

SAP SI AG Quarterly report

QUARTERLY REPORT **Q1/2002**

WE MAKE IT RUN

1st Quarter



Key performance indicators for the financial statements as of March 31, 2002 (US-GAAP)

SAP Systems Integration AG			
	Jan. 1, 2002 – March 31, 2002	Jan. 1, 2001 – March 31, 2001	Change over previous year in % or percentage points *
Key revenue/earnings figures			
Total revenue in € thousands	74,447	60,113	23.8 %
Operating profit before amortization of goodwill in € thousands	5,545	8,758	-36.7 %
Operating profit before amortization of goodwill as a percentage of total revenue	7.4 %	14.6 %	-7.2 % *
EBITDA in € thousands	6,972	10,022	-30.4 %
EBITDA as a percentage of total revenue	9.4 %	16.7 %	-7.3 % *
EBIT before amortization of goodwill in € thousands	5,638	8,870	-36.4 %
EBIT before amortization of goodwill as a percentage of total revenue	7.6 %	14.8 %	-7.2 % *
EBT before amortization of goodwill in € thousands	6,652	10,165	-34.6 %
EBT before amortization of goodwill as a percentage of total revenue	8.9 %	16.9 %	-8.0 % *
Key balance sheet figures¹⁾			
Equity-to-total-assets ratio	77.6 %	81.2 %	-3.6 % *
Cash-to-total-assets ratio	41.1 %	37.0 %	4.1 % *
Working capital in € thousands	136,802	111,642	22.5 %
Other key figures			
Cash-Flow in € thousands ¹⁾	4,932	7,236	-31.8 %
Average number of employees	1,835	1,307	40.4 %
Revenue per employee in € thousands	41	46	-10.9 %

¹⁾ All figures as of March 31

HIGHLIGHTS

- **24% increase in revenues to € 74.4 million**
- **Favorable development in the USA and at COPA**
- **Operating profit margin 7.4% (€ 5.5 million) due to cyclical and seasonal weakness in Germany and Switzerland**
- **20% increase in orders on books**

DEAR STOCKHOLDERS AND BUSINESS PARTNERS,

Despite the weak economic climate, SAP SI's revenues grew by a pleasing 23.8% to € 74.4 million (previous year: € 60.1 million) during the first quarter of 2002; these figures include initial consolidation of COPA GmbH. The operating profit was € 5.5 million (previous year: € 8.8 million). This represents an operating profit margin of 7.4% (previous year: 14.6%). Adjusted for quarterly special effects of around € 2.7 million, the operating profit would have been around € 8.2 million and the operating profit margin around 11.0%. In addition to the aforementioned special effects, the reduced profit was attributable primarily to lower capacity utilization, particularly compared with the exceptionally buoyant same quarter of the previous year.

Since the beginning of the year we have implemented programs to increase capacity utilization and achieve a sustained improvement in profit margin by strengthening sales, cutting costs, optimizing resource management and further raising the quality of our services. This has already produced results: Purchased services were significantly lower than the previous quarter and compared with December 31, 2001, our orders on books grew by 20.2% from € 124 million to € 149 million.

A higher profile at this year's CeBIT, the leading IT trade show, helped expand sales activities and secured over 600 contacts with potential customers. The main focus on SAP SI's

newly designed booth was on business intelligence, corporate portals, customer relationship management, supply chain management and supplier relationship management.

Operating business

A framework strategic and technical consultancy contract has been concluded with **Degussa AG**. SAP SI will provide Degussa with global support for the implementation and integration of software products developed by SAP and its affiliates. SAP SI will also provide the group with consultancy support for setting up and maintaining complex system environments.

The **Deutscher Ring** group of companies awarded SAP SI the contract for implementing SAP industry-specific software components "Collections & Disbursements" and "Insurance Claims Management". In addition, SAP is replacing the insurance group's current customer database with the SAP solution "Business Partner", integrating the newly installed SAP systems in the customer's system environment, and developing the interfaces for accessing data in the legacy systems.

SAP SI and webMethods have commenced implementation of their first joint project. At **Henkel KGaA**, SAP Business Connector, an interface for connecting SAP systems to the Internet, has been implemented in combination with the monitoring tool “webMethods for Trading Networks”. This platform will be used to exchange XML-based business information with trading partners and online marketplaces.

Since the beginning of the year, SAP SI has been operating and maintaining a central accounting system based on the industry solution mySAP Retail for **Coca Cola Deutschland Verkauf GmbH & Co. KG (CCDV)**. The solution is operated at SAP SI's own computer center in Dresden and supersedes CCDV's legacy central invoicing and financial accounting systems. SAP SI assumed the lead management role during the design of the new system environment.

EPCOS AG's “Capacitors and Inductors” segment got off to a successful start with SAP R/3 and SAP Advanced Planner and Optimizer (SAP APO) at its plants in Heidenheim (Germany), Evora (Portugal) and Szombathely (Hungary). Global distribution of capacitors and inductors at all of the company's sales

offices in Europe, America, the Middle East, Asia and Australia is via SAP R/3 and SAP APO. In addition, the customer's sales offices in Iselin, USA, financial accounting in Germany and financial accounting for the plants and distribution warehouses in Malaysia, Japan and Shanghai have successfully migrated to SAP R/3.

At **Gelsenwasser AG**, the biggest private drinking water utility in Germany, the project to implement consumption-billing within the IS-U/CCS solution went live after only 16 months.

At **Hoffmann-LaRoche**, SAP SI has integrated the pharmaceutical company's internal and external data sources into a standard data warehouse solution. SAP Business Information Warehouse was used as the technical platform.

At **SAINT-GOBAIN ISOVER G+H AG**, SAP SI migrated the SAP accountancy and logistics applications from R/2 to R/3. SAP APO functions were also implemented as part of the migration process.

Development of revenues and operating profit

During the first quarter, SAP SI recorded organic revenue growth (excluding COPA GmbH) of 15.0% to € 69.1 million (previous year: € 60.1 million). The operating profit was € 4.5 million (previous year: € 8.8 million).

During the reporting period, business progressed well in the USA and at COPA GmbH, which was included in the consolidation for the first time. At SAP SI America, revenues rose to € 9.3 million and the operating profit margin to 9.0%, thus continuing the turnaround that began to take shape in Q4 2001 following three weak quarters in the USA. At COPA GmbH, quarterly revenues were € 5.4 million, and the operating profit margin was 19.6% due to the high rate of manpower capacity utilization.

By contrast and as expected, SAP SI's business in Germany and Switzerland could not escape the difficulties posed by the current economic climate. Here, revenues rose to €59.8 million, a growth of just 4% on the buoyant same quarter in the previous year (€ 57.5 million). The quarterly operating profit was also impacted by a marked drop in capacity utilization, a writedown of € 2.0 million in accounts receivable and quarterly special effects of € 0.7 million: The operating profit for our core market was € 3.7 million (previous year: € 8.6 million), and the operating profit margin 6.1% (previous year: 14.9%). Adjusted for the writedown and special effects, the operating profit margin in our core market would have been around 10.7%.

During the quarter, the Consulting and Project Development segment accounted for 87.7% of revenues (previous year: 90.0%), Outsourcing/Application Services for 10.0% (previous year: 7.8%) and the Product segment for 2.3% (previous year: 2.2%).

In the first quarter of 2002, SAP SI companies in Germany and Switzerland accounted for 80.3% of revenues, and SAP SI America LLC for 12.5%. COPA GmbH accounted for 7.2% of group revenues.

The consolidated operating profit during the reporting period was € 5.5 million (previous year: € 8.8 million); this was due in particular to increased sales and marketing costs and also to a cyclical and seasonal reduction in capacity utilization in the core market. The margin was 7.4% (previous year: 14.6%). Adjusted for the above-mentioned quarterly special effects, the group's operating profit margin would have been 11.0%.

For the first time, the operating profit for the reporting period is not affected by goodwill amortization; at the beginning of this year, SFAS standards 141 and 142 of the Financial Accounting Standards Board (FASB) replaced scheduled goodwill amortization with a valuation audit. This audit revealed no need for amortization of capitalized goodwill as at March 31, 2002.

Costs and prices

Compared with the same quarter last year, group costs were 34.0% up at € 68.9 million. This includes € 4.3 million relating to the initial consolidation of COPA GmbH. Costs from organic growth rose by 26.0%, from € 51.4 million to € 64.6 million. Of this, the companies in Germany and Switzerland accounted for € 56.1 million (previous year: € 48.9 million) and SAP SI America for € 8.5 million (previous year: € 2.5 million).

The increase in costs at SAP SI America is largely due to the expansion of business. The rise in costs at group level is also the result of higher service costs generated by an increase in manpower and the € 2.0 million writedown in accounts receivable from Fairchild Dornier, which is in insolvency. Sales and marketing costs were € 2.1 million higher than the same quarter in the previous year due to increased activity in these

sectors. Additionally, administrative costs include quarterly special effects of € 0.7 million, primarily the result of structural adjustments in the USA. Research and development costs fell by 67% to € 0.2 million.

Strong competition on the market is increasing price pressure on standard IT consultancy services. This pressure is also impacting on SAP SI, but to a lesser degree as the company also focuses on segments other than standard IT consultancy.

Costs for purchased services were slightly down on the same quarter of the previous year.

Earnings per share

Consolidated earnings per share before minority interest for the reporting period amount to € 0.11 (previous year: € -0.16 after goodwill amortization and € 0.16 before goodwill amortization).

Consolidated Statements of Changes in Stockholders' Equity							
	Shares	Comprehensive income	Accumulated other Comprehensive income	Retained earnings	Additional paid-in capital	Capital stock	Total
	thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands	€ thousands
December 31, 2001	35,800		7	-27,398	218,524	35,800	226,933
Consolidated net income		3,606		3,606			3,606
Currency translation adjustments		28					
Other Comprehensive income		28	28				28
Comprehensive income		3,634					
Consolidation of COPA GmbH					-454		-454
31.03.2002	35,800		35	-23,792	218,070	35,800	230,113

Balance-sheet structure

The increase in fixed assets is largely attributable to the acquisition of a further 25% holding in COPA GmbH, Wesel, and its resultant initial consolidation. SAP SI has a 50.1% holding in COPA GmbH and will acquire the remaining shares on January 1, 2003.

The increase in the number of consolidated companies resulted in a slight rise in receivables.

Equity decreased by around 4% to € 230 million. The equity-to-total-assets ratio was thus 78% (previous year: 81%)

Cash flow

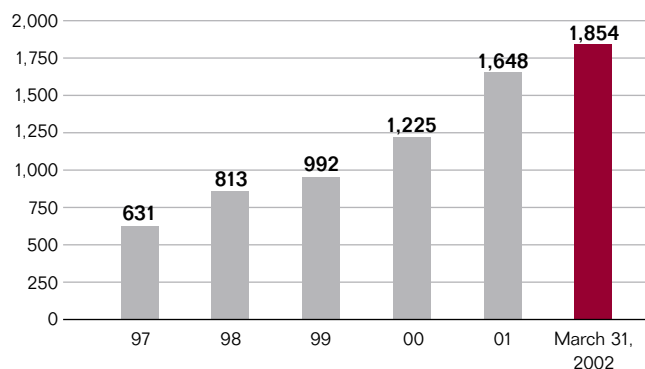
The cash inflow from operating activities was € 3.5 million. The change over the previous year (€ 12.8 million) is attributable to the lower quarterly result and to changes in receivables, liabilities, and short-term provisions. This was set against a cash outflow from investment activities of € 7.6 million, which was largely accounted for by the change in the scope of consolidation. This resulted in cash and cash equivalents of € 122 million as at March 31, 2002.

Research and development activities

Coupled with the acquisition of a majority share in COPA GmbH, the beverage industry was identified as a key strategic sector for SAP SI. During the first quarter of 2002, a systems test was performed between REA – SAP SI's recycling management solution for industrial and commercial companies – and SAP Beverage 2.0. SAP Beverage is SAP AG's industry solution for the beverage market and is being developed together with COPA GmbH.

Development of employee numbers at SAP Systems Integration AG

All figures as of December 31, in 2002 as of March 31



Development of the workforce

On March 31, 2002, SAP SI employed 1,854 employees, including 139 at COPA and 107 in the USA. 1,648 people were employed on December 31, 2001, including 108 in the USA. SAP SI's organic growth in personnel for the first quarter was thus 4.1%. In the same quarter of the previous year, SAP SI employed 1,389 people, including 76 in the USA.

Investments

Investments during the first three months amounted to € 2.9 million. Of this, € 1.6 million related to other hardware and other office and plant equipment, and € 1 million to the increase in intangible fixed assets.

Changes in the executive organs

Dr. Bernd-Michael Rumpf resigned his position on the Supervisory Board at the end of its meeting on January 29, 2002. The Supervisory Board appointed him as a member of the Executive Board of SAP SI with effect from February 1, 2002. Since then, Dr. Rumpf has held overall responsibility for operations in Banking, Financial Services & Conversions, Automotive, Aerospace & Defense, and Public Sector/Real Estate. He also took over management of Global Human Resources and International Business & Sales Coordination, as well as

responsibility for SAP SI's operations in Switzerland.

Equity holdings

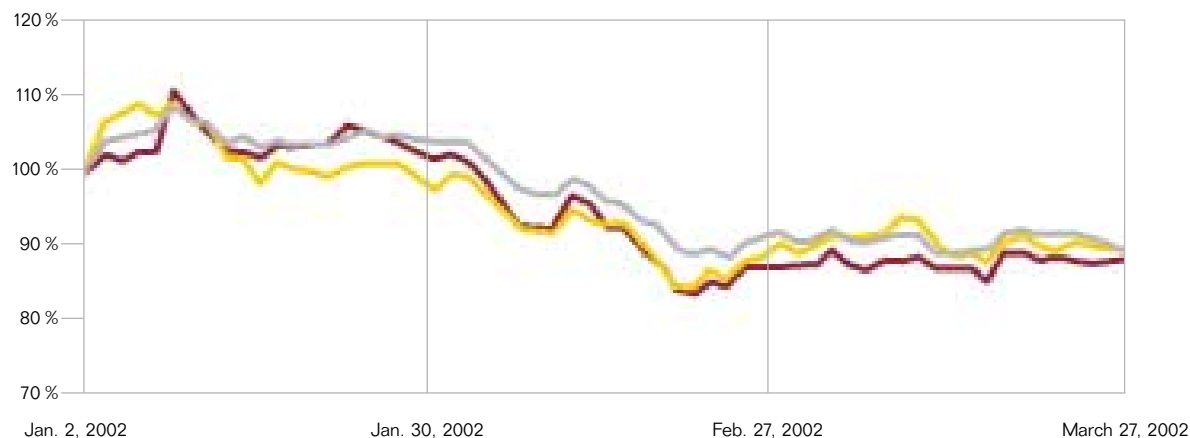
The total number of shares at March 31, 2002 remained unchanged at 35.8 million. The shares and rights held by the members of the Company's organs as of March 31, 2002 re-

Equity holdings			
Name	Number of shares	Number of CBs*)	Other rights
Supervisory Board:			
Leo Apotheker	0	0	0
Dr. Werner Brandt	0	0	0
Frank Ficker	211	1,000	0
Prof. Dr. Henning Kagermann	0	0	0
Thomas Maik Nestler	551	1,300	0
Executive Board:			
Ulrich Assmann	0	25,000	0
Alfred Ermer	0	25,000	0
Dr. Bernd-Michael Rumpf	0	0	0
Jörg Vandreier	0	25,000	0
SAP Systems Integration AG	0	n. a.	0

*) CB = outstanding convertible bonds of SAP SI AG

Performance of SAP SI shares

■ SAP SI AG ■ NEMAX 50 ■ NEMAX IT-Services



maintained unchanged compared with December 31, 2001:

Performance of SAP SI shares

During the first quarter of 2002 the price of SAP SI shares was unable to escape the effects of the depressed market. On March 28, the share price was € 19.14, down 16% on December 28, 2001 (Xetra closing price, source Deutsche Börse). During the same period, the Nemax 50 and Nemax IT-Services indices each fell by around 12%.

Outlook

Jörg Vandreier, CFO of SAP SI, has requested that the Supervisory Board release him from his duties as a member of the Executive Board of SAP SI with effect from June 30, 2002. The Supervisory Board has accepted his resignation with regret and appointed Joachim Müller as successor, effective July 1, 2002. Müller brings to the company extensive experience from management positions at several international IT companies. He studied economics and last held the position of vice president finance and controlling at Software AG, Darmstadt, Germany. The responsibility of the CFO will continue to include controlling, finance, investor relations, mergers

and acquisitions/legal, facilities management and internal technical services.

As stated at the Year-End Results Press Conference on January 30, 2002, SAP SI expects business development will be modest in the first half of 2002 due to the economic climate, and that the second six months of the year will see a clear upturn in demand. The current sales projects in this regard give us cause for optimism, although this development will depend on the anticipated improvement in the underlying economic situation. We are keeping our targets for fiscal 2002, aiming for annual revenue growth of 15 to 20% and an operating profit margin of 15 to 17% – in both cases after consolidation of COPA. The programs introduced at the beginning of the year in the fields of sales, costs, resource management and quality of services will be followed through consistently. We are confident that – despite the difficulties facing us during the year ahead – SAP SI will remain one of the leading players in the IT service sector in terms of profitability and growth.

Dresden, April 2002



TABLES

- **Income Statements**
- **Balance Sheets**
- **Statement of Cash Flows**

“Structured quarterly reports”

Deutsche Börse AG issued guidelines on the publication of “Structured quarterly reports” with effect from March 31, 2002. This report of SAP SI for the first quarter of 2002 is based on these guidelines. The existing balance-sheet structure has been retained in order to ensure uniformity of reporting throughout the Group. The Income Statement, Statement of Cash Flows and segment reports have been created in accordance with the rules for “Structured quarterly reports”.

Accounting principles

SAP SI's consolidated financial statements as contained in this quarterly report have been prepared according to the US Generally Accepted Accounting Principles (“US-GAAP”). Figures including the following subsidiaries: SAP Systems Integration America LLC, SAP Systems Integration America Holding Inc., SAP Systems Integration (Schweiz) AG, and COPA GmbH. The figures for the previous year include SAP Systems Integration AG as well as the subsidiaries in Switzerland and the USA.

Figures previous year

The comparative figures for the previous year refer to the consolidated financial statements and do not correspond to the figures for the “pro forma” statements during this period. The differences in the balance sheet derive from the value for goodwill.

In the Statement of Cash Flows the figures have been presented in a way that corresponds to the financial statements as at December 31, 2001. In other words, the previous years' values have been calculated correspondingly and are shown in a new form.

Consolidated Income Statement under US-GAAP

SAP Systems Integration AG			
	Quarterly report I/2002 Jan. 1, 2002 – March 31, 2002 € thousands	Quarterly report I/2001 Jan. 1, 2001 – March 31, 2001 € thousands	Change over previous year in %
Software revenue	514	594	-14 %
Maintenance revenue	1,227	706	74 %
Revenue from products	1,741	1,300	34 %
Revenue from services	64,429	53,680	20 %
Outsourcing/Application Services	7,426	4,665	59 %
Other revenue	851	468	82 %
Revenue	74,447	60,113	24 %
Product costs	-1,044	-715	46 %
Service costs	-56,747	-43,982	29 %
Cost of revenue	-57,791	-44,697	29 %
Gross profit/loss	16,656	15,416	8 %
Selling and marketing expenses	-4,446	-2,320	92 %
General and administrative expenses	-6,379	-3,133	104 %
Research & development	-239	-726	-67 %
Other operating income and expenses	-47	-479	-90 %
Total costs	-68,902	-51,355	34 %
Operating profit/income/loss before amortization of goodwill	5,545	8,758	-37 %
Amortization of goodwill	0	-11,817	n. a.
Operating profit/income/loss after amortization of goodwill	5,545	-3,059	n. a.
Interest income and expenditure	1,014	1,295	-22 %
Foreign currency exchange gains/losses	146	89	64 %
Other income/expense	-53	23	n. a.
Consolidated income before tax	6,652	-1,652	n. a.
Income tax	-2,736	-4,067	-33 %
Consolidated income/loss before minority interest	3,916	-5,719	n. a.
Minority interest	-310	0	n. a.
Consolidated income/loss after minority interest	3,606	-5,719	n. a.
Earnings per share¹⁾			
Earnings per share before goodwill amortization (basic)/(diluted) €	0.11/0.11	0.16/0.16	-31 %/-31 %
Earnings per share after goodwill amortization (basic)/(diluted) €	0.11/0.11	-0.16/-0.16	n. a./n. a.
Weighted average number of shares outstanding (basic)/(diluted)	35,800,000/35,800,000	35,800,000/35,800,000	0 %/0 %

¹⁾ Before minority interest

Consolidated Balanced Sheets under US-GAAP

ASSETS				
	March 31, 2002 € thousands	December 31, 2001 € thousands	March 31, 2001 € thousands	Change March 31, 2002 over March 31, 2001 in %
Intangible assets	83,698	77,638	113,223	-26 %
Property and equipment	10,106	9,052	14,599	-31 %
Financial assets	1,411	4,853	495	185 %
Fixed assets	95,215	91,543	128,317	-26 %
Inventories	351	56	143	145 %
Receivables from goods and services	49,674	44,457	42,377	17 %
Receivables from affiliated companies	16,247	20,613	12,878	26 %
Receivables from associated companies	5	0	0	n. a.
Other currents assets	11,623	10,493	1,059	998 %
Receivables and other current assets	77,549	75,563	56,314	38 %
Cash and cash equivalents	121,908	126,445	109,615	11 %
Non-fixed assets	199,808	202,064	166,072	20 %
Deferred taxes	843	1,631	931	-9 %
Prepaid expenses	653	258	643	2 %
Total assets	296,519	295,496	295,963	0 %
of which short-term	192,220	195,079	167,525	15 %

Consolidated Balanced Sheets under US-GAAP

STOCKHOLDERS' EQUITY AND LIABILITIES				
	March 31, 2002 € thousands	December 31, 2001 € thousands	March 31, 2001 € thousands	Change March 31, 2002 over March 31, 2001 in %
Capital stock ¹⁾	35,800	35,800	35,800	0 %
Additional paid-in-capital	218,070	218,524	218,524	0 %
Other Comprehensive Income	-23,792	-27,398	-13,535	-76 %
Retained earnings	35	7	-470	-107 %
Stockholders' equity	230,113	226,933	240,319	-4 %
Minority interest	1,505	0	0	n. a.
Accruals for pensions	867	729	434	100 %
Other accruals	41,313	40,338	31,367	32 %
Accrued liabilities	42,180	41,067	31,801	33 %
Convertible bonds	1,280	1,303	1,366	-6 %
Other liabilities	20,413	26,143	21,697	-6 %
Liabilities	21,693	27,446	23,063	-6 %
Deferred income	1,028	50	780	32 %
Total liabilities and stockholders' equity	296,519	295,496	295,963	0 %
of which short-term liabilities excluding stockholders' equity	62,754	66,947	53,064	18 %
¹⁾ of which authorized-but-unissued capital per balance sheet day	€ 1,280 thousands	€ 1,303 thousands	€ 1,366 thousands	

Statement of Cash Flows under US-GAAP

SAP Systems Integration AG			
	Jan. 1, 2002 – March 31, 2002 € thousands	Jan. 1, 2001 – March 31, 2001 € thousands	Absolute Change € thousands
Net income (before tax)	6,652	-1,652	8,304
Income tax	-2,736	-4,067	1,331
Minority interest	-310	0	-310
Net income (after tax) after amortization of goodwill	3,606	-5,719	9,635
Amortization of goodwill	0	11,817	-11,817
Net income (after tax) before amortization of goodwill	3,606	6,098	-2,492
Depreciation of intangible assets, property and equipment and financial assets, long term	1,336	1,152	184
Changes in accruals for pensions	-10	-14	4
Cash Flow	4,932	7,236	-2,304
Changes in deferred taxes	149	79	70
Changes in inventories	-295	-60	-235
Changes in receivables and other current assets	7,236	-4,062	11,298
Changes in short-term accrued liabilities	-558	5,543	-6,101
Changes in short-term liabilities	-10,207	3,475	-13,682
Changes in other assets, liabilities and in stockholders' equity	2,264	559	1,705
Net cash from operating activities	3,521	12,770	-9,249
Additions to intangible assets, property and equipment (excluding goodwill)	-2,893	-1,563	-1,330
Additions in the scope of consolidation	-4,775	-10,666	5,891
Additions to financial assets	-34	0	-34
Disposals of fixed assets	70	91	-21
Net cash from investing activities	-7,632	-12,138	4,506
Other changes in stockholders' equity	-426	-407	-19
Net cash from financial activities	-426	-407	-19
Net changes in cash and cash equivalents (term up to 3 months)	-4,537	225	-4,762
Cash and cash equivalents at the beginning of the reporting period	126,445	109,390	17,055
Cash and cash equivalents at the end of the reporting period	121,908	109,615	12,293

Segment reports

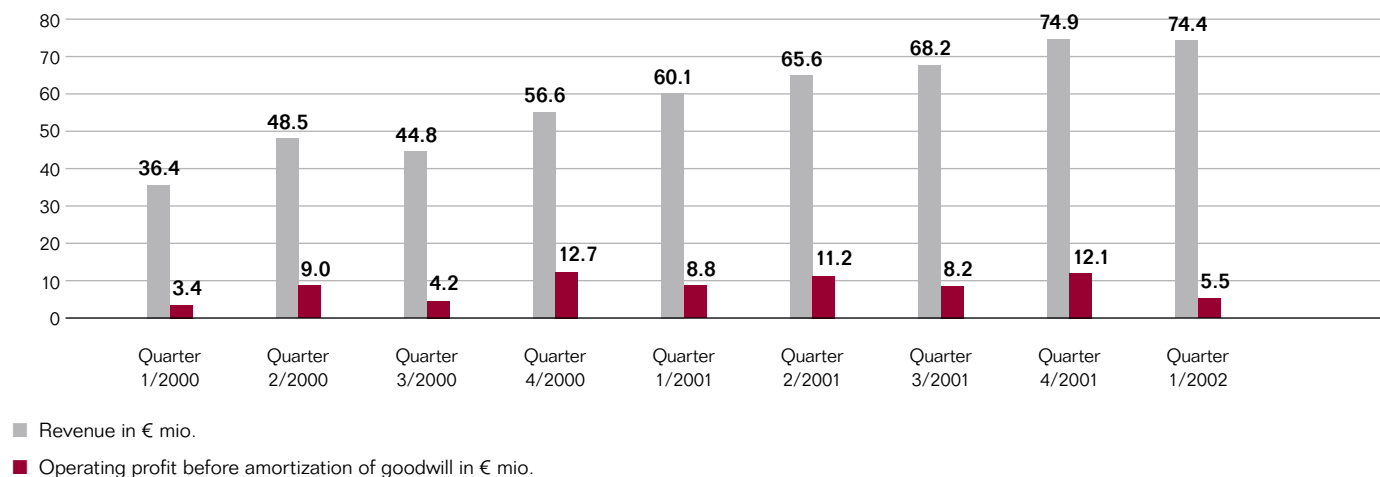
In € million	Consulting & Customer Development	Managed Services	Components
Segment revenue	67.0	7.4	0.1
Segment costs	53.9	7.4	0.3
Segment contribution	13.1	0.1	-0.2
Segment profitability as a percentage of revenues	19.5 %	0.8 %	-291.3 %

The segment contributions only contain the expenditure that can be assigned to the relevant segments, but do not include administrative costs, other overheads or interest received or paid. The operating profit of € 5.5 million was achieved by adjusting the total segment contribution (€ 13.0 million) by this expenditure (€ -7.5 million).

For the reporting period, profitability for the Consulting & Customer Development segment was 19.5% due to capacity utilization factors. For the Managed Services segment, profitability was 0.8%, due to the current spare capacity at the recently completed fourth computer center.

Quarterly overview

Quarterly results of SAP Systems Integration AG



Financial calendar

May 14, 2002	Annual General Meeting, Dresden
July 30, 2002	Interim half-year report, 2002
October 30, 2002	Interim nine-month report, 2002

WE MAKE IT RUN

Additional information is available on the internet at:

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