. In Germany and Switzerland, SAP SI's core markets, operating costs were up 7.3% to €217.7 million (€202.9 million in 2001).

Costs developed over the past five years as follows:

Operating cost development

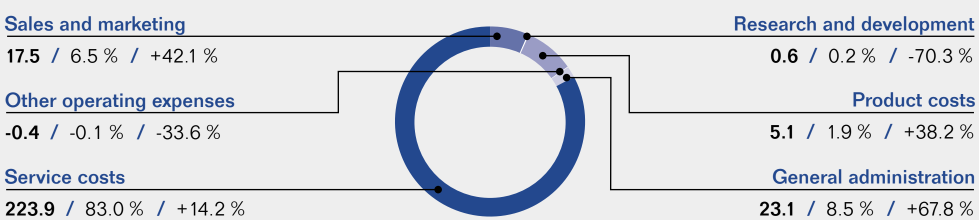
in € millions / change year on year



Restructuring expenses of €9.8 million, largely a result of moves to bring staffing capacity in line with the changed market environment, made a significant contribution to the increase. Of the €9.8 million, €8.2 million was incurred in Germany/Switzerland, and €1.6 million at SAP SI America (USA). Adjusted for restructuring expenses, costs in Germany/Switzerland rose 3.3% to €209.5 million.

Breakdown of operating costs

in € millions / percent / change year to year



Consulting is the Company's core business area, and it accounted for the majority of operating costs in 2002. Service costs amounted to 83.0% of total operating costs (85.8% in 2001), and include €6.8 million restructuring expenses. When adjusted for restructuring expenses, operating costs rose 10.7% on 2001.

An increase in sales and marketing activities saw costs in this area rise 42.0% from €12.3 million to €17.5 million. This increase in costs can largely be traced back to the expansion of our sales organization.

General administrative costs rose 67.9% to €23.1 million in 2002, up from €13.8 million the previous year. The lion's share of this increase is attributable to restructuring costs, the first-time inclusion of COPA GmbH in consolidated financial statements, and other exceptional items. These include the introduction of a new Business Intelligence system and payments to external consultants.

In fiscal 2002, as in 2001, payroll and related expenses accounted for the majority of SAP SI Group expenditure and increased 20.6% from €131.1 million to €158.2 million, accounting for 58.6% of total expenditure. The main reasons for the increase were the higher average payroll (primarily from the initial consolidation of COPA) and restructuring measures implemented during the year.

Volumes of external consulting services fell 19.0% on 2001.

Research and development

In fiscal 2002, research and development costs of €0.6 million (€2.0 million in fiscal 2001) arose from the development of the company's own software products. This consisted largely of payroll and related expenses, and mainly resulted from development work on the Company's REA (recycling administration) software solution.

Income

Operating profit and interest income

Operating profit reached €23.4 million in 2002. This represented a 41.9% decline on the previous year (€40.3 million), largely due to the reduced consulting workload in certain areas, the difficult market situation and consequent restructuring measures, as well as other exceptional items. Adjusted for restructuring costs, operating income was €33.2 million, with an 11.3% operating profit margin (15.0% in 2001).

in € millions	2002	2001	Δ in %, %-points
Revenue	293.2	268.8	9 %
Operating profit	**23.4**	**40.3**	**-42 %**
as a percent of revenue	8.0 %	15.0 %	7.0 PP
Restructuring costs	9.8	0	N/A
Operating profit before restructuring costs	**33.2**	**40.3**	**-18 %**
as a percent of revenue	11.3 %	15.0 %	3.7 PP

Reconciliation from operating income to consolidated net income and earnings per share

In the following table, goodwill amortization included in published financial statements for 2001 has been eliminated to allow effective comparison of the two fiscal years:

in € millions	2002	As-if 2001	Δ in %
Operating profit	23.4	40.3	58 %
-(+) Other expenses/income	-0.5	0.5	N/A
= EBIT	22.9	40.8	56 %
+ Financial income	3.3	4.8	70 %
= Income before tax	**26.2**	**45.6**	**58 %**
- Income tax	-10.6	-17.9	59 %
- Minority interest	-0.8	0.0	N/A
= Consolidated net Income	**14.8**	**27.7**	**53 %**
Undiluted earnings per share	0.41	0.77	53 %
Diluted earnings per share	0.41	0.77	54 %

Diluted earnings per share are calculated using the treasury stock method, which takes into account convertible bonds issued at the balance-sheet date. The average market price of SAP SI stock in 2002 was €13.31, and therefore below the average exercise price of €18.92. As a result, there was no dilutive effect on stock during the year. The dilutive effect in 2001 was €0.002, due to an average market price of €20.60, compared with an average exercise price of €18.99.

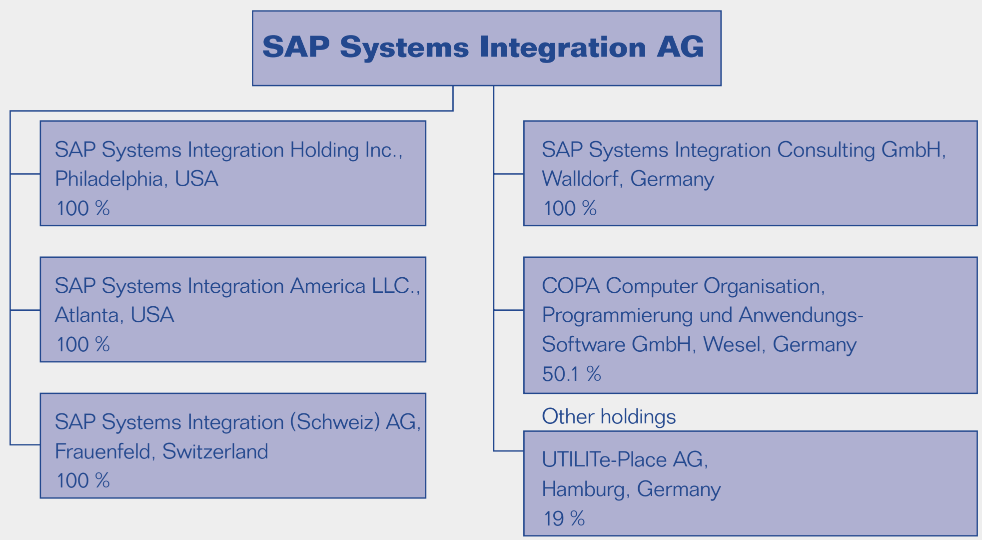
Financial income was €3.3 million in 2002 (€4.8 million in 2001), mainly from the investment of IPO proceeds and from the investment of retained earnings. The decline on the previous year resulted from €0.7 million write-downs on financial assets, as well as lower interest rates.

Income before tax was €26.2 million in 2002 (€45.6 million in 2001). The income tax burden was €10.6 million (€17.9 million in 2001), representing a tax rate of 40.3 % (39.2 % in 2001). This slight increase was due to the expiry of deferred tax assets on net loss operating carryforwards at SAP SI America, which had served to lower the tax burden in 2001.

'Minority interest' referred exclusively to the COPA stakeholders that sold stock in the company to SAP SI as of January 1, 2003. This totaled 49.9% of total COPA share capital.

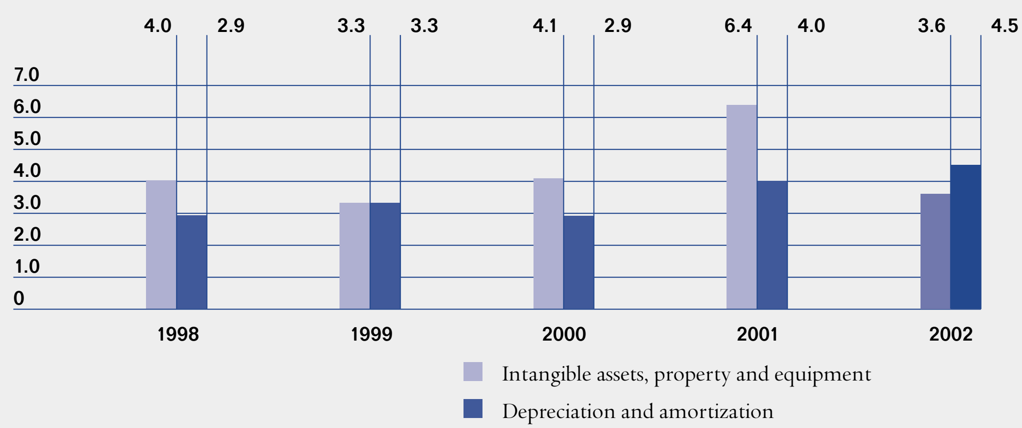
Despite a difficult fiscal 2002 for SAP SI, the Company posted consolidated net income of €14.8 million, with undiluted earnings per share of €0.41 (€0.77 in 2001).

Holdings as of December 31, 2002



Capital investment

in € millions



Assets and financial situation according to US GAAP

Balance sheet: equity-to-total-assets ratio of 78%

The Company had total balance-sheet assets of around €306.5 million in 2002 (€295.5 million in 2001). The change was a result of an increase in other current assets, primarily from tax refund claims (€10.0 million), as well as an increase in liquidity (€9.3 million). This was offset by a reduction in receivables from goods and services (-€6.0 million) and receivables from affiliated companies (-€4.1 million).

SAP SI had 64 days' sales outstanding at the end of fiscal 2002 (69 days in 2001).

Cash and cash equivalents increased by €9.3 million to €135.7 million (€126.4 million in 2001), largely thanks to an increase in operating cash flow.

In comparison with the previous year, stockholders' equity increased by €13.1 million, with an equity-to-total-assets ratio of 78% (77% in 2001).

Capital investment

In the course of fiscal 2002, SAP SI invested €3.6 million, including €1.1 million in intangible assets. Investments in property and equipment consisted mainly of hardware purchases (€1.2 million) and office equipment (€0.7 million).

The following table gives an overview of capital investment (excluding goodwill) over the past five years:

Capital investment fell 45% year on year, due to a temporary investment freeze in 2002, part of our savings program. The freeze had no noticeable effect upon operations. Essentially resulting from capital investments made in 2001, amortization and depreciation were €0.5 million higher in fiscal 2002.

Statement of cash flows

Net cash from operating activities amounted to €15.1 million in 2001, and mainly comprised retained earnings.

Net cash used in investing activities totaled €-5.7 million, mainly stemming from capital investments (€-3.6 million), as well as the initial consolidation of COPA into group accounts (€-1.9 million).

Net cash used in financing activities mainly consisted of dividend payments to minority stockholders in COPA, and effects of the consolidation of COPA equity.

Including currency effects arising predominantly from the development of the US dollar, net cash rose €9.3 million over the reporting period, from €126.4 million at the beginning of fiscal 2002 to €135.7 million as of December 31, 2002.

High reserves of cash and cash equivalents ensure SAP SI great financial flexibility. In addition to cash in hand, SAP SI currently has lines of credit totaling €12.2 million, of which €2.5 million is in bank guarantees.

Contractual obligations

SAP SI's most important contractual obligations stem from the terms of our operating lease contracts, including tenancy agreements and bank guarantees. Further details on costs and their breakdown can be found in note (32) to the consolidated financial statements.

Acquisitions

SAP SI's strategy is profitable, long-term expansion – both through organic growth and carefully targeted acquisitions. In November 2001, SAP SI decided to increase its stake in Germany's COPA Computer Organisation, Programmierung und Anwendungs-Software GmbH (COPA), headquartered in Wesel, to 100%. The acquisition took the form of three tranches: SAP AG's 25.1% stake in COPA, held since 2000, was transferred to SAP SI in December 2001. On January 1, 2002, the Company purchased the 25.0% stake held by COPA's managing director, and on January 1, 2003, acquired the remaining 49.9%. As a majority shareholding (50.1%), COPA has been fully consolidated in Group accounts since January 1, 2002.

The international IT consulting enterprise has been providing solutions for large and mid-size companies in the beverages industry for some 20 years. As an SAP partner, COPA has been involved in designing, developing and piloting the SAP solution for this industry. Together, SAP SI and COPA aim to provide beverages manufacturers and bottling companies in Germany and elsewhere with effective end-to-end support for the implementation and integration of SAP solutions.

Unconsolidated results for SAP SI AG according to HGB

The Company's annual financial statements drawn up according to the German Commercial Code (HGB) indicate revenue of €238.2 million for 2002 (€238.0 million in 2001). Payroll and related costs rose 17.5% to €135.8 million, as a result of restructuring costs and increased average payroll. Greater deployment of in-house staff saw costs for external services fall from €34.9 million to €26.4 million. Operating costs, meanwhile, fell 61% to €11.9 million – again primarily a result of reduced capacity utilization in certain areas, and €8.2 million restructuring costs. SAP SI posted €10.4 million net income in 2002, after €26.8 million in 2001.

Total balance-sheet assets rose €7.4 million (3%) to €234.6 million over the year, mainly due to a €3.5 million rise in cash and cash equivalents, as well as €3.5 million growth of deferred tax assets. A €10.4 million increase in other current assets was offset by a €13.1 million decrease in receivables. The equity-to-total-assets ratio for 2002 was 72.3%, with net income increasing stockholders' equity by €10.4 million over 2001.

At the annual stockholders' meeting on May 22, 2003, the Executive Board and Supervisory Board shall propose that 2002 the Company´s net income (retained earnings) of €47.3 million be carried over into the next reporting period.

Employees

Employee development

In the face of declining order books, many IT consulting firms have been forced to slim payrolls over the past year. While this has taken some of the pressure off the otherwise over-stretched IT employment market, recruitment of highly skilled specialists and experienced consultants remains problematic. A study by IT industry association BITKOM confirmed the trend, revealing that one in seven companies cannot find the IT experts they require. According to current growth forecasts, significant change is not expected from the IT employment market over the coming twelve months. In the mid-term, however, BITKOM believes that the industry can once again become a major driver of new employment.

The SAP SI payroll, inclusive of COPA, totaled 1,744 as of December 31, 2002. Employees were distributed as follows: 1,478 in Germany and Switzerland (1,540 as of December 31, 2001), 108 at SAP SI America (unchanged), and 158 at COPA. The difficult market conditions of the past year and resulting low workload in certain areas meant that, for the first time in our history, we were forced to shed 160 jobs as part of a restructuring program. As of December 31, 2002, and excluding COPA, Company payroll was 3.8% lower than the previous year, down from 1,648 to 1,586. As of this date, a further 99 employees left the Company or had been released pending termination of their employment contract. Employee turnover reached 14.5% in 2002, after 11.4% in 2001. Adjusted for restructuring measures, the figure was 7.6%.

The 2002 figure for revenue per employee slipped in comparison to the previous year from €175 thousand to €161 thousand. Costs per employee remained unchanged on 2001 at €148 thousand.

Education and experience

SAP SI has a highly skilled and educated workforce, as befits the demands of our client base. Approximately 87% of our 1,744-strong workforce have a university degree, mostly in a business studies or technology-related field.

Consultants make up by far the largest group of SAP SI employees (82.7%). The remainder work in administration (7.1%), management and secretariat (6.1%), and sales and marketing (4.1%). The average age of employees across the group is 37.2. Around half of our consultants have at least four years' experience, a further 35% have at least two years' experience in their specialist field.

Due to high levels of skills and qualifications, an experienced team of consultants, a healthy average age and high consultant quote, our employee structure is ideally suited to the IT consulting world. We consider that SAP SI is well placed to thrive in today's market, and to win major, challenging projects.

Trainee programs

The FIT program for new recruits to the SAP SI team is especially oriented to our graduate intake, as well as to professionals joining with qualifications in non-IT disciplines. The ten-week program begins with a core module, completed by all employees. This is followed by specialist modules tailored to individual job requirements. We have also implemented a leadership training program for managerial staff, with greater focus on strategy.

In addition to the thorough training received before commencing employment with the Company, a rigorous on-the-job training program ensures the continued adaption of important new skills. This ensures that young professionals who join the company are constantly challenged and stretched in preparation for future responsibilities.

Risks and uncertainties

SAP SI is exposed to risks relating to its consulting and outsourcing activities. The Company has taken a number of steps designed to enable it to timely identify risks and to take appropriate counteraction. However, SAP SI can give no guarantee that every risk will thereby be identified and neutralized. This is partly due to the fact that not every risk lies within SAP SI's sphere of influence. Events that occur as a result of such risks can alter or invalidate the assumptions on which management has based its expectations of business developments, and can endanger forecasts of revenue and income.

Dealing with business risk is one of the responsibilities of SAP SI's management. Various reporting and control processes are used to assess, monitor and manage risk. During fiscal 2002, SAP SI's risk management system, which incorporates all essential elements of risk management, was expanded. Besides avoiding inappropriately high risks, SAP SI 's specialized risk management instruments aim primarily at identifying, valuating and controlling risk, as well as identifying and exploiting opportunities. The risk management instruments deployed by SAP SI (e.g. early warning indicators leading to appropriate action) and the frequency and intensity of checks vary with the type of risk. SAP SI's risk management activities are continually reviewed and adapted to accommodate changing business conditions.

SAP SI foresees no risks of significant probability that could threaten the company's existence. Other significant risks are detailed below.

- A significant deterioration in general economic conditions could negatively influence SAP SI's revenue and earnings.
- Today's consulting markets are highly competitive – in particular with regard to the quality and price of services. The current economic downturn has impacted SAP SI, as can be seen by the cost-cutting and restructuring measures necessary in 2002.
- SAP SI's future success depends on its ability to recognize industry-specific developments at an early stage. To enable this, SAP SI performs ongoing analysis of customer behavior. In particular, consumer and process industries, financial services, manufacturing and service industries are key sectors for SAP SI.
- SAP SI is exposed to exchange-rate risk from its operating activities, as well as from cash holdings and other financial activities. The Company hedges against this risk by means of forward exchange contracts.
- SAP SI's large cash holdings mean that significant volumes of variable interest-rate investments are exposed to interest-rate and reinvestment risk. To meet this risk, SAP SI has deployed a treasury management system, enabling it to respond rapidly to interest rate changes.
- SAP SI reduces the risk of unrecoverable receivables by only working for customers of exceptionally good credit worthiness. Moreover, our broad client base ensures further diversification of risk. In order to better control this class of risk, we took steps in 2002 to improve the way we manage receivables.
- SAP SI's outsourcing activities involve data transfer and data processing and are therefore open to the risks that such activities typically entail. SAP SI has implemented comprehensive measures to guard against risks such as diminished quality of service or downtime.
- SAP SI is insured against claims for damages, including claims under liability law. The Company's insurance cover is regularly reviewed and updated to exclude or at least minimize the potential negative financial consequences of such risks.

In common with every enterprise, SAP SI faces management risks. To mitigate these, the company has implemented various measures, including internal reporting structures with detailed planning and control processes, and procedures for monitoring progress toward Company goals. The Company also issues regular reports and public statements. The work of the Supervisory Board is an important component of the company 's monitoring system.

According to current assessment of risk and risk management system already in place, the risks faced by the Company are both limited in number and tolerable and the risk management system works effectively. Overall, SAP SI can state that during 2002 it proved possible to effectively combat and reduce the risks at hand both individually and as a whole.

Declaration of Compliance with the German Corporate Governance Code

The German government published the German Corporate Governance Code (hereafter "Code") in February 2002. The Code stipulates legal requirements that describe the applicable German law, as well as establishing recommendations and suggestions for Corporate Governance. SAP SI decided to deviate from the recommendations of the Code in five instances. These are described in SAP SI's Declaration of Compliance Pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz), effective as of July 2002, as follows:

"SAP SI considers the setting of an age limit for supervisory board members an inappropriate restriction of shareholders' rights to elect the members of the Supervisory Board. Therefore, SAP SI's Principles of Corporate Governance do not specify any such age limits. Similarly, SAP SI's Principles of Corporate Governance do not specify any age limits for members of the Executive Board, in contrast to the Code, because this would generally restrict the SAP SI Supervisory Board in its choice of suitable Executive Board members.

The German Corporate Governance Code recommends that no more than two former Executive Board members serve on the Supervisory Board. At present, the Supervisory Board of SAP SI does not include former members of the Executive Board of SAP SI, or of the executive boards of companies that merged to form SAP SI. Nevertheless, SAP SI considers this recommendation an inappropriate restriction of shareholders' rights to elect the members of the SAP SI Supervisory Board. Consequently, SAP SI's Principles of Corporate Governance do not contain such a regulation.

Members of the SAP SI Supervisory Board receive fixed annual remuneration that does not include a performance-related component. At the next ordinary stockholders' meeting on May 22, 2003, the Executive and Supervisory Boards intend to propose changes to Article 15 of the Articles of Incorporation, allowing performance-related compensation in addition to the fixed remuneration of members of the Supervisory Board.

SAP SI's liability insurance policy for its Executive and Supervisory Board members (directors' and officers' (D&O) liability insurance) does not specify a deductible. SAP SI does not believe that the motivation and responsibility that the members of the SAP SI Executive and Supervisory Boards have for their duties can be improved by such a deductible.

The type of stock option programs in use does not comply with the recommendations of the Code. SAP SI intends to continue using these options, but to ensure that, in future, any compensation elements of a comparable type will be in line with the German Corporate Governance Code."

The Declaration of Compliance Pursuant to Section 161 of the German Stock Corporation Act has been published and made available to stockholders. It can be found online at www.sap-si.com/company/corp_gov/

Disclosure of relationships with related companies (dependency) under German Law

SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung, Walldorf, Germany, holds over 50% of the capital stock of SAP SI. In accordance with Section 312 of the German Stock Corporation Act, the management of SAP SI has disclosed its relationships to related parties. This report was presented to the auditing accountants and to the Supervisory Board of SAP SI.

The report concludes with the following statement: "The considerations made by the company in transactions mentioned in the disclosure of relationships with related parties were not inappropriately or disproportionately high, based on the conditions known at the time of undertaking. The Company contravened Section 312 of the German Stock Corporation Act by neither commission nor omission."

Events subsequent to the balance-sheet date

SAP SI took over the remaining 49.9% stake in COPA GmbH, as scheduled, on January 1, 2003. SAP SI is now sole shareholder.

Strategy

SAP SI will continue to be one of Germany's leading systems integration companies. We will continue to offer a comprehensive portfolio of SAP services to national and international organizations: from IT strategy consulting and implementation, to operation and optimization of IT systems. Our core focus remains unchanged – integrating SAP and non-SAP systems for customers. Against this background, we plan to hone our expertise in the field of systems integration, and enhance our business within selected industries, solutions and services.

We consider that there is particular potential for SAP SI to be exploited in the banking, beverages, utilities and insurance sectors. As a result of the acquisition of international SAP specialist COPA, we have achieved a significantly enhanced beverages market position. SAP AG works together with COPA on the development of its beverages industry solution, giving SAP the benefits of COPA's industry-specific expertise, and COPA superior, timely and in-depth knowledge of new developments. Banking and insurance are among the most demanding industries in terms of IT services. Currently, banking demand is mainly focused on the integration of heterogeneous system landscapes, some of which were developed in-house, and on implementation of new legal requirements, such as those stipulated by IAS (International Accounting Standards) and BASEL II. As a systems integration specialist and SAP subsidiary, we are ideally placed to develop customer-specific IT solutions, and integrate them into the customer's IT environment.

SAP SI also has clear strengths in specific IT segments. For instance, Meta Group research has already shown SAP SI to be the service provider with the highest BI (Business Intelligence) profile in Germany. We intend to consolidate our position in this growth market. In e-business and ERP solutions, too, Meta Group found that SAP SI is the leading German service provider. We are targeting further growth in this area, spurred on by our CRM (Customer Relationship Management) and SCM (Supply Chain Management) expertise.

Company growth will not be solely organic, however – SAP SI will continue to make targeted acquisitions. We are always on the lookout for companies that could give us improved access to existing or entirely new markets or provide synergies in terms of industry-specific or technological expertise. In the USA we have an excellent and developable presence, with 108 employees, and we are actively looking for strategic acquisition targets. We shall also continue to expand our operations in the Benelux countries and in central Europe. The Company's goal is not to establish a base in every country, but to provide its customers with services from a number of regional "hubs" located in key business centers.

Outlook and forecast

While global economic and political movements are very hard to predict, we expect moderate economic growth from our core market (Germany and Switzerland) over the next year. Investment levels will be correspondingly low. Rapid, high return on IT investment will be the priority for customers. This will cause slow development of the market for IT products and services – but against the background of greater competition and price pressure.

Given our expectations for the market over the coming year an increase in profitability will once again be our primary focus in fiscal 2003.

SAP SI is in a strong market position

SAP SI took steps during fiscal 2002 to bring the Company in line with the changed market environment, as well as to further optimize its service portfolio. As of December 31, 2002, we had an order backlog of €157 million (€124 million in 2001). In 2003, we expect customers to concentrate on optimizing and enhancing existing system landscapes, with a focus on increasing return on investment. For this, customers need systems integration specialists such as SAP SI, with many years' industry-specific experience and in-depth technological expertise. In spite of challenging market fundamentals, we believe we are in a strong position, ideally placed to increase market share and consolidate our position as Germany's leading SAP integration specialist.

Consolidated income statements

in € thousands	Notes	2002	2001	As-if 2001
Software revenue		3,646	3,598	3,598
Maintenance revenue		5,063	3,032	3,032
Revenue from products		8,709	6,630	6,630
Revenue from services		246,901	232,309	232,309
Outsourcing/application services		34,991	26,182	26,182
Other revenue		2,638	3,718	3,718
Revenue	(5)	**293,239**	**268,839**	**268,839**
Product costs		-5,096	-3,691	-3,691
Service costs		-223,888	-196,137	-196,137
Research and development		-642	-2,020	-2,020
Sales and marketing costs		-17,487	-12,313	-12,313
General administrative costs		-23,114	-13,770	-13,770
Other operating expenses and income, net	(8)	425	-602	-602
Total costs	(6)	**-269,802**	**-228,533**	**-228,533**
Consolidated operating profit		**23,437**	**40,306**	**40,306**
Amortization of goodwill		0	-47,287	0
Other expenses and income, net	(9)	-536	521	521
Financial income, net	(10)	3,329	4,743	4,743
Net income before tax		**26,230**	**-1,717**	**45,570**
Income tax	(11)	-10,580	-17,865	-17,865
Net income after tax		**15,650**	**-19,582**	**27,705**
Minority interest	(12)	-836	0	0
Consolidated net income		**14,814**	**-19,582**	**27,705**
Earnings per share in €				
Earnings per share (undiluted)	(13)	0.41	-0.55	0.77
Earnings per share (diluted)	(13)	0.41	-0.55	0.77

Contents

The as-if financial statements are to facilitate comparison with previous fiscal years after the discontinuation of scheduled amortization of goodwill pursuant to SFAS 142.

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated balance sheets

ASSETS		December	December
in € thousands	Notes	31, 2002	31, 2001
Intangible assets	(14)	82,056	77,638
Property and equipment	(15)	7,668	9,052
Financial assets	(16)	1,106	4,853
Fixed assets		**90,830**	**91,543**
Inventories		**883**	**56**
Receivables from goods and services		38,479	44,457
Receivables from affiliated companies		16,542	20,613
Other current assets		20,963	10,493
Receivables and other current assets	(17)	**75,984**	**75,563**
Cash and cash equivalents	(18)	**135,719**	**126,445**
Non-fixed assets		**212,586**	**202,064**
Deferred tax assets	(11)	**1,800**	**1,631**
Prepaid expenses	(19)	**1,253**	**258**
Total assets		**306,469**	**295,496**
of which short-term		214,079	195,079

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES		December	December
in € thousands	Notes	31, 2002	31, 2001
Capital stock [1]	(20)	35,800	35,800
Additional paid-in capital	(21)	218,070	218,524
Retained earnings/accumulated loss		-13,201	-27,398
Accumulated other comprehensive income		-640	7
Stockholders' equity		**240,029**	**226,933**
Minority interest	(22)	**1,286**	**0**
Accruals for pensions	(23)	1,557	729
Other accruals	(24)	36,044	40,338
Accrued liabilities		**37,601**	**41,067**
Convertible bonds	(25)	1,210	1,303
Other liabilities	(26)	25,840	26,143
Liabilities		**27,050**	**27,446**
Deferred income	(27)	**503**	**50**
Total liabilities and stockholders' equity		**306,469**	**295,496**
of which short-term liabilities		62,387	66,947

[1] Authorized-but-unissued capital at the relevant date €1.210 thousands (previous year: €1.303 thousands)

Consolidated statements of changes in stockholders' equity

in € thousands	Thousand shares	Comprehensive income	Accumulated other comprehensive income	Retained earnings	Additional paid-in capital	Capital stock	**Total**
As of January 1, 2000	**15,339**		**-27**	**3,497**		**15,339**	**18,809**
Consolidated net income		-11,152		-11,152			-11,152
Currency translation adjustments arising from the initial consolidation of affiliates		-36					
Other comprehensive income		-36	-36				-36
Comprehensive income		**-11,188**					
Reclassification of retained earnings	161			-161		161	0
Capital contribution from merger	15,500				136,000	15,500	151,500
Issue of common stock: IPO	4,800				86,400	4,800	91,200
Net costs of IPO					-3,876		-3,876
As of December 31, 2000	**35,800**		**-63**	**-7,816**	**218,524**	**35,800**	**246,445**
Net income		-19,582		-19,582			-19,582
Currency translation adjustments arising from the initial consolidation of affiliates		70					
Other comprehensive income		70	70				70
Comprehensive income		**-19,512**					
As of December 31, 2001	**35,800**		**7**	**-27,398**	**218,524**	**35,800**	**226,933**
Net income		14,814		14,814			14,814
Currency translation adjustments arising from the initial consolidation of affiliates		-647					
Other comprehensive income		-647	-647				-647
Comprehensive income		**14,167**					
Dividend payments				-617			-617
Exceptional items from the initial consolidation of COPA GmbH					-454		-454
As of December 31, 2002	**35,800**		**-640**	**-13,201**	**218,070**	**35,800**	**240,029**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of cash flows

in € thousands	Notes	Jan 1, 2002 – Dec 31, 2002	Jan 1, 2001 – Dec 31, 2001
Net income		14,814	-19,582
Amortization of goodwill		0	47,287
Depreciation and amortization of fixed assets, long-term investments and financial assets		5,286	4,974
Write-ups of financial assets		-3	0
Changes in accruals for pensions		680	281
Changes in deferred taxes		294	135
Changes in inventories		-706	27
Changes in receivables and other current assets		6,442	-23,311
Changes in short-term accrued liabilities		-7,447	13,758
Changes in short-term liabilities		-5,033	7,858
Changes in other assets, liabilities and in stockholders' equity		803	214
Net cash from operating activities	(28)	**15,130**	**31,641**
Additions to intangible assets, property and equipment (excluding goodwill)		-3,572	-6,416
Changes in the scope of consolidation		-1,921	-11,270
Additions to financial assets		-613	-4,547
Disposals of fixed assets		359	7,577
Net cash used in investing activities	(29)	**-5,747**	**-14,656**
Dividend payments		-617	0
Other changes to stockholders' equity		-454	70
Net cash from financial activities	(30)	**-1,071**	**70**
Currency translation adjustments	(30)	962	0
Net changes in cash and cash equivalents (term up to 3 months)		**9,274**	**17,055**
Cash and cash equivalents at the beginning of the reporting period	(18)	**126,445**	**109,390**
Cash and cash equivalents at the end of the reporting period	(18)	**135,719**	**126,445**

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A) Basis for the consolidated financial statements

1) The Company

The company operates primarily in the following areas:

- IT strategy consulting
- Systems integration
- Operation and optimization of IT systems

The Company positions itself as a “full service provider”. Its offering is divided into the following segments: consulting and project development, outsourcing and application services, and products. The portfolio is tailored to the specific requirements of the following sectors: consumer and process industries, financial services, manufacturing, and service industries.
During fiscal 2002, SAP SI’s business operations were predominantly in Germany, the USA and (to a lesser extent) Switzerland.

SAP Systems Integration AG (referred to hereinafter as SAP SI) is the result of a merger between three affiliated companies. This merger became valid for financial purposes on July 1, 2000. The merger was accounted for in accordance with Accounting Principles Board Opinion No. 16, “Business Combinations”. As the exchange of shares during stage one represented a pooling of interests, book values were used. The subsequent acquisition in exchange for SAP SI shares of the minority shareholdings in SRS AG, Dresden (SRS), and SAP Solutions GmbH, Systeme, Anwendungen, Produkte in der Datenverarbeitung, Freiberg am Neckar (SAP S), on the other hand, had to be accounted for using the purchase method. As a result of this, goodwill of €136 million accrued. This goodwill was equal to the difference between the acquisition cost of the minority shareholdings and the value of shareholders’ equity which they represent. These shares were valued on the basis of an independent expert report. The difference was entered solely as goodwill, and amortized until December 31, 2001. As of January 1, 2002, pursuant to SFAS 142, goodwill is no longer amortized (c.f. note (4)).

2) Accounting principles

The SAP SI consolidated financial statements have been drawn up in euros (€), in accordance with US GAAP (United States Generally Accepted Accounting Principles). To facilitate comparison between reporting periods, figures for fiscal 2001 are adjusted for goodwill amortization in some tables, and are listed in a column with the heading “as-if”.

3) Scope of consolidation

SAP SI’s consolidated statements include SAP SI and all subsidiaries in which SAP SI holds, directly or indirectly, a majority of the voting rights.

In November 2001, SAP SI decided to acquire Germany’s COPA Computer Organisation, Programmierung und Anwendungs-Software GmbH (COPA), headquartered in Wesel. The acquisition was of COPA’s SAP-related operations only, and took the form of three tranches: SAP AG’s 25.1 % stake in COPA was transferred to SAP SI in December 2001. In January 2002, the Company purchased a further 25.0 % stake. Until December 31, 2001, COPA was valued at equity (€3,427 thousand). Since January 1, 2002, COPA has been fully consolidated in SAP SI financial accounts. The remaining 49.9 % was acquired on January 1, 2003.

COPA is an international IT consulting enterprise that specializes in solutions for large and mid-size companies in the beverages industry. As an SAP partner, COPA has been involved in designing, developing and piloting the SAP solution for this sector. COPA supports companies in Germany and elsewhere with effective end-to-end support for the implementation and integration of SAP solutions, and the integration of heterogeneous systems landscapes.

The consolidation of new subsidiaries during fiscal 2002 has no significant impact on the comparability of 2002 consolidated financial statements with those of fiscal 2001. COPA generated revenue of €22.7 million in 2002, and contributed €0.8 million to consolidated net income (after minority interest). COPA’s operating income in 2002 was €2.8 million.

An overview of all SAP SI’s subsidiaries and other holdings, including the size of the holding, revenue, earnings, stockholders’ equity and employee numbers is given on page 86.

4) Accounting and valuation methods

Principles of consolidation

All subsidiaries acquired by the company are consolidated using the purchase method. Differences between acquisition costs and attributable stockholders' equity are first allocated to identifiable assets acquired or to subsidiary debt. Valuation is based on fair market values. The fair values of ongoing research and development projects, with as yet unproven technological feasibility, are carried as expenditure. The same applies to assets used in or resulting from research and development projects where the assets will have no further use for the company. Any remaining asset value is capitalized as goodwill.

Associated companies were accounted for using the equity method, applying the same principles used for fully consolidated subsidiaries. Differences in value between acquisition costs of the holding and the book value of the corresponding equity were included under financial assets, long-term. Changes to holdings in associated companies that had an effect on income were included under financial income, net.

Details of all SAP SI holdings were entered in the Dresden commercial register.

All inter-company receivables, liabilities, revenue, expenses and income have been eliminated in consolidation. Deferred taxes are calculated and recognized for consolidation entries affecting income.

Estimates and assumptions

The valuation of assets, accounts payable and financial obligations, as well as the calculation of income and expenses for the consolidated financial statements, required certain estimates and assumptions to be made. In order to reach these estimates and assumptions, the Company analyzes a wide range of information, including historical data and forecasts, in order to ascertain impairment and recoverability of financial and other assets. Changing economic fundamentals in the segments and geographical regions which SAP SI serves can lead to actual results differing from these estimates and assumptions.

Foreign currency translation

For consolidated accounts, the financial statements of subsidiaries located outside Germany are translated according to the functional currency method. Since all subsidiaries of SAP SI AG are economically independent, and their functional currency is therefore the local currency, their balance sheets are translated into the Group 's functional currency at median rates on the balance-sheet date. Income statements are translated at average rates for the reporting period. Differences arising from currency translation are included as a component of stockholders' equity and not entered in the consolidated income statements.

In the accounts of the individual companies, assets and liabilities are denominated in foreign currencies at the rate valid on the balance-sheet date. Differences arising from currency translation are entered under other expenses and income.

The exchange rates of currencies that are significant for SAP SI's financial results have changed as follows:

	Median rate at December 31		Average rate for the fiscal year	
	Exchange rate for €1 **2002**	Exchange rate for €1 **2001**	Exchange rate for €1 **2002**	Exchange rate for €1 **2001**
US dollar	1.0494	0.8823	0.9499	0.8929
Swiss franc	1.4549	1.4804	1.4673	1.5098

Revenue recognition

Revenue from consulting and other services is recognized once the work has been completed.

SAP SI also provides fixed-price consulting services. Revenue from these services is recognized using the percentage-of-completion method, in accordance with AICPA Statement of Position 81-1, "Accounting for Performance of Construction-Type Contracts" (SOP 81-1). The degree of completion of each project is calculated by comparing the cost of services already completed on the basis of standard charges with the agreed total charges for the project. These calculations are regularly reviewed to take account of the latest project status. Provisions and write-downs for expected losses on such contracts are made in the period in which such expected losses become evident. Provisions for services still to be performed to the value of €0.7 million were formed on December 31, 2002.

Revenue for multi-element arrangements, i.e. software licensing contracts which include free or reduced-cost maintenance, future consulting or other services, is segregated, with some elements deferred and recognized on a pro rata basis over the service period. The residual value method is used to calculate the allocation of revenues.

Pursuant to SOP 97-2, software licensing revenue can only be immediately recognized if the software does not require significant modification, or customization, and the following criteria have been met:

1. The contract has come into force.
2. The software has actually been delivered.
3. The cost of the software is fixed or determinable.
4. It is likely that the fees will be collected.

If, upon signing of the contract, the cost of the software is not fixed or determinable, revenue shall not be recognized until payment is received. If it is insufficiently probable that the fees will be collected, revenue shall not be recognized until payment is received. If software or services are subject to acceptance testing, revenue shall not be recognized until the deadline for acceptance has expired. Any anticipated customer credit notes are deducted from revenue.

Maintenance revenue shall be recognized on a pro rata basis over the term of the agreement.

Outsourcing and application services revenue shall be recognized periodically over the term of the agreement, in accordance with the services used by the customer.

Research and development

SFAS (Statement of Financial Accounting Standards) 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", requires the capitalization of research and development costs incurred upon achieving technological feasibility until such product is available for sale. Historically such costs have not been material. Development costs incurred prior to achieving technological feasibility are expensed as incurred.

Advertising expenses

Costs incurred for advertising are entered into the financial statements for the period during which they were incurred.

Earnings per share

Earnings per share have been calculated in accordance with SFAS 128, "Earnings per Share". Undiluted earnings per share is net consolidated income divided by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share also takes account of the dilutive effect of all warrants, stock options, convertible bonds and preferred stock outstanding during the period.

Intangible assets, property and equipment

Intangible assets include goodwill, software rights and other rights. The goodwill shown results mainly from the merger described under note (1), and was amortized over three years to December 31, 2001, using the straight-line method. In July 2001, FASB published SFAS 141, "Business Combinations", and SFAS 142, "Goodwill and Other Intangible Assets". Pursuant to this standard, as of January 1, 2002, goodwill and other intangible assets deemed to have indefinite lives are no longer amortized, but tested for impairment on an annual basis. Applying SFAS 142 for the first time in fiscal 2002, SAP SI carried out impairment testing at segment level in two stages (c.f. the consolidated management report). No impairment of goodwill was deemed necessary.

Other intangible assets acquired are capitalized at acquisition cost and amortized using the straight-line method over a maximum of five years

Property and equipment are valued at acquisition cost and – if subject to wear and tear – depreciated over their expected useful life.

	Useful life of property and equipment
Leasehold improvement	corresponds to term of lease
Hardware	3 to 5 years
Office equipment	4 to 20 years
Motor vehicles	5 years

Leasehold improvements are depreciated using the straight-line method. Other tangible fixed assets are depreciated using the straight-line method, or in very few instances according to the declining-balance method.

Financial assets, long-term

Miscellaneous loans are valued at acquisition cost, whilst interest-free loans to Company employees and third parties are discounted to their cash value. Holdings where there is no possibility of SAP SI exerting significant influence are reported at acquisition cost. Where financial assets have declined in value at the balance-sheet date, write-downs affecting net income are only posted when a permanent decline in value is considered probable. During the reporting period, €730 thousand was written down in this way (c.f. note (16)).

Impairment of long-lived assets

SAP SI tests for impairment of long-lived assets – these include property and equipment and intangible assets excluding goodwill – pursuant to SFAS 144, "Accounting for the Impairment or Disposal of Long-lived Assets". SFAS 144 requires that any long-lived asset be tested for recoverability when events or changes in circumstances indicate its book value may less than projected future cash flows. If review indicates that the book value of assets may not be recoverable, the asset is written down to its fair value. Assets to be disposed of are either reported at book value or lower fair value less estimated sale costs.

Current assets

Receivables are reported at nominal (i.e. fair value). This item also includes fixed-price consulting project services not yet invoiced. Provisions for loss in value of receivables reflect the probable credit risk. Interest-free receivables due after one year are discounted.

Inventories are reported at the lower of cost of acquisition or manufacture, or fair value.

Cash and cash equivalents reported on the consolidated balance sheets only include cash in hand and deposits with original maturities of less than 90 days.

Other current assets are reported at nominal (i.e. fair value).

Deferred taxes

Deferred taxes are reported in order to reflect temporary differences, expected to reverse at a later date, between the reporting of assets and liabilities for fiscal and financial purposes (the latter according to SFAS 109, Accounting for Income Taxes).

Deferred taxes are calculated using the liability method, i.e. 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.

Accruals and liabilities

Accruals for pension liabilities are calculated on the basis of actuarial reports, using the Projected Unit Credit Method (which takes account of anticipated increases in pensions, vested entitlements and pay increases). The accounting principles are as described under note (23), "Accruals for pensions".

Other accruals are only reported when an obligation to a third party has been incurred, payment is probable and the amount can be reliably estimated. In determining other accruals, all applicable costs are taken into consideration. Accruals for warranties are formed when the estimated warranty costs exceed the projected revenue for the relevant contract.

Liabilities are shown at the amount payable, which is the approximate fair value.

Accounting for stock-based compensation programs

SAP SI accounts for stock-based employee compensation programs using the intrinsic value method in accordance with APB 25 (Accounting Principles Board Opinion 25), the use of which is permitted by SFAS 123, Accounting for Stock-Based Compensation. Accordingly, SAP SI did not post any expenses for the convertible bonds issued by the Company as the conversion price is the same as the market (fair) value of SAP SI stock on the date of issue.

SFAS 123 also requires the Company to report pro-forma figures for consolidated net income and earnings per share that would have resulted if expenses for stock-based compensation had been based on market (fair) values. These calculations were based on the following assumptions:

	2002	2001
Estimated life of option (in years)	4.0	4.0
Risk-free interest rate	3.0 %	4.6 %
Expected volatility	50 %	50 %
Average expected dividend yield	0 %	0 %

The following table shows the impact that the fair value method, as described in SFAS 123, would have on consolidated net income. For purposes of comparison, pro-forma 2001 figures do not include the €47.3 million amortization of goodwill that took place in 2001. The dilutive effect is a result of the inclusion of the convertible bonds issued as of December 31.

	2002	2001	As-if 2001
Consolidated net income (in € thousands)			
According to the consolidated income statements	14,814	-19,582	27,705
Expenses relating to the stock-based compensation program, according to SFAS 123	-1,698	-2,360	-2,360
Pro-forma	13,116	-21,942	25,345
Earnings per share (in €)			
Undiluted – according to the consolidated income statements	0.41	-0.55	0.77
Diluted – according to the consolidated income statements	0.41	-0.55	0.77
Undiluted – pro-forma	0.37	-0.61	0.71
Diluted – pro-forma	0.37	-0.61	0.71
Undiluted number of shares outstanding in thousands	35,800	35,800	35,800
Diluted number of shares outstanding in thousands	35,800	35,800	35,902

Further details regarding the calculation of diluted number of shares outstanding can be found under note (13).

The average fair value of conversion rights granted in 2002 was €2.67 (€9.67 on December 31, 2001). The effects of SFAS 123 on consolidated net income and earnings per share in 2002 are not representative for future reporting periods, given the resulting changes to the assumptions on which calculation of convertible bond fair values is based.

Financial derivatives

As an international company operating in diverse currency zones, SAP SI is exposed to risk relating to changes in exchange and interest rates. To reduce such risks, we invest exclusively in standard hedging contracts with adequate market liquidity. SAP SI used such instruments for the first time in fiscal 2001. Their use is subject to rigorous internal rules and controls.

The use of financial derivatives exposes SAP SI to the risk of counterparty default. To reduce this risk, SAP SI enters into hedging contracts exclusively with financial institutions that have an impeccable credit rating.

Since January 1, 2001, SAP SI has applied FASB's SFAS 133, "Accounting for Derivative Instruments and Hedging Activities", in its amended form. This standard requires companies to record each derivative instrument as an asset or liability measured at its fair value, regardless of the use made of the derivative, and to recognize the effect of changes in the fair value of derivative instruments on net income.

Comprehensive income

SFAS 130, "Reporting Comprehensive Income", requires corporations to report comprehensive income. This item includes net income and other comprehensive income. Other comprehensive income consists of all additional changes to stockholders' equity except for transactions with stockholders. Both other comprehensive income and comprehensive income are disclosed in the consolidated statements of stockholders' equity.

Consolidated statements of cash flows

The consolidated statements of cash flows show the effect of inflows and outflows during the fiscal year on SAP SI 's cash and cash equivalents. It has been drawn up in accordance with SFAS 95, "Statement of Cash Flows", which distinguishes between cash flows from operating, investing and financing activities. The consolidated statements of cash flows are used to report cash flows with original maturities of up to three months, i.e. the cash and cash equivalents described in note (18).

New accounting regulations

In July 2001, FASB issued SFAS 141, "Business combinations", and SFAS 142, "Goodwill and Other Intangible Assets". According to SFAS 141, all business combinations initiated after June 30, 2001 are to be accounted for by the purchase method. This FASB standard differentiates between those intangible assets acquired which are to be reported as separate items to goodwill (and as such require special mention), and those which are included as part of goodwill. According to SFAS 142, goodwill will no longer be amortized, but tested for impairment at least once a year (see below). Intangible assets that are not deemed to have an indefinite life, by contrast, will continue to be amortized over their useful lives, and tested for impairment in accordance with SFAS 144 (see below).

As of December 31, 2002, goodwill totaling €80.9 million was subject to SFAS 141 and SFAS 142.

Upon first application of SFAS 142, SAP SI is required to examine existing intangible assets and goodwill to ensure they conform with the new differentiation criteria.

SFAS 142 stipulates that SAP SI'S first impairment testing must include an assessment of whether there are indications of a fall in the value of Company goodwill as of January 1, 2002. In order to comply with this requirement, (1) SAP SI defined its reporting units accordingly. After appropriate allocation of assets and liabilities (including existing goodwill and intangible assets), the Company (2) determined each reporting unit's total net assets, and (3) defined the current market (fair) values of each unit. Analysis of this data gave no indication of impairment of goodwill for any one of SAP SI's reporting units as of January 1, 2002. Application of the new standards did not, therefore, result in any unscheduled write-downs on goodwill.

In June 2001, FASB issued SFAS 143, "Accounting for Asset Retirement Obligations", laying down reporting and accounting requirements for legal obligations associated with the retirement of assets and with the acquisition, construction, development and/or the normal operation of long-lived assets, except for certain obligations of lessees. In accordance with SFAS 143, such obligations are to be posted as liabilities at fair value in the reporting period in which they occur, so long as their fair value can be reliably estimated. The book value of the relevant property, plant and equipment must to be increased by the same amount. The adoption of SFAS 143, which applies to all fiscal years commencing after June 15, 2002, is not expected to have a material impact upon the consolidated financial statements of SAP SI.

In August 2001, FASB issued SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This supersedes and replaces SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", as well as the reporting and accounting requirements stipulated by APB Opinion 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". Based on SFAS 121, statement 144 introduces standardized accounting requirements for the disposal of long-lived assets, including discontinued operations and retains the requirement to make write-downs for impairment loss if the book value of long-lived assets is less than projected undiscounted cash flows. There are now stricter criteria for classification of a long-lived asset as "held for sale", while assets that are to be disposed of, but by other means than sale, are to be classified as "held and used" until such time as they are actually disposed of. SFAS 144 retains the requirement that discontinued operations must be posted as separate items, but broadens its reach to include a component of an entity (rather than a segment of a business) to be disposed of or already sold. SFAS 144 also requires that certain long-lived assets earmarked for disposal are posted at fair value less cost of sale, so long as this value is less than the book value. Long-lived assets are no longer to be amortized, and discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS 144 is not expected to have a material effect upon our consolidated financial statements.

In July 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit of Disposal Activities", to replace Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)". SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value in the reporting period when the liability is incurred and a reliable estimate can be made. The guidance in force thus far stipulated that an entity could recognize a liability as soon as management had committed to an exit or disposal plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. Financial statements that have already been published do not have to be corrected, and liabilities already posted in accordance with EITF Issue 94-3 remain valid. SFAS will apply this requirement to all exit or disposal plans committed to after December 31, 2002.

In November 2002, the Emerging Issue Task Force ("EITF") reached a final consensus on EITF 00-21, "Revenue Arrangements with Multiple Deliverables". EITF 00-21 addresses certain aspects of revenue recognition for contracts comprising multiple deliverables. It outlines an approach for determining when a revenue arrangement with multiple deliverables should be divided into separate units of accounting and, if separation is appropriate, how the revenue should be allocated to the identified accounting units. SAP SI is to apply the provisions of this statement as of July 1, 2003. The Company does not expect the application of EITF 00-21 to have any material affect upon the consolidated financial statements.

Also published in November 2002 was FASB Interpretation (FIN) 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others – an interpretation of FASB statements 5, 57 and 107 and rescission of FASB Interpretation 34". FIN 45 comprehensively establishes the obligations of guarantors, regarding the accounting for, and disclosure of, the issuance of certain types of guarantees. It makes clear that, upon issuance of a guarantee, a guarantor is obliged to recognize the guarantee at its fair (market) value. FIN 45 applies to all guarantees issued or amended since December 31, 2002. SAP SI only grants sureties in rare cases, and past experience leads us to believe that material losses are unlikely to result from these contracts. As a result, no liabilities were entered in the consolidated financial statements for this.

In December 2002, FASB published SFAS 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123". SFAS 148 provides additional methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation, amending SFAS 123, "Accounting for Stock-Based Compensation". SFAS 148 amends SFAS 123 to also require more prominent disclosure of the method used to account for stock-based employee compensation and the effect of the method on reported results in interim and annual financial statements. As already documented, SAP SI adheres to the provisions of APB 25, and therefore posts expenses according to the intrinsic value of the stock-based securities granted. In accordance with SFAS 123, compensation expense of stock-option plans is calculated on the basis of the fair value of options on the grant date using the Black-Scholes option-pricing model. Compensation expense is recognized over the service period with an offsetting credit to equity (paid-in capital). When SFAS 148 is applied, the additional payroll and related costs in the consolidated income statements will depend upon the number, price and other significant terms of the stock options granted.

In January 2003, FASB issued FIN 46, "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51", which gives guidance for determining which entities should be consolidated. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes, which either does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 explains the concept of a variable interest entity and requires consolidation where there is a controlling financial interest in a variable interest entity or where the variable interest entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. The same applies if both criteria are fulfilled. This interpretation applies immediately to variable interest entities created or acquired after January 31, 2003, and applies in the first fiscal year or reporting period beginning after June 15, 2003 to variable interest entities in which an enterprise already holds a variable interest. Certain disclosure provisions already apply to all financial statements published after January 31, 2003, regardless of the data of acquisition of the variable interest entity.

In February 2003, FASB issued SFAS 149, "Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity", which requires classification of the following equity instruments as liabilities in consolidated financial statements:

(1) Financial instruments that are mandatorily redeemable on a fixed or determinable date or upon an event certain to occur even if the instrument is in the form of equity shares.

(2) Financial instruments embodying, or indexed to, an obligation to repurchase an issuer's equity shares that requires or could require settlement by transfer of assets.

(3) Financial instruments embodying an obligation that the issuer must or could settle by issuing a variable number of its equity shares shall be classified as a liability if the monetary value of the obligation is based solely or predominantly on (i) a fixed monetary amount known at inception, (ii) variations in something other than the fair value of the issuer's equity shares, or (iii) variations in the fair value of the issuer's equity shares, but in the direction opposite to those variations. The requirements of SFAS 149 are effective for all newly created or modified contracts. SAP SI does not expect the application of SFAS 149 to have any material affect upon the consolidated financial statements.

B) Notes to the consolidated income statements

5) Revenue

Company revenue is primarily from SAP-related consulting services, with the majority being earned in Germany, but with an increasing proportion generated elsewhere. A breakdown of revenue is given in note (35), Segment information.

6) Costs

Cost of materials:

Cost of materials breaks down as follows:

in € thousands	2002	2001
Costs for raw materials, utilities, consumables and goods	5,931	5,477
Costs for services	29,282	36,206
	35,213	**41,683**

Costs for external consulting services fell by around 19 % over fiscal 2001 to €29,282 thousand.

Payroll and related costs/number of employees:

Payroll and related costs are as follows:

in € thousands	2002	2001
Salaries	137,315	115,608
Social security costs	17,933	14,283
Pension contributions	2,983	1,285
	158,231	**131,176**

Expenditure on performance-related compensation reported under payroll and related costs totaled €34,207 thousand (€27,884 thousand in 2001).

In 2002, the average number of employees was 1,819 (1,536 in 2001).

Additional statements:

(1) Advertising costs during the reporting period amounted to €2,074 thousand (€1,888 thousand in 2001).
(2) Recruitment costs totaled €320 thousand in 2002 (€810 thousand in 2001).

7) Restructuring costs

SAP SI implemented a restructuring program in fiscal 2002. Restructuring measures largely consisted of reducing Company payroll to take account of changed economic fundamentals and industry dynamics. Total expenditure on restructuring was €9,769 thousand over the year, and the restructuring program is now largely completed. Provisions of €4,270 thousand were formed for employees leaving the Company on a date subsequent to the balance-sheet date. Restructuring costs are posted under service costs, administration, or sales and marketing, as appropriate. 160 employees were affected by the measures.

8) Other operating expenses and income

Other operating expenses and income were as follows:

in € thousands	2002	2001
Provisions against bad and doubtful debts	-24	37
Expenses from previous years	0	-184
Rental income	106	236
Write-down of goodwill (asset deal)	0	-713
Income from claims for damages	320	0
Other	23	22
	425	**-602**

9) Other expenses and income

Other expenses and income were as follows:

in € thousands	2002	2001
Gain on translation of foreign currencies	254	731
Cost of foreign currency translations	-975	-311
	-721	**420**
Gain from disposal of property and equipment	63	13
Loss from disposal of property and equipment	-63	-292
	0	**-279**
Miscellaneous expenses and income	185	380
	-536	521

The changes on translation of foreign currencies resulted mainly from changes in the value of the US dollar.

10) Financial income, net

Interest income consisted mainly of interest on credit balances at banks, and loans, largely as a result of investments made using cash accrued in the course of the IPO and from retained earnings. Interest expenses mainly stemmed from interest paid on hedging instruments. During fiscal 2002, a SAP SI holding was written down by €730 thousand to the lower fair value (c.f. note (16)).

in € thousands	2002	2001
Interest and similar income	4,180	4,841
Interest and similar expenses	-138	-98
Write-down of financial assets	-730	0
Other financial income	17	0
	3,329	**4,743**

11) Income taxes

Net income before tax, both within Germany, and for the rest of the world, was as follows:

in € thousands	2002	2001	As-if 2001
Germany	22,835	1,623	46,956
Rest of world	3,395	-3,340	-1,386
	26,230	**-1,717**	**45,570**

Income tax in fiscal 2001 and 2002 was as follows:

in € thousands	2002	2001
Current taxes – Germany	9,075	17,178
Current taxes – rest of world	1,319	545
	10,394	**17,723**
Deferred taxes – Germany	59	970
Deferred taxes – rest of world	127	-828
	186	**142**
Income taxes	**10,580**	**17,865**

The average rate of German local trade tax, in relation to net income before tax, was 17.25% in 2002 (15.45% in 2001).

The average total tax rate, in relation to net income before tax, was 40.34% in 2002 (39.20% of the as-if-merged figure in 2001).

in € thousands	2002	2001
Corporation tax (federal)	6,271	9,954
Local trade tax	3,860	7,253
Solidarity surcharge	263	516
Current taxes	**10,394**	**17,723**
Deferred taxes	**186**	**142**
	10,580	**17,865**

The table below gives a reconciliation of the Company's tax liability, starting with German corporation tax of 25% applicable to retained earnings, plus the "solidarity surcharge" on corporation tax of 5.5%. In September 2002, Germany's Flutopfersolidaritätsgesetz (flood victim solidarity law) was passed, which came into force on January 1, 2003. The most significant impact of the new legislation was the increase, for a limited period, of corporation tax from 25% to 26.5%. The only impact of the law during fiscal 2002 was on deferred taxes, which are calculated at the tax rate applicable when the deferred taxes are reversed. German companies within the Group were, therefore, subject to the 26.5% tax rate on the deferred taxes that are reversed in 2003. The effect of the tax increase on deferred tax assets and liabilities within the Group was recognized in the year that the law was passed, resulting in tax assets (€4 thousand) and tax liabilities (€4 thousand) that balanced each other out.

in € thousands	2002	2001
Income before income tax	26,230	-1,717
German local trade tax	3,860	7,254
Income after local trade tax	**22,370**	**-8,971**

in € thousands	2002	2001
Corporation tax (federal)	5,593	-2,243
Solidarity surcharge	308	-123
Local trade tax	3,860	7,254
Taxes on non-deductible expenses	292	12,739
Other	527	238
Income tax	**10,580**	**17,865**

The following table shows deferred tax assets and liabilities on individual items on the consolidated balance sheet calculated using the liability method:

in € thousands	2002	2001
Fixed assets	0	631
Loss carried forward	676	853
Accruals for pensions	130	43
Other accruals/other liabilities	994	104
Deferred tax assets	**1,800**	**1,631**
Fixed assets	314	0
Receivables	905	756
Deferred tax liabilities	**1,219**	**756**
Deferred taxes, net	**581**	**875**

The following table shows deferred tax assets broken down according to their maturity date:

in € thousands	2002	2001
Short-term	1,670	1,588
Long-term	130	43
Deferred tax assets	**1,800**	**1,631**
Short-term	905	756
Long-term	314	0
Deferred tax liabilities	**1,219**	**756**

Net operating loss carryforwards are primarily attributable to SAP SI's US subsidiaries, and are expected to be realized in the short term, thanks to the projected positive earnings situation.

12) Profit allocated to minority interest

Profit allocated to minority interest in fiscal 2002 totaled €836 thousand and resulted solely from other stockholders in COPA, with a stake totaling 49.9%.

13) Earnings per share

Earnings per share are calculated pursuant to SFAS 128, "Earnings per Share". According to the treasury stock method, the convertible bonds issued by the company as of December 31, 2002 (1,209,647 compared with 1,303,347 in 2001) have no dilutive effect.

The average number of shares was calculated on the basis of the assumption that all shares were common stock with a par value of €1.

Earnings per share (EPS) were as follows:

Consolidated net income in € thousands, shares in thousands, earnings per share in €	2002	2001	As-if 2001
Consolidated net income	14,814	-19,582	27,705
Undiluted average number of shares	35,800	35,800	35,800
Convertible bonds	0	0	102
Diluted average number of shares	35,800	35,800	35,902
Earnings per share (undiluted)	0.41	-0.55	0.77
Earnings per share (diluted)	0.41	-0.55	0.77

At €13.31, the average price of SAP SI stock in fiscal 2002 was below the issue price of €18.92, therefore there was no dilutive effect. Outstanding stock was antidilutive. Due to the net loss posted in 2001, EPS for 2001 does not include dilutive effect, as dilution of negative EPS is not permissible under US GAAP. To facilitate comparison between fiscal years, 2001 as-if-merged figures have been adjusted for goodwill amortization.

C) Notes to the consolidated balance sheets

14) Intangible assets

The goodwill reported results primarily from the exchange of minority holdings for shares in SAP SI during the course of the merger, as described under note (1). This goodwill is equal to the difference between the acquisition costs of the minority holdings and the stockholders' equity which they represent. It was amortized pro rata temporis over three years to December 31, 2001 (c.f. note (1)). Pursuant to SFAS 142, goodwill to the value of €80,936 thousand was subject to impairment testing in two stages (c.f. note (4)), revealing no need for write-downs. Changes to the scope of consolidation ensued from the acquisition of a further 25% stake in Germany's COPA Computer Organisation, Programmierung und Anwendungssoftware GmbH, in Wesel (c.f. note (3)). Additions reported under trademarks, similar rights and assets refer to software products.

in € thousands	Trademarks, similar rights and assets	Goodwill	Total
Cost of acquisition			
January 1, 2002	1,195	148,429	**149,624**
Currency translation adjustments	-10	-1,578	**-1,588**
Changes in the scope of consolidation	50	5,316	**5,366**
Additions	1,126	0	**1,126**
Retirements/disposals	-98	0	**-98**
As of December 31, 2002	**2,263**	**152,167**	**154,430**
Accumulated depreciation			
January 1, 2002	755	71,231	**71,986**
Currency translation adjustments	-10	0	**-10**
Changes in the scope of consolidation	42	0	**42**
Additions	444	0	**444**
Retirements/disposals	-88	0	**-88**
As of December 31, 2002	**1,143**	**71,231**	**72,374**
Book value at year-end 2002	**1,120**	**80,936**	**82,056**
Book value at year-end 2001	**440**	**77,198**	**77,638**

The following table shows the projected figures for amortization of trademarks, similar rights and assets over the next five years:

	in € thousands
2003	312
2004	206
2005	153
2006	126
2007	104
Total	**901**

15) Property and equipment

in € thousands	Land and buildings	Office equipment and other	Payments and construction in progress	Total
Cost of acquisition				
January 1, 2002	1,750	23,396	0	**25,146**
Currency translation adjustments	-2	-74	0	**-76**
Changes in the scope of consolidation	356	742	0	**1,098**
Additions	100	2,174	152	**2,426**
Retirements/disposals	0	-2,117	0	**-2,117**
Reclassifications	2	-2	0	**0**
As of December 31, 2002	**2,206**	**24,119**	**152**	**26,477**
Accumulated depreciation				
January 1, 2002	1,128	14,966	0	**16,094**
Currency translation adjustments	0	-46	0	**-46**
Changes in the scope of consolidation	154	470	0	**624**
Additions	326	3,760	0	**4,086**
Retirements/disposals	0	-1,949	0	**-1,949**
Reclassifications	1	-1	0	**0**
As of December 31, 2002	**1,609**	**17,200**	**0**	**18,809**
Book value at year-end 2002	**597**	**6,919**	**152**	**7,668**
Book value at year-end 2001	**622**	**8,430**	**0**	**9,052**

Additions reported under other property and equipment refer mainly to the purchase of computer hardware.

16) Financial assets, long-term

in € thousands	Investments in affiliated companies	Loans	Total
Cost of acquisition			
January 1, 2002	4,402	464	**4,866**
Changes in the scope of consolidation	-3,427	0	**-3,427**
Additions	0	614	**614**
Retirements/disposals	0	-183	**-183**
As of December 31, 2002	**975**	**895**	**1,870**
Accumulated depreciation			
January 1, 2002	0	13	**13**
Additions	730	26	**756**
Retirements/disposals	0	-2	**-2**
Write-ups	0	3	**3**
As of December 31, 2002	**730**	**34**	**764**
Book value at year-end 2002	**245**	**861**	**1,106**
Book value at year-end 2001	**4,402**	**451**	**4,853**

In order to succeed in the emerging portals, marketplaces and online business-to-business sectors, SAP Systems Integration AG has founded UTILITe-Place AG, a joint venture with on.valco AG, Hamburg, and municipal utility Stadtwerke Ulm/Neu-Ulm GmbH. SAP SI has a 19% shareholding in the joint venture, which was written down by €730 thousand to the lower fair value of €245 thousand.

Loans comprise almost exclusively personal loans to employees for purchasing homes, etc. Their fair value corresponds essentially to their book value. The loans bear interest at between 5.5 and 6.0% per year.

17) Receivables and other current assets

in € thousands	Dec 31, 2002	Dec 31, 2001
Receivables from goods and services	38,479	44,457
Receivables from affiliated companies	16,542	20,613
Other current assets	20,963	10,493
	75,984	**75,563**

Receivables disclosed on the fiscal 2002 consolidated balance sheets have been adjusted downward by €1,719 thousand for credit risks. In 2001, the credit risk adjustment amounted to €1,029 thousand.

Receivables and other current assets break down by maturity date as follows:

in € thousands	Dec 31, 2002	Dec 31, 2001
Remaining term of up to one year	74,424	66,689
Remaining term of between one and five years	1,560	8,874
	75,984	**75,563**

SAP SI's broad customer base and activities spanning many sectors mean that the dangers of concentrated credit risks are limited. No single end-customer outside the group accounted for 10% or more of direct revenue in fiscal 2001 or 2002. Unbilled receivables were €329 thousand in 2002 and €2,381 thousand in 2001.

Receivables from affiliated companies consist of receivables from SAP AG and the subsidiaries of SAP AG.

Other current assets comprise interest receivable for the period, tax refund claims (€10,043 thousand) and insurance claims.

18) Cash and cash equivalents

Cash and cash equivalents break down as follows:

in € thousands	Dec 31, 2002	Dec 31, 2001
Cash at banks	9,139	4,367
Time deposits with maturities of three months or less at the time of purchase	126,580	122,078
	135,719	**126,445**

19) Prepaid expenses

Prepaid expenses comprise mainly prepayments for rental contracts, leases and maintenance contracts.

20) Capital stock

Authorized-and-issued capital stock consisted of 35,800 thousand shares of no par value (common stock). Each share carries one vote at the annual stockholders' meeting. Authorized-but-unissued capital took the form of convertible bonds, and amounted to €1,210 thousand (€1,303 thousand in 2001).

Changes in stockholders' equity are given in the corresponding table.

The Executive Board is to propose to the annual stockholders' meeting, with the endorsement of the Supervisory Board, that 2002 earnings should be retained within the company.

SAP SI stockholders are as follows:

	December 31, 2002		December 31, 2001	
	Number of shares	% of capital stock	Number of shares	% of capital stock
SAP AG	24,290,654	67.85 %	21,626,434	60.41 %
Software AG	N/A	N/A	4,087,474	11.42 %
Free float	11,509,346	32.15 %	10,086,092	28.17 %
	35,800,000	**100.00 %**	**35,800,000**	**100.00 %**

SAP AG acquired a further 7.44% of stock during fiscal 2002, bringing its stake as of December 31, 2002, to 67.85%.

Software AG, Darmstadt, gave notice on July 2, 2002 that its stake in SAP SI had fallen to 4.95%, below the 5% disclosure threshold. As a result, according to stock exchange regulations, Software AG no longer has to report transactions involving SAP SI stock. Stakeholdings of less than 5% are included in free float.

Stock-based savings plans

As part of its stock-based savings plan, the Company buys back some of its own stock, which it then gives to certain employees. Any discounts granted are no more than 15% of the stock price, and are treated as a direct reduction of equity. SAP SI acquired 27,232 shares for its employees during fiscal 2002, at an average price of €13.26. These were then transferred to employees at an average value of €14.12.

Convertible bond issue

On August 16, 2000, by resolution of the company's stockholders, SAP SI introduced an employee stock option plan in the form of convertible bonds for members of the Executive Board and other employees of SAP SI and its subsidiaries. As of December 31, 2002, a total of 1,209,647 (1,303,347 in 2001) convertible bonds were outstanding.

Each participating employee can exchange their convertible bonds for an equal number of shares of SAP SI stock, in most cases at a conversion price of €19. The bonds have a term of eight years. 33% of the bonds can be converted after two years, 33% after three years and the remaining 34% after four years.

Details of convertible bonds granted to members of the Executive Board are given in note (38).

To enable the issue of convertible bonds, the Company effected a contingent capital increase of up to €2 million for up to two million ordinary bearer shares in 2000. During fiscal 2002, the total number of outstanding convertible bonds fell by 93,700 to 1,209,647. The issue price was €1, which is also the par value.

The following table shows the development of the number of outstanding convertible bonds over the fiscal year:

	Number of convertible bonds outstanding	Average exercise price of convertible bonds in €
As of January 1, 2001	**1,356,897**	**19.00**
Authorized capital in fiscal year	0	0
Issued	101,200	18.88
Exercised	0	0
Redeemed	146,500	19.00
Matured	8,250	19.00
As of December 31, 2001	**1,303,347**	**18.99**
Authorized capital in fiscal year	0	0
Issued	14,500	13.05
Exercised	0	0
Redeemed	106,750	19.00
Matured	1,450	19.00
As of December 31, 2002	**1,209,647**	**18.92**

The following table gives an overview of convertible bonds outstanding as of December 31, 2002:

Range of exercise prices in €	Number of convertible bonds	Average number of years until maturity	Average exercise price in €
18.98 to 19.75	1,197,147	5.79	19.00
16.22	4,000	7.62	16.22
8.80	8,500	6.00	8.80
8.80 to 19.75	**1,209,647**	5.80	18.92

Authorized-but-unissued capital and contingent capital

At the annual stockholders' meetings of August 16, 2000, May 8, 2001, and May 14, 2002, Company stockholders granted the Executive Board the right, subject to prior approval of the Supervisory Board, to raise capital in the following ways:

1. Contingent capital

At the annual stockholders' meeting of August 16, 2000, approval was given for a contingent increase in capital stock of up to two million ordinary bearer shares, each of a nominal par value of €1. This contingent increase is for the sole purpose of serving convertible bonds (contingent capital I).

At the annual stockholders' meeting of May 8, 2001, the Executive Board was authorized, subject to the prior approval of the Supervisory Board, to issue, on one or more occasions before May 1, 2006, options and/or convertible bonds with a total nominal value of €100 million and a term of no more than ten years, backed by new ordinary bearer shares in SAP Systems Integration AG. The nominal par value of the shares to be issued may not exceed 10% of the value of the stock options and/or convertible bonds. The Company is authorized to increase share capital by up to €10 million through the issue of up to 10 million ordinary shares with a nominal par value of €1, providing the number of shares outstanding increases by the same percentage as the capital stock (contingent capital II).

At the annual stockholders' meeting of May 14, 2002, the Executive Board was authorized, subject to the prior approval of the Supervisory Board, to issue, on one or more occasions before December 31, 2005, convertible bonds with a total nominal value of up to €1.58 million and a maturity of no less than five years. The issue price of these convertible bonds is to be determined by their nominal value. Accordingly, approval was given for a contingent increase in capital stock of up to €1.58 million, through the issue of 1,580,000 ordinary bearer shares with a nominal par value of €1 (contingent capital III).

2. Authorized-but-unissued capital

At the annual shareholders' meeting of May 8, 2001, the Executive Board was also authorized, subject to the prior approval of the Supervisory Board, to increase capital stock by issuing, on one or more occasions before May 1, 2006, new ordinary bearer shares with a total maximum value of €10 million against contributions in cash, providing that the percentage increase in shares corresponds to the percentage increase in capital stock. The new shares will be offered for subscription to existing stockholders (authorized-but-unissued capital I).

The Executive Board was also authorized, subject to the prior approval of the Supervisory Board, to raise capital by issuing, on one or more occasions before May 1, 2006, new ordinary bearer shares with a total maximum value of €7.5 million against contributions in cash or in kind, providing that the percentage increase in shares corresponds to the percentage increase in capital stock. With the approval of the Supervisory Board, stockholders' preemptive rights may be excluded in the following cases:

- in respect of fractional shares
- where capital is raised against contributions in cash and the portion of the capital stock represented by the new shares in respect of which preemptive rights are excluded is no greater than 10% of that capital stock at the time the new shares are issued and the issue price of the new shares is not materially below the stock exchange price of listed shares of the same class carrying the same rights as specified in section 203, subsections 1 and 2 and section 186, subsection 3, sentence 4 of the German Stock Corporation Act (Aktiengesetz).
- where capital is raised against contributions in kind to grant shares for the acquisition of enterprises or interests in enterprises (authorized-but-unissued capital II).

No use was made of the authorizations during fiscal 2002.

21) Additional paid-in capital

Additional paid-in capital results from the goodwill which accrued as a result of the exchange of minority holdings in SRS and SAP S for shares in SAP SI during the course of the merger, as described in note (1), and net proceeds from the IPO in 2000 amounting to €82.5 million.

22) Minority interest

This balance-sheet item results solely from other stockholders in COPA, with stakes totaling 49.9%.

23) Accruals for pensions

Accruals for pension obligations are established on the basis of plans that provide for retirement, long-term disability and survivors' benefits. Pension plans consist of performance-based annuities in accordance with the length of service and pay of person employed by the legal predecessor of SAP SI AG, namely SAP Systems Integration GmbH. Under current business plans, pensions are financed through a legally independent pension fund. Company contributions to the fund are reported as current expenditure for the reporting period in question.

In fiscal 1999, the legal predecessor of SAP SI introduced a contributory pension plan that, for the majority of employees, superseded the performance-related plan previously in place.

Pension liabilities and fund assets have changed as follows:

in € thousands	2002	2001
Change in benefit obligation		
Projected benefit obligation (PBO) at beginning of year	55	223
Service cost: cash value of entitlements accrued in 2002	10	12
Interest cost	3	13
Liability decreased due to settlement	0	-182
Actuarial loss	0	-11
Projected benefit obligation (PBO) at end of year	**68**	**55**
Change in plan assets		
Fair value of plan assets at start of year	43	17
Actual return on plan assets	3	1
Employer contribution	33	27
Life/disability insurance premiums and expenses	-19	-2
Fair value of plan assets at end of year	**60**	**43**
Funded status	8	12
Unrecognized net actuarial loss	29	55
Unrecognized transition asset	0	-1
Contributory pension under SFAS 87	1,520	663
Net amount recognized	**1,557**	**729**

In accordance with SFAS 87, the obligation for employee-financed pension plans is matched by an equal sum entered on the consolidated balance sheets under other current assets.

The following assumptions were used in calculating actuarial obligations for pension plans:

	2002	2001
Discount rate	6.0 %	6.0 %
Expected return on plan assets	6.5 %	6.5 %
Expected rate of increase in employee compensation	2.25 %	4.0 %

24) Other accruals

in € thousands	Dec 31, 2002	Dec 31, 2001
Accruals for tax liabilties (including deferred tax liabilities)	4,909	23,245
Provisions for other non-tax liabilities	31,135	17,093
	36,044	**40,338**

Accruals for tax liabilities include deferred tax liabilities of €1,219 thousand (€756 thousand in 2001), and comprise liabilities for both the current and previous fiscal year.

Provisions for other non-tax liabilities break down as follows:

in € thousands	Dec 31, 2002	Dec 31, 2001
Bonuses and other obligations to employees	20,727	9,113
Vacation entitlement	5,023	4,936
Obligations to suppliers	4,107	1,880
Auditing and reporting costs/cost of annual stockholders' meeting	661	560
Contribution to employees' accident insurance account	617	434
Other	0	170
	31,135	**17,093**

As in 2001, other accruals comprise exclusively short-term liabilities. The increase in obligations to employees was a result of bonuses outstanding (€13,601 thousand), provisions for restructuring measures (€4,270 thousand), and other staff-related accruals, such as for semi-retirement. The increase in bonuses oustanding was a result of lower advance bonus payments to employees.

25) Convertible bonds

The Company has granted convertible bonds with a total value of €1,210 thousand, of which €763 thousand worth will mature over the coming year, and a further €403 thousand within the next two years. All convertible bonds were issued by the Company within the scope of an employee stock-based savings program, as detailed under note (20).

The convertible bonds have a term of more than one year. A maximum of 763,031 shares of no par value may be issued during fiscal 2003 through the exercise of convertible bonds. Conversion rights may be exercised on October 30, November 15 and December 10.

26) Other liabilities

The Company's liabilities break down as follows:

in € thousands	Dec 31, 2002	Dec 31, 2001
Due to banks	61	2,406
Customer downpayments	317	676
Accounts payable for goods and services	9,668	7,358
Payables to associated companies	0	35
Payables to affiliated companies	670	601
Taxes	9,659	11,630
Social security	2,760	2,597
Other	2,705	840
	25,840	**26,143**

A foreign subsidiary of SAP SI has a credit line which allows it to take out short-term loans of a limited amount in local currency. SAP SI guarantees this line of credit. As of December 31, 2002, this subsidiary and SAP SI had available lines of credit totaling €12,216 thousand (€5,900 thousand in 2001), of which SAP SI had made use of €2,540 thousand for performance bonds by the end of the year (€3,710 thousand in 2001, of which €1,304 thousand were performance bonds). Borrowings bear interest at the current market rate at the time of borrowing. The average rate of interest was 7.5% per year. Liabilities are unsecured, excluding retention of title and similar rights customary in the industry.

Payables to affiliated companies relate to SAP AG and that company 's subsidiaries. Taxes comprise income taxes due on employee salaries, as well as value-added tax. As in 2001, all other liabilities have a residual term of less than one year.

27) Deferred income

This balance-sheet item refers exclusively to deferred revenue from software licensing.

D) Notes on the consolidated statements of cash flows

The consolidated statements of cash flows analyzes all changes affecting cash and cash equivalents with terms of up to three months.

28) Net cash from operating activities

2002 as-if-merged consolidated net income was €12,891 thousand lower than in 2001. After depreciation, amortization, and changes in accruals for pensions, this resulted in an increase in cash of €20,777 thousand. The decline in short-term accrued liabilities and short-term liabilities (-€12,480 thousand), and in receivables (€6,442 thousand) led to an increase in net cash from operating activities of €15,130 thousand (€31,641 thousand in 2001). Despite increased business volumes, SAP SI succeeded in reducing average days' sales outstanding (DSO) by 7.2% to 64 days, and to lower the level of receivables.

29) Net cash used in investing activities

In 2002, net cash used in investing activities fell by €8,909 thousand over the previous year. The much higher figure for 2001 was a result of the acquisition of SAP SI America LLC, Atlanta, and the purchase of a 25.1% stake in COPA, in which SAP SI acquired a further 25% in the 2002. Capital expenditure fell by 43% to €3,572 thousand. In 2001, the Company made divestments of fixed assets amounting to €7,577 thousand, chiefly through the sale of property and buildings in Alsbach-Hähnlein. In 2002, divestments were restricted to disposals of equipment. In both years, the Company was able to finance investment from cash from operating activities.

30) Net cash used in financing activities

In 2002, net cash used in financing activities amounted to €1,071 thousand, chiefly as a result of dividend payments to COPA's minority shareholders, and the effects of consolidating COPA equity.

The currency translation adjustments of €962 thousand for fiscal 2002 are the result of currency conversion within the course of consolidation.

In the reporting period, cash and cash equivalents increased by 7.3%, or €9,274 thousand, to €135,719 thousand.

Cash inflow for 2002 includes interest totaling €3,005 thousand (€4,926 thousand in 2001). Income taxes were paid for fiscal 2002 and previous years, net of refunds, totaling €39,121 thousand (€9,348 thousand in 2001).

E) Additional information

31) Contingent liabilities

in € thousands	Dec 31, 2002	Dec 31, 2001
Guarantees	2,540	1,304
	2,540	**1,304**

Contingent liabilities consist primarily of performance bonds (€2,361 thousand compared with €976 thousand in 2001) and lease guarantees (€158 thousand compared with €220 thousand in 2001) and warranties (€21 thousand compared with €220 thousand in 2001).

32) Other financial commitments

The nominal values of commitments arising from rental and operating leases are given below, broken down by maturity date:

in € thousands	Dec 31, 2002
Due before 2004	16,577
Due 2004	12,687
Due 2005	6,800
Due 2006	3,835
Due 2007	3,554
Due 2008	22,600
	66,053

33) Litigation

SAP SI is subject to legal proceedings and claims which may or may not be enforced. These arise in the normal course of business. Although the outcome of these proceedings cannot be predicted with certainty, the Excecutive Board is of the opinion that the resolution of such legal proceedings and claims will have no material effect on the company 's results, its financial position, or its cash flows.

34) Financial instruments

	Dec 31, 2002		Dec 31, 2001	
in € thousands	Fair value	Book value	Fair value	Book value
Other loans	860	860	397	397
Bonds	-1,209	-1,209	-1,303	-1,303
Bank loans and overdrafts	-61	-61	-2,406	-2,406
Financial derivatives				
Forward exchange contracts	8,786	8,786	6,963	6,963
	8,376	**8,376**	**3,651**	**3,651**

SAP SI makes use of various financial instruments in the course of its ordinary business. Their fair value is determined as follows:

- The fair value of other loans, bank loans and overdrafts corresponds to their book value.
- The fair value of derivative instruments reflects the estimated amount the company would pay or receive to terminate these instruments as of December 31, 2001.

SAP SI has granted a loan denominated in a foreign currency to a subsidiary. SAP SI makes use of forward exchange contracts to protect, partially or completely, against currency exchange risks (as described above) associated with the anticipated repayments from the subsidiary. The forward exchange contracts have a term of twelve months. This may be extended, as required, to protect against the currency exchange risks until all repayments are made. SAP SI is of the opinion that the use of these instruments reduces the currency exchange risks described above. SAP SI makes use of such instruments for the sole purpose of hedging currency exposure and not for currency speculation.

As of December 31, 2002, losses of €22 thousand (compared to earnings of €219 thousand in 2001) from foreign exchange contracts were entered as other operating expenses (other operating income in 2001).

35) Segment information

SAP SI discloses segment information in accordance with SFAS 131, "Disclosures about Segments of an Enterprise and Related Disclosures". SFAS 131 presents standards for reporting information on operational segments as well as for related disclosures on products, services and geographic regions.

SFAS 131 requires segment information to be reported in accordance with the values used internally for evaluating performance and determining the allocation of resources. SAP SI's organizational structure divides the company into recognizable operating segments. The Company's internal reporting system allows business activities to be examined according to such segments and categories. The Executive Board, which has been identified as the chief operating decision-maker according to the criteria of SFAS 131, now employs this internal reporting system to evaluate business activities in terms of operating segments.

Operating segments

SAP SI has three operating segments: "consulting and customer development", "outsourcing and application services" and "components". The consulting segment assists customers in the implementation of software products. It also supports customers in project planning, feasibility studies, analysis, organizational consulting, systems customization and optimization, release upgrades, and interface implementation.

The outsourcing and application services segment specializes in the operation and management of customers' IT solutions. This encompasses services for the ongoing operation of systems and infrastructures, support services, and related software configuration or modification work.

The components segment comprises the sale and licensing of the Company's own software products, and related maintenance activities. Accounting principles for each of these segments are the same as those described in the summary of significant accounting principles as given in note (4).

Geographic information

The following table gives a breakdown of various figures from the consolidated financial statements according to geographical region. All disclosures are made using the same standards as are used for reporting information about operating segments.

	Revenue according to customer location		Revenue according to location of SAP SI company	
in € thousands	**2002**	**2001**	**2002**	**2001**
Germany	228,419	211,070	252,211	236,936
Rest of Europe	24,065	29,294	6,981	7,993
Europe	**252,484**	**240,364**	**259,192**	**244,929**
USA	37,864	26,611	34,047	23,910
Rest of world	2,891	1,864	0	0
	293,239	**268,839**	**293,239**	**268,839**

The following table details earnings, total assets and employee numbers for consolidated subsidiaries of SAP SI according to the location of their headquarters:

in € thousands	Earnings before income tax and goodwill amortization		Total assets		Number of employees as of balance-sheet date	
	2002	**2001**	**2002**	**2001**	**Dec 31, 2002**	**Dec 31, 2001**
Germany	22,834	46,938	286,106	274,891	1,626	1,530
Switzerland	216	866	2,678	2,435	10	10
USA	3,180	-2,234	17,685	18,170	108	108
	26,230	**45,570**	**306,469**	**295,496**	**1,744**	**1,648**

Revenue

The following table presents revenue for each segment in comparison to the total consolidated revenues as reported in the consolidated income statements:

in € thousands	Components		Outsourcing/ Application Services		Consulting & Customer Development		Other		**Total**	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Segment revenue	500	2,247	34,991	26,182	257,748	240,410	0	0	**293,239**	268,839
Segment costs	-967	-3,460	-28,896	-22,700	-211,484	-185,201	-28,455	-17,172	**-269,802**	-228,533
Segment contribution	-467	-1,213	6,095	3,482	46,264	55,209	-28,455	-17,172	**23,437**	40,306
Segment profitability as % of segment revenue	-93 %	-54 %	17 %	13 %	18 %	23 %	N/A	N/A	**8 %**	15 %

Segment contributions

The segment contributions reported reflect only expenses that are allocated to the segments. They do not fully reflect the actual profitability of the operational segments since general and administrative, development and other expenses are not allocated to the segments. Interest income/expense is not included in segment contributions. Depreciation and amortization are mainly charged to the segments indirectly as part of cost allocations. They are therefore not identified separately on the segment level in the internal reporting system, making such disclosure impractical.

The following table reconciles the total of contribution of all segments to income before income taxes as reported in the consolidated income statements:

in € thousands	2002	2001
Total contribution of all segment	51,892	57,478
Other unallocated costs	-28,455	-17,172
Operating profit [1]	**23,437**	**40,306**
Other income/expense	-536	521
Financial income, net	3,329	4,743
Income before tax [1]	**26,230**	**45,570**
Amortization of goodwill	0	-47,287
Income before tax	**26,230**	**-1,717**

[1] 2001 figure before goodwill amortization

The item “Other” consists mainly of internal costs which are not allocated to the segments.

Allocation of goodwill to business segment

In accordance with the provisions of SFAS 142, goodwill (€80,936 thousand) was subject to impairment testing in two stages, at segment level. The first stage was a comparison of fair value and book value (including goodwill). The market value was calculated on the basis of future discounted cash flows. In no instance was the fair value of a segment found to be lower than its book value.

Goodwill of €73,401 thousand was allocated to the consulting and customer development segment, and €7,535 thousand to outsourcing and application services.

Segment assets

Neither assets nor capital expenditure were allocated to segments in fiscal 2002.

36) Transactions with related parties

Members of the SAP SI Supervisory Board served in senior executive positions at SAP and SAP Group companies in 2002. SAP SI has a normal business relationship to SAP. The purchase of products and services from SAP, and the sale of services by SAP SI, are conducted in the same way as with all other unrelated third parties. SAP SI’s auditors have examined the Executive Board’s report, disclosing its relationships to related parties, and raised no objections. The report details all material transactions with the parent company or companies related to the parent.

SAP SI works with SAP AG, Walldorf, Germany, and its subsidiaries on development and consulting projects. All transactions relating to goods or services are reported at market prices. The following revenue was generated during the reporting period:

in € thousands	2002	2001
SAP Group	115,579	91,398
	115,579	**91,398**

The increase in revenue earned from the SAP Group was largely due to closer cooperation on large projects in 2002, as well as increased involvement of SAP SI, including the newly consolidated COPA, in development projects.

In addition, SAP SI has property rental agreements, both as lessee and lessor, with its stockholders. Management believes that the terms of the tenancy agreements in question are no more disadvantageous to SAP SI than the terms which would apply to tenancy agreements with unrelated third parties.

Accounts receivable from and payable to stockholders on December 31 of 2002 and 2001 are shown in the following table:

in € thousands	Dec 31, 2002	Dec 31, 2001
Receivables from SAP AG	8,589	8,856
Receivables from principal stockholders	**8,589**	**8,856**
Receivables from other affiliated companies	7,953	11,757
Receivables from principal stockholders and affiliated companies	**16,542**	**20,613**
Payables due to SAP AG	0	0
Payables due to affiliated companies	670	601
Payables due to principal stockholders and affiliated companies	**670**	**601**

There were no other business relations of note with principal stockholders.

37) Events after the balance-sheet date

In November 2001, SAP SI resolved to acquire 100 % of COPA Computer Organisation, Programmierung und Anwendungs-Software GmbH, Wesel, Germany (COPA), effective from December 14, 2001. SAP SI only acquired that part of COPA's business which relates to SAP solutions and software. The acquisition was effected in three tranches: In December 2001, SAP SI acquired 25.1 % of COPA 's stock. A further 25.0 % was acquired on January 1, 2002. The remaining 49.9 % was transferred on January 1, 2003.

38) Managerial bodies

In 2002, the members of the Supervisory Board received compensation totaling €63 thousand (€69 thousand in 2001). Members of the Executive Board received cash compensation totaling €1,739 thousand during fiscal 2002 (€723 thousand in 2001), of which €502 thousand comprised salary payments, and €1,237 thousand extraordinary payments.

No loans, sureties or guaranties had been granted to members of managerial bodies as of December 31, 2002.

As of December 31, 2002, SAP SI AG held no treasury stock or rights to SAP SI stock.

The following table contains a breakdown of the shares, convertible bonds, and other rights held by members of management bodies as of December 31, 2002:

Name	Shares	Convertible bonds	Other rights
Supervisory Board:			
Dr. Werner Brandt	0	0	0
Léo Apotheker	0	0	0
Frank Ficker	211	1,000	0
Prof. Dr. Henning Kagermann	0	0	0
Thomas Maik Nestler	551	1,300	0
Richard Stewart	0	0	0
Executive Board:			
Dr. Bernd-Michael Rumpf	0	0	0
Alfred Ermer	0	25,000	0
Joachim Müller	0	0	0

The following is a list of the members of the Executive Board and Supervisory Board of SAP SI AG:

Executive Board (as of December 31, 2002):	Membership of supervisory boards and other similar bodies in other German or foreign enterprises (as of December 31, 2002)
Dr. Bernd-Michael Rumpf Chairman of the Executive Board (CEO) Resident in Muttenz, Switzerland (since February 1, 2002)	· Member of the Board of Management of SAP SI (Switzerland) AG, Frauenfeld, Switzerland (since February 1, 2002)
Alfred Ermer Resident in Winnenden, Germany	· Board of Directors of SAP Systems Integration Holding Inc., Atlanta, USA · Supervisory Board of SAP Systems Integration America LLC, Atlanta, USA
Joachim Müller Resident in Heppenheim, Germany (since July 1, 2002)	· Board of Directors of SAP Systems Integration Holding Inc., Atlanta, USA (since July 1, 2002) · Supervisory Board of SAP Systems Integration America LLC, Atlanta, USA (since July 1, 2002)
Ulrich Assmann Resident in Dresden, Germany (until December 31, 2002)	· Member of the Board of Management of SAP SI (Switzerland) AG, Frauenfeld, Switzerland (until January 31, 2002)
Jörg Vandreier Resident in Eberdingen, Germany (until June 30, 2002)	· Board of Directors of SAP Systems Integration Holding Inc., Atlanta, USA (until June 30, 2002) · Supervisory Board of SAP Systems Integration America LLC, Atlanta, USA (until June 30, 2002)

Supervisory Board (as of December 31, 2002):	Membership of supervisory boards and other similar bodies in other German or foreign enterprises (as of December 31, 2002)
Dr. Werner Brandt [2) 3)] Chief Financial Officer and member of the Executive Board of SAP AG (Chairman) Resident in Bad Homburg, Germany	· LSG Lufthansa Service Holding AG, Kriftel, Germany · SAP Finland OY, Espoo, Finland · SAP Norge AS, Lysaker, Norway · SAP Svenska Aktiebolag, Stockholm, Sweden · SAP Ireland Ltd, Dublin, Ireland · SAP Africa (Pty) Ltd., Woodmead, South Africa · SAP FRANCE S.A., Paris, France · NV SAP BELGIUM SA, Brussels, Belgium · SAP Hellas S.A., Societe Anonyme of Systems Applications & Informations Technology Products, Athens, Greece · SAP Systems Yazilm Üretim ve Tic.A.S., Istanbul, Turkey · PT SAP Indonesia, Jakarta, Indonesia · SAP ANDINA Y DEL CARIBE, C. A., Caracas, Venezuela · SAP México, S.A. de C.V., Mexico City, Mexico · SAP Taiwan Co., Ltd., Taipei, Taiwan · SAP JAPAN Co., Ltd., Tokyo, Japan · SAP Korea Limited, Seoul, Korea · SAP Danmark A/S, Copenhagen, Denmark · SAP Italia Sistemi, Applicazioni, Prodotti, in Data Processing S.p.A., Milan, Italy
Thomas Maik Nestler [1) 2)] Consultant (Deputy Chairman) Resident in Dresden, Germany	

Prof. Dr. Henning Kagermann Co-Chairman and Chief Executive Officer of SAP AG Resident in Hockenheim, Germany	· Member of the Supervisory Board of Deutsche Bank AG, Frankfurt, Germany · Member of the Supervisory Board of DaimlerChrysler Services AG, Berlin, Germany · Member of the Supervisory Board of Münchener Rückversicherungs-Gesellschaft AG, Munich, Germany · SAP (UK) Limited, Feltham, UK · SAP FRANCE S.A., Paris, France · SAP Nederland B.V., 's Hertogenbosch, Netherlands · NV SAP BELGIUM SA, Brussels, Belgium · SAP Ireland Ltd., Dublin, Ireland · SAP LABS FRANCE S.A., Mougin, France · SAP Danmark A/S, Brondby, Denmark · SAP Labs, Inc., Palo Alto, USA · SAP International, Inc., Miami, USA · SAP JAPAN Co., Ltd., Tokyo, Japan · SAP Asia Pte. Ltd., Singapore · SAP Korea Limited, Seoul, Korea · SAP India Systems, Applications and Products in Data Processing Private Limited, Bangalore, India · SAP MALAYSIA SDN. BHD., Kuala Lumpur, Malaysia · SAP HONG KONG CO. LIMITED, Taikoo Shing, Hong Kong · SAP India (Holding) Pte. Ltd., Singapore · SAP Global Marketing Inc., Wilmington, USA

Léo Apotheker Member of the Executive Board of SAP AG Resident in Fourqueux, France	· SAP France S. A., Paris, France · SAP Finland OY, Espoo, Finland · SAP Svenska Aktiebolag, Stockholm, Sweden · SAP Italia Sistemi Applicazioni Prodotti in Data Processing S.p.A., Milan, Italy · SAP Hellas S.A., Societe Anonyme of Systems Applications & Informations Technology Products, Athens, Greece · SAP America, Inc., Newtown Square, USA · SAP JAPAN Co., Ltd., Tokyo, Japan · SAP Danmark A/S, Copenhagen, Denmark · SAP Manage Ltd., Tel Aviv, Israel
Frank Ficker [1) 3)] Member of the Employee's Council Resident in Dresden, Germany	

Richard Stewart [2] SAP America Senior Vice President Global Professional Services Organization SAP Denver (USA) (since May 14, 2002)	
Dr. Bernd-Michael Rumpf [2] [3] Regional director of SAP (Schweiz) AG Resident in Muttenz, Switzerland (until January 29, 2002)	

[1] Employee's representative

[2] Member of the audit committee

[3] Member of the committee for managerial succession issues

39) German Corporate Governance Code

The German government published the German Corporate Governance Code in February 2002. The Code stipulates legal requirements that describe the applicable German law, as well as establishing recommendations and suggestions for Corporate Governance. Only the legal requirements are binding for publicly listed German companies. With regard to the recommendations, an annual Declaration of Compliance Pursuant to Section 161 of the German Stock Corporation Act must be published to describe the extent to which they have implemented them. Companies can deviate from the suggestions without having to make any public statements.

A Declaration of Compliance Pursuant to Section 161 of the German Stock Corporation Act was published by the Executive Board and Supervisory Board of SAP SI AG in 2002, and can be found on the Company Website.

Dresden, Germany, January 31, 2003

SAP Systems Integration AG
The Executive Board

Dr. Bernd-Michael Rumpf Alfred Ermer Joachim Müller

REPORT OF THE SUPERVISORY BOARD

Dear stockholder,

Despite a difficult market environment in fiscal 2002, SAP Systems Integration AG (SAP SI) was able to maintain its position.

The worldwide political and economic situation in 2002 was worse than originally expected. The increasing uncertainty as to the future business outlook caused customers to focus investment on projects aimed at reinforcing their own competitiveness. As a result, the continuous growth which the IT services market had enjoyed in previous years did not carry over into 2002. The number and scope of projects declined, and decisions on awarding contracts were often based solely on return on investment.

After strong growth in fiscal 2001, 2002 was, for SAP SI, characterized by consolidation and a realignment of strategy. The focus is now on the optimization of our service portfolio with the aim of creating the greatest possible value for our customers, in particular via the seamless integration of heterogeneous IT systems. A highly customer-driven approach, dedicated and motivated employees, a proven ability to innovate, and absolute reliability, will remain the cornerstones of continued success at SAP SI.

The Company enjoyed positive business development with new solutions such as Business Intelligence and Customer Relationship Management, and in certain industries, such as financial services. SAP SI also strengthened its international competitiveness. SAP Systems Integration America LLC, Atlanta, acquired in February 2001, posted strong revenue and earnings growth. SAP SI also significantly increased its presence in the IT services market for the beverages industry by raising its stake to 50.1% in COPA GmbH, Wesel, effective January 1, 2002.

The Supervisory Board closely monitored SAP SI's development, and was involved in all important Company decisions throughout fiscal 2002. In addition, the Chairman of the Supervisory Board was in regular contact with the Executive Board concerning current business developments, as well as all issues likely to have a significant impact on the Company. The Supervisory Board oversaw the steps taken by the Executive Board to adjust the Company’s strategy in line with the changed economic environment. After due consideration, the Supervisory Board is of the opinion that the new strategy, and corresponding restructuring measures, has established the basis for improving SAP SI’s competitive position under difficult market conditions.

Corporate Governance and Declaration of Compliance

Within the scope of introducing of SAP SI’s own Corporate Governance Principles, the Supervisory Board studied the German Corporate Governance Code in detail. The Executive and Supervisory Boards together drafted the Company’s Corporate Governance Principles to conform to all requirements, and almost all recommendations, of the German Code. In December 2002, the Executive and Supervisory Boards of SAP SI submitted the first Declaration of Compliance pursuant to Section 161 of the German Stock Corporation Act (Aktiengesetz). This declaration explains the departures in SAP SI's Corporate Governance Principles from the recommendations of the German Corporate Governance Code.

In accordance with SAP SI's Corporate Governance Principles, it is hereby confirmed that no member of the Supervisory Board entered into any conflicts of interest between his position on SAP SI's Supervisory Board and other activities or professional duties during fiscal 2002. The German Corporate Governance Code recommends that members of the Supervisory Board attend at least half of the board's ordinary meetings. Because of other important duties, Prof. Dr. Henning Kagermann was unable to fulfill this recommendation. However, in close cooperation with the Chairman of the Supervisory Board, he was regularly informed of topics discussed at the meetings, and participated in the decisions of the board via written vote.

Changes to the Supervisory Board

Dr. Bernd-Michael Rumpf resigned from the Supervisory Board in order to join the Executive Board of SAP SI on February 1, 2002, requiring the election of a new shareholder's representative to the Supervisory Board. Richard Stewart, Senior Vice President, Global Professional Services, SAP America, was elected to the Supervisory Board at the annual stockholders’ meeting on May 14, 2002. Dr. Werner Brandt, Chairman of the Supervisory Board, Léo Apotheker, and Prof. Dr. Henning Kagerman are the remaining shareholder representatives and were members of the Supervisory Board for all of fiscal 2002. Employee representatives are Frank Ficker and Maik Nestler, the latter appointed Deputy Chairman of the Supervisory Board on May 14, 2002.

The work of the committees

The Supervisory Board has two committees, the Audit Committee and the Committee for Managerial Succession Issues.

The Audit Committee was founded at the Supervisory Board meeting of May 14, 2002, in accordance with Corporate Governance Principles, and met three times during fiscal 2002. Its work centered on the 2001 annual and consolidated financial statements, the auditing of newly consolidated companies and, in conjunction with the auditors, deciding the auditing priorities for the 2002 annual financial statements.

The Committee for Managerial Succession Issues convened three times in fiscal 2002. It dealt mainly with the changes to SAP SI's Executive Board.

Meetings of the Supervisory Board during fiscal 2002

The Supervisory Board held five ordinary meetings during fiscal 2002, and six extraordinary meetings convened primarily to address personnel changes to the Executive Board. The Executive Board kept the Supervisory Board informed of the current and likely future development of business, costs and profitability, as well as plans in the areas of human resources, financials and investments via both written and oral reports. The key issues considered by the Supervisory Board were ensuring profitability, SAP SI's business strategy, questions related to Corporate Governance, and risk management.

In addition to the regular meetings, the Executive Board and Supervisory Board communicated regularly and fully with regard to all significant business issues, in particular those of relevance to the reporting period.

Changes to the Executive Board

Previously a member of the Supervisory Board, Dr. Bernd-Michael Rumpf was appointed by the Supervisory Board to SAP SI's Executive Board, effective February 1, 2002. At its meeting on September 2, 2002, the Supervisory Board appointed Dr. Bernd-Michael Rumpf Chairman of the Executive Board (CEO) of SAP SI.

At his own request, Jörg Vandreier, member of the Executive Board responsible for Finance and Administration (CFO), was released from his contract, effective June 30, 2002. The Supervisory Board appointed Joachim Müller to the Executive Board in his place.

Ulrich Assmann resigned from the Company and the Executive Board of SAP SI of his own volition, effective December 31, 2002. The three remaining members of the Executive Board have assumed his responsibilities on an interim basis.

Annual and consolidated financial statements of SAP SI

In accordance with the resolution of the stockholders' meeting, the Supervisory Board appointed KPMG Deutschland Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, of Frankfurt/Main and Berlin, Germany, as the Company's new auditors for its annual accounts, effective May 14, 2002. The auditors duly examined the consolidated accounts drawn up voluntarily by SAP SI according to the United States Generally Accepted Accounting Principles (US GAAP), the annual accounts of SAP SI, drawn up according to the German Commercial Code (HGB), and the consolidated management report and management report of SAP SI for the fiscal year ending December 31, 2002. The auditors expressed their unconditional approval of all these documents. The auditors also examined the report on SAP SI's relationships with related companies, which SAP SI is required to draw up in accordance with Section 312 of the German Stock Corporation Act. The auditors also expressed unreserved approval of these reports. In addition, the auditors considered the system SAP SI has in place for early recognition and mitigation of risks. The auditors concluded that this system is performing adequately and that the obligations of management as defined under the German Law for Control and Transparency in Business (KonTraG) are being met.

All members of the Supervisory Board were provided with copies of the annual accounts, the consolidated management report and management report, the report on relationships with related companies and the auditors' report. These documents were discussed in detail at the meeting of the audit committee on March 24, 2003, and at the meeting of the Supervisory Board on the same day. The auditors were represented at both meetings and answered questions from the attendees. At the meeting on March 24, 2003, the Supervisory Board endorsed and finalized the results of the audit and consolidated annual accounts, the annual accounts, the consolidated management report and management report and the report on relationships with related companies.

The Supervisory Board endorsed the Executive Board's proposal that earnings should be carried over into the next reporting period.

Groundwork laid for positive development

Fiscal 2002 was the most difficult year for SAP SI since its foundation in 2000. The persistently weak economy, declining investments and the related drop in demand for SAP SI services required a significant realignment of business strategy, as well as measures to underpin the Company's success. Positive business developments in the second half of 2002 indicate that SAP SI successfully adapted to changing market conditions, and has laid the foundations for continued positive development.

The Supervisory Board wishes to thank the Executive Board and all employees of SAP SI for their commitment and dedication. Their contribution led to a decisive improvement in business developments in the second half of 2002, after a difficult first half.

Walldorf, Germany, March 24, 2003

The Supervisory Board

Dr. Werner Brandt, Chairman

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report in accordance with German generally accepted auditing standards

We have audited the consolidated financial statements prepared by SAP Systems Integration AG, Dresden consisting of the balance sheet, statement of income (loss), statement of changes in stockholders' equity, statement of cash flows and the notes thereto as of and for the year ended December 31, 2002. The preparation and content of the consolidated financial statements according to United States generally accepted accounting principles (US GAAP) are the responsibility of the company´s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the German auditing regulations and German generally accepted auditing standards promulgated by the Institut der Wirtschaftsprüfer (IDW). In addition, our audits comply with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present a true and fair view of the consolidated financial position, the results of operations and the cash flow of the group in accordance with United States generally accepted accounting principles.

Our audits, which also included an audit of the combined business review report of the group and the company of SAP Systems Integration AG (SAP SI) for the year ended December 31, 2002 as prepared by management, have not led to any objections. In our opinion, the consolidated business review report presents fairly the business situation and risks relating to the future development of the Group. In addition, we confirm that the consolidated financial statements and the consolidated business review report as of and for the year ended December 31, 2002 satisfy the requirements for an exemption of SAP Systems Integration AG (SAP SI) to prepare consolidated financial statements and a consolidated business review report according to German generally accepted accounting principles.

Mannheim, January 31, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Walter	Benz
Wirtschaftsprüfer	Wirtschaftsprüfer

FINANCIAL STATEMENTS OF SAP SYSTEMS INTEGRATION AG FOR FISCAL 2002

Summary

(Drawn up according to the German Commercial Code (HGB))

The complete financial statements of SAP SI AG, together with the auditor's unconditional statement of approval, will be published in the Bundesanzeiger (German Federal Gazette) and entered in the commercial register of the local first-instance court in Dresden. They can also be found online at the SAP SI Website.

PROFIT AND LOSS STATEMENT

in € thousands	2002	2001
Revenue	238,150	238,015
Change in balance of work in progress	-366	2,194
Other income from operations	3,543	1,428
Costs of material	-30,048	-39,166
Payroll and other costs	-135,759	-115,534
Depreciation of fixed assets and long-term investments	-4,229	-4,126
Other operating expenses	-59,265	-44,605
Income/expense from affiliates	987	0
Income from loans	39	24
Amortization of financial assets	-756	-9
Interest income/expense, net	4,523	5,212
Earnings before tax	**16,819**	**43,433**
Taxes	-6,418	-16,673
Net income	**10,401**	**26,760**

BALANCE SHEET

ASSETS in € thousands	Dec 31, 2002	Dec 31, 2001
Intangible assets	2,854	2,331
Property and equipment	6,584	8,105
Financial assets	13,075	9,999
Fixed assets	**22,513**	**20,435**
Inventories	5,321	5,233
Receivables and other current assets	73,205	75,904
Cash and cash equivalents	128,753	125,255
Non-Fixed assets	**207,279**	**206,392**
Deferred taxes	**3,573**	**191**
Prepaid expenses	**1,205**	**164**
Total assets	**234,570**	**227,182**
LIABILITIES AND STOCKHOLDERS' EQUITY in € thousands		
Stockholders' Equity	**169,543**	**159,142**
Untaxed reserves	**127**	**209**
Accrued liabilities	**35,909**	**38,163**
Liabilities	**28,977**	**29,668**
Deferred income	**14**	**0**
Total liabilities and stockholders' equity	**234,570**	**227,182**

SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED PARTIES

	Holding	Revenue in 2002	Net inc./ loss (-)/ 2002	Stockholders equity at **Dec 31, 2002**	Number of employees at **Dec 31, 2002**
	in %	€ thousands	€ thousands	€ thousands	
I. Affiliated companies					
SAP Systems Integration (Schweiz) AG, Frauenfeld, Switzerland [2]	100.0	8,008	162	828	10
SAP Systems Integration Holding Inc., Atlanta, USA [2]	100.0	0	- 1,119	2,830	0
SAP Systems Integration America LLC, Atlanta, USA [2]	100.0	35,732	2,907	10,837	108
SAP Systems Integration Consulting GmbH, Walldorf, Germany [3]	100.0	0	-5	10	0
COPA Computer Organisation Programmierung und Anwendungssoft-ware GmbH, Wesel, Germany [2]	50.1	22,737	839	1,761	158
		66,477	**2,784**	**16,266**	**276**
II. Other holdings					
UTILITe-Place AG. Hamburg, Germany [1]	19.0	47	- 790	773	2
		47	**- 790**	**773**	**2**
		66,524	**1,994**	**17,039**	**278**

[1] Figures refer to 2001 financial statements, prepared according to the German Commercial Code (HGB).

[2] Financial statements according to US GAAP

[3] Previously Prescient Consulting GmbH, Walldorf, Germany

Financial calendar*	
Publication of the 3-monthly report	April 29, 2003
Annual stockholders' meeting, Dresden	May 22, 2003
Publication of the half-yearly report	July 30, 2003
Publication of the 9-monthly report	October 29, 2003
Publication of preliminary result for 2003	January 30, 2004

* Subject to change without notice

Publication details

SAP SI AG
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D-01069 Dresden
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Concept and design by
Kirchhoff Consult AG,
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Translation by
Textbüro Martin Crellin,
Ludwigsburg

Photography by
Rüdiger Nehmzow,
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Printed by
ColorDruck,
Leimen

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Glossary

Business Information Warehouse

Support for strategic and operational decision-making. SAP Business Information Warehouse offers a comprehensive overview of internal and relevant external data.

Business Intelligence (BI)

Solution that pools data from all internal and external sources. The aim of business intelligence is to enable a 360-degree view of the enterprise, and to identify and leverage potential for value creation.

Consumer and Process Industries division

The Consumer and Process Industries division covers consumer goods, and process manufacturing industries with similar production methods, such as beverages, chemicals and pharmaceuticals.

Conversion Services

Design of optimized systems landscapes. Harmonization, restructuring and migration of SAP environments as a result of changes to organizational structures, or within the scope of systems integration.

Customer Relationship Management (CRM)

CRM comprises the systematic, continuous and goal-driven collection of information relating to customers. Managing this data makes customer relationships more transparent and is a key method of strengthening customer loyalty.

Data Warehousing

Software for capturing, storing and managing large quantities of data from diverse sources as the basis for reporting and analysis. Users or user groups are provided with data views and aggregations specific to their needs (cf. Business Intelligence).

E-business

E-business is the execution of business processes over the Internet. It is a holistic approach, which utilizes the Internet to improve all stages in the value chain – both intra- and inter-enterprise.

Enterprise Application Integration (EAI)

EAI enables the conversion of data and commands from the format of one application into that of another, enabling data to be exchanged between incompatible software systems.

E-procurement

Electronic procurement over the Internet automates traditional procurement processes, enables purchasing to be coordinated, reduces transaction costs, and accelerates procurement cycles.

Enterprise Resource Planning (ERP)

Modular software solutions for automating core business processes.

Financial Services division

The Financial Services division meets the needs of banks and insurers.

Hosting

A form of outsourcing. The external service provider operates the customer's software at a server center. The service provider makes available the necessary infrastructure and expertise (personnel and tools). The software licenses are the customer's responsibility.

KORDOBA

Modular standard banking software from Kordoba KG, which features flexible parameterization, and provides support for the different strategic approaches of banks.

Manufacturing division

Manufacturing serves industries with more discrete manufacturing processes, including the automotive, high-tech and engineering sectors.

MBS

Modular banking standard (MBS open) from Alldata Systems. This end-to-end banking system was developed in collaboration with a number of banks to meet real-world requirements, and provides coverage for banks' key business segments and processes.

mySAP.com (now mySAP Business Suite)

mySAP.com is SAP AG's e-business solution platform for integrating all relevant business processes via the Internet.

Portals

Enterprise portals allow employees, business partners, suppliers and customers to access information, applications and services. Predefined user roles can provide individuals with information tailored to their needs. The user interface is a standard Web browser. The use of mobile devices enables anytime, anywhere access.

Product Lifecycle Management (PLM)

Management of the entire lifecycle of a product, from development to sourcing through to customer service.

SAP Beverage

Fully integrated end-to-end solution designed to model the entire logistics chain of the beverages industry, and to link procurement and sales markets with internal operations and external partners. The solution enables customers to control costs, protect product quality, and deliver outstanding customer service.

SAP NetWeaver

The next generation of mySAP Technology, SAP NetWeaver integrates information and business processes across a wide range of technologies and organizational structures. It brings together structured and unstructured information, providing the basis for comprehensive, service-driven business solutions.

SAP R/3 System

Standard enterprise research planning software. Key capabilities include financial accounting and controlling, production and materials management, quality management and plant maintenance, sales and delivery, human resources, and project management. SAP R/3 automatically aggregates operational data to provide decision-support.

Service Industries division

The Service Industries division takes in healthcare, media, the public sector, higher education and utilities.

Solution Management

Concept that ensures high-performance, cost-effective operation of SAP solutions by providing services, support, knowledge and an appropriate infrastructure.

Strategic Enterprise Management (SEM)

Strategic Enterprise Management comprises a group of tools and processes by means of which decision-makers and senior executives can implement value-driven management processes throughout the entire company. SAP SEM provides an integrated real-time view of an enterprise's key performance indicators across all organizational structures, enabling the management to analyze and enhance the value of the company.

Supply Chain Management (SCM)

Supply Chain Management (SCM) is a multidimensional approach that aims to boost the efficiency of all stages of inter-enterprise logistics. The goal is to accelerate processes and to increase supply chain productivity.

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