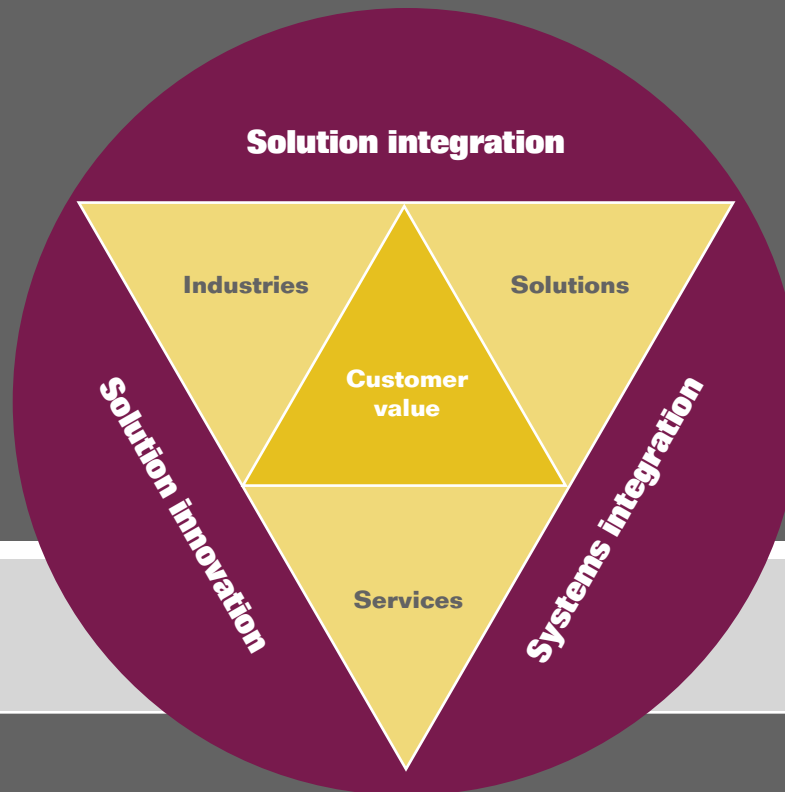


SAP Systems Integration AG
Annual Report 2003

WE MAKE IT RUN





INDUSTRIES

Our know-how about financial services, consumer & process industries, manufacturing and service industries, our service portfolio that covers the entire life cycle of an IT system and our impressive cross-industry expertise enable us to adapt solutions to our individual customers' specific needs.

SOLUTIONS

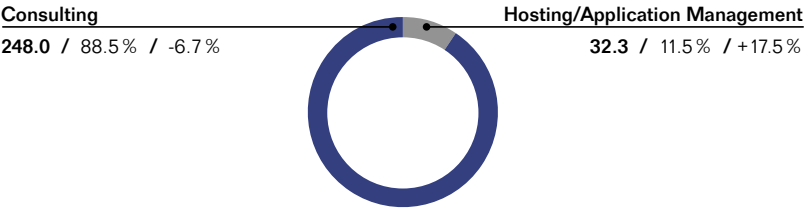
The integration of cross-industry, generic solutions such as customer relationship management or supply chain management in our customers' business processes leads to genuine added value. We help our customers by providing the latest know-how about modern solutions and integration technologies.

SERVICES

Our full-service approach ranges from IT strategy consulting to implementation, operation and ongoing administration/optimisation of systems. We support IT systems throughout their life cycle, guarantee optimum support for business processes and increase customer value as a result.

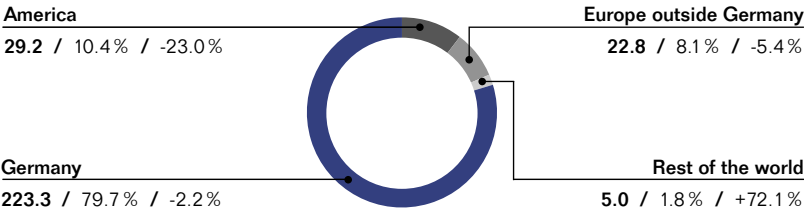
Revenue breakdown by segments

in € millions / per cent / change year on year in %



Revenue breakdown by regions^{*)}

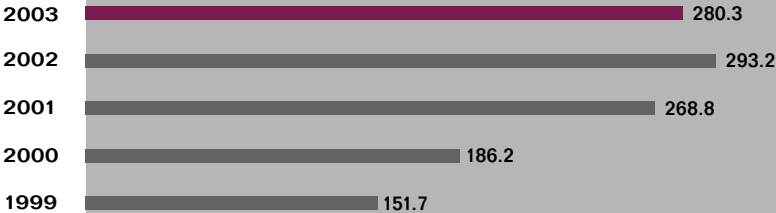
in € millions / per cent / change year on year in %



*) by location where service is provided

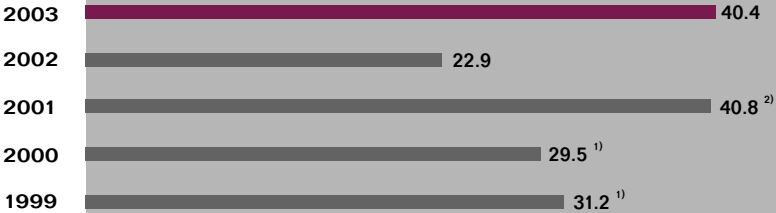
Revenue development

in € millions



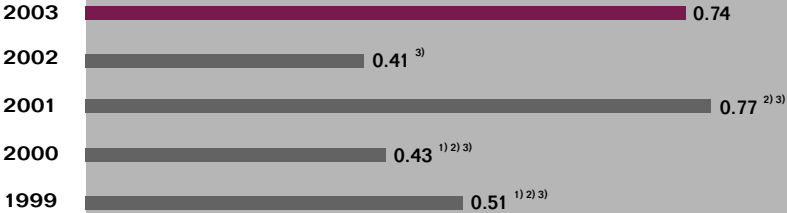
Earnings before interest and tax (EBIT)

in € millions



Earnings per share

in € / undiluted



¹⁾ As-if financial statements before goodwill amortization

²⁾ Financial statements before goodwill amortization

³⁾ After minority interest

**Key performance indicators
for the consolidated financial statements
as of December 31, 2003 (US GAAP)**

SAP Systems Integration AG

	Jan 1, 2003 – Dec 31, 2003	Jan 1, 2002 – Dec 31, 2002	Change in %, % points
Key revenue/earnings figures			
Revenues in € thousands	280,250	293,239	-4.4 %
of which foreign in € thousands	56,919	64,820	-12.2 %
Restructuring costs in € thousands	0	9,769	-100.0 %
EBITDA in € thousands	45,571	28,187	61.7 %
EBITDA as a % of revenues	16.3 %	9.6 %	6.7 %P
EBIT before restructuring costs in € thousands	40,435	32,670	23.8 %
EBIT before restructuring costs as a % of revenues	14.4 %	11.1 %	3.3 %P
EBIT in € thousands	40,435	22,901	76.6 %
EBIT as a % of revenues	14.4 %	7.8 %	6.6 %P
Key balance sheet figures ¹⁾			
Equity-to-total-assets-ratio	75.1 %	78.3 %	-3.2 %P
Cash and cash equivalents/total assets	45.4 %	44.3 %	1.1 %P
Working capital in € thousands	140,246	149,492	-6.2 %
Other key figures			
Earnings per share in € (undiluted)	0.74	0.41	78.0 %
Earnings per share in € (diluted)	0.74	0.41	77.9 %
Cash flow in € thousands ¹⁾	32,867	20,777	58.2 %
Capital investment (excluding goodwill) in € thousands ¹⁾	6,152	3,552	73.2 %
Average number of employees	1,658	1,819	-8.9 %
Revenues per employee in € thousands	169	161	5.0 %

¹⁾ All figures on December 31

By integrating processes and systems SAP SI delivers added value to customers who operate system landscapes based in part or entirely on SAP.

Our core competencies enable us

- to develop optimum IT strategies and architectures,
- to design business processes,
- to ensure their smooth implementation
- and to run and continuously improve customer solutions.



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Integration for customer value

TO OUR STOCKHOLDERS

Dear Stockholders,

We continue to operate in a difficult market, which decreased substantially for the second year in a row in 2003. SAP SI performed very successfully in this environment. We made decisive progress particularly in two areas that are important for the ongoing development of your Company. On the one hand, we proved impressively that we are also able to operate profitably in periods when there is great reluctance to invest and further strong price pressure.

On the other hand, within a short period we managed to realign our service portfolio to satisfy the future market requirements. We are concentrating even more intensively on the integration of SAP and non-SAP solutions as well as on the business process, IT strategy and IT architecture consulting that precedes this. We already succeeded in making it clear to our customers in fiscal 2003 that the services provided by SAP SI generate an appreciable return on investment. A service portfolio that meets market needs and the high qualifications of our consultants are and will remain the main reasons for our business success.

SAP SI's development in fiscal 2003 is an encouraging exception to the general market trends. This is particularly true with regard to profitability, to which we gave top priority in view of the circumstances outlined above.

Strict cost management, high utilisation of consultant capacity and the deliberate decision not to generate revenues via price had a positive impact on earnings. The consolidated earnings before interest and tax (EBIT) increased by 76.6 % to €40.4 million, while the EBIT margin improved from 7.8 % to 14.4 %. This means that your Company is maintaining the leading position it holds in Europe as far as profitability is concerned.

The revenue development reflects our market success in this area: the reduction in sales on our core market of Germany/Switzerland amounted to only 2.6 % in spite of the poor economic situation, whereas the IT services market in Germany as a whole decreased by 11.5 % in 2003 according to calculations made by the market research institute PAC. The industry association BITKOM also estimates that the sub-segments implementation and consulting in Germany were down 4 % and 5 % respectively.

Total consolidated sales also only decreased by 4.4 % to €280.3 million in spite of the effects of the economic situation and exchange rate fluctuations (constant currency: 2.5 % lower). Following a poorer first half of the year, SAP SI's revenues were substantially higher in the second half of the year and increased steadily from quarter to quarter. The Hosting/Application Management business contributed particularly positively to this development, growing by more than 17 % in the fiscal year. In the 4th quarter we reached the highest quarterly revenues since our Company was founded (€79.3 million) and recorded organic growth over the previous year for the first time again in 2003 too.



Alfred Ermer

Dr Bernd-Michael Rumpf

Joachim Müller

Ronald Geiger

We are concentrating on taking action in two different areas in order to continue strengthening our competitive position and to defend our market edge. We are on the one hand intensifying our efforts to provide our customers high-quality, tailor-made and innovative services. On the other hand, we are steadily adapting our cost basis in order to remain competitive in our prices.

Expansion of our services along the value chain continued systematically in 2003. We worked methodically on further development of the SAP SI business process consulting and optimisation operations (Business Consulting). We are consistently expanding the IT strategy consulting business too, which covers consulting in the areas of IT architecture, project portfolio management, IT technology and IT organisation. Interesting additional application areas are being created by new technologies too: media interfaces can be overcome with them as a result and industry processes can be redefined. These new technologies include the application and integration platform SAP NetWeaver and – in the mobile technology field – the new radio frequency identification process (RFID).

With SAP NetWeaver SAP has created new ways to adapt IT systems to business processes more effectively and has made integration and openness even more important. We intend to take systematic advantage of the opportunities this gives us. The new integration approaches that are closely associated with the concepts of service-oriented architectures (SOA) and Web services tackle exactly the challenges that our customers face. They need on the one hand to adapt quickly and flexibly to new market requirements, while they can on the other hand only meet these requirements inadequately due to tremendous cost pressure and the heterogeneous IT environments available at their companies.

**“Integration for customer value”
remains the main focus of our
consulting services.**

We think that there is huge potential for innovative, high-quality services in the area of IT strategy and architecture consulting here. They will at the same time lead to further demand for the services like development, implementation, integration and outsourcing (Managed Services) that follow in the value chain.

The acquisition of SPM Technologies Deutschland GmbH in December 2003 was a major step in the strategic development of SAP SI in the IT strategy consulting field. SPM is an innovative consulting company that carries out complex projects in the areas of IT architecture, systems integration, quality management and program management. The company was also involved in conceptual development of the SAP application and integration platform SAP NetWeaver in an advisory capacity and has in-depth know-how about other market-leading technology platforms too.

The acquisition of SLI Consulting AG in Switzerland in 2003 was important for the expansion of our international presence. This consulting company has worked successfully on SAP integration projects for years now and has received the SAP Quality Award on several occasions. SLI has more than 50 employees and services about 150 customers from different industries. It improves our access to the Swiss IT consulting market considerably.


We reached our most important targets in fiscal 2003: higher profitability and strategic alignment. We are confident about 2004, even though the strong competitive pressure will be continuing and we think that growth in the IT industry will not be stimulated until the second half of the year. This assessment of the market corresponds to a large extent to the opinions expressed by the market research institutes, which now think that there are initial signs of a change in the economic trend and slight growth in the IT services markets in Germany – after this was noticed for the USA. We are expecting SAP SI to record organic revenue growth of 8 to 12 % in 2004 and to maintain a high EBIT margin of 14 to 15 %. We are convinced that we are excellently equipped to reach these ambitious targets with the strategic expansion of our service portfolio.

Following a sharp drop in 2002, the price of the SAP SI share recovered again substantially in the year under review. By comparison with the DAX, which increased by 37 % on a year-end basis, and the TecDAX, which went up by 51 %, the SAP SI share developed disproportionately well with an increase of 70 %. It is very apparent that the capital market is responding positively to the further substantial improvement in our profitability and the clear strategic alignment of the Company. We anticipate that our systematically profit-oriented growth strategy will continue to have a favourable effect on the share price.

We have a strenuous but also successful year behind us, which made great demands on all of SAP SI's employees. We are aware of the fact that it is the people at your Company who generate the sales and earnings thanks to

their expertise, their willingness to learn, their motivation and their social skills. For a consulting company like SAP SI, it continues to be the case that efficient and dedicated staff are the most important assets. Their high commitment in projects for customers and their loyalty to the Company are remarkable and deserve our respect. We would like to take this opportunity to express our thanks also to our customers, who either put their confidence in SAP SI's capabilities for the first time or have already been creating value for their company together with us for some time now. Our thanks also go to our partners for their pleasant co-operation and to our stockholders. We will go on working hard to justify the trust they have placed in us.

Dresden, January 30, 2004



■ **Dr Bernd-Michael Rumpf**

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



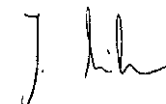
■ **Alfred Ermer**

Born in 1961. Alfred Ermer was originally responsible for application development projects in industry. He moved to SAP consulting and development in 1987. He was Head of development at SAP Solutions GmbH. SAP AG commissioned him to develop a new industry solution, after which he was responsible for launching this solution on the market as Consulting Manager of the SAP Group. He has been a member of the SAP SI AG Executive Board since 2000.



■ **Ronald Geiger**

Born in 1960. Geiger moved into management consulting after seven years in industry. His involvement in major transformation projects at Gemini Consulting in the retail trade, the oil/chemical and pharmaceutical industries and manufacturing qualified him to enter corporate management in 1996. He became a member of the Cap Gemini Ernst & Young management team in 2000, where his last responsibility was for the Group's industrial business in German-speaking countries. He has been a member of the Executive Board of SAP SI AG since April 2003.



■ **Joachim Müller**

Born in 1959. Following several years in auditing and various management positions in the finance, controlling and accounting fields at different companies, Joachim Müller was most recently Vice President Finance & Controlling at Software AG. He has been Chief Financial Officer (CFO) of SAP SI AG since July 2002.



OPENING DOORS

Customers in the **financial services** field are becoming more demanding. New competitors are threatening profitability in the core business. Governments are introducing strict regulations that take considerable effort and expense to implement. It is the assignment of the financial services operations to tackle these challenges in liaison with and for the customer.

Open communication and transparency as success factors

The price of the SAP SI share went up by 70 % in 2003. This increase in value demonstrates the confidence the capital market has in our Company. Confidence that is due to a large extent to open and proactive communication with institutional and private investors.

We combine the advantages of SAP technology with our comprehensive industry and integration know-how in this context: from the analysis of the business processes to the development of customer-specific core applications, the integration of SAP applications in heterogeneous system environments and the operation of complete solutions for our customers.

General stock market development

The stock market year began very badly in 2003. Almost all of the indices – national and international ones – reached historical lows in March. The reasons for this in Germany were gloomy economic forecasts and globally the signs of an approaching war in Iraq that started at the end of the 1st quarter. The trend on the capital markets changed surprisingly quickly for many observers. The rapid end of official fighting in the Persian Gulf and the improvement in the economic prospects for Germany led to increasing share prices. The upward trend continued until the end of the year and was only interrupted for a short time in the 2nd quarter by the SARS epidemic.

The software, media and technology industries were among the favourites on the stock exchange floor. With the result that not only the TecDAX but also the industry index Prime Software performed considerably better than the DAX in the course of the year. Although the latter increased by 37 % during the year too and was thus one of the most successful indices by international standards. It was noticeable in this context that investors focussed on shares with a high beta rating by comparison with the market as a whole. This means that shares were preferred which reflected the fluctuations of an index relatively strongly.

The SAP SI share developed considerably better than the TecDAX index.

Development of the SAP SI share price

The SAP SI share developed even better than the relevant overall market. Whereas the TecDAX rose 51 % in the course of the year, our share price went up 70 %. Only the Prime Software index increased even more and closed the year 81 % higher than at the end of 2002. SAP SI cost €8.90 on the final day of trading in 2002 (December 30). The SAP SI share price continued to fall up to the end of the 1st quarter, reaching its low for the year of €8.44 on March 31. The share price began to go up as early as the second quarter and soared to more than €14.00 within a short time once it broke through the €10 mark at the beginning of June. Our share price developed substantially better than the German stock market as a whole in the 4th quarter in particular and reached its high for the year of €16.66 as the closing price on November 14. The SAP SI share was being traded for a closing price of €15.15 on December 30, 2003. Daily share turnover developed positively in the course of the year too: about 40,000 shares were traded per day on average in the fourth quarter, while the figure was still about 33,000 per day in the first quarter.

The increase in our share price can be attributed not only to the generally positive market trend – particularly as regards technology shares – but also to the high profitability of our Company, which has been demonstrated on repeated occasions – both in absolute terms and by comparison with the rest of our industry. Investors responded positively to the inclusion of our share in the TecDAX too.

Development of the SAP SI share price compared with relevant indices

December 30, 2002 = 100



Share information

Code	501 111
ISIN	DE0005011118
Bloomberg code	SSI
Reuters code	SSIG
Stock type	Common stock (bearer shares)
Number of shares	35,800,000
Free float on Dec 31, 2002	30 %
Initial public offering	September 13, 2000
Stock market	Prime Standard

Share development in the fiscal year

Closing price on the last day of trading in 2002 (XETRA)	€8.90
Closing price on the last day of trading in 2003 (XETRA)	€15.15
2003 high (XETRA)	€16.66
2003 low (XETRA)	€8.44
Performance in fiscal 2003 in percent	+70.2 %
Performance in fiscal 2003 (absolute)	+€6.25
Average market capitalization in 2003	about €447 million
Average daily trading volume in 2003	37,156 shares
Earnings per share	€0.74
Price/earnings ratio on Dec 31, 2003	20.5
Price/cash flow ratio on Dec 31, 2003	16.6



Investor relations

Close relationships between the Company and its shareholders were essential in a stock exchange year that was successful overall but was very volatile at the beginning. The maintenance of intensive contacts to capital market players was therefore a high priority for the SAP SI management again in 2003. More than 140 individual meetings were, for example, held with investors and analysts. The Executive Board of our Company spent a total of eleven days at roadshows, for instance in Frankfurt, London, Paris, Stockholm, Zurich and the USA, to explain SAP SI's strategy and growth potential. Intensive contacts were also maintained with journalists from leading business media, including a press roadshow, while four conferences for investors and analysts were attended too, including the DVFA IT Forum parallel to CeBIT in Hanover.

A "SAP SI investors' conference" was held at our new office in Bensheim, Germany, in September with the Executive Board and members of the top management. The financial services industry was used as an example to present the strategic alignment of SAP SI to analysts and institutional investors. The main issues covered apart from the new technology platform SAP NetWeaver were Web services and service-oriented architectures.

Following the initial coverage by Sal. Oppenheim, Citigroup SmithBarney and Equinet, we are now being covered by more than 20 national and international investment banks. This led in 2003 to the publication of over 50 studies and flash reports.

Our third Annual Stockholders' Meeting took place in Dresden on May 22. The conduct of the business by the Executive Board and the Supervisory Board was approved by more than 99 % of the capital represented and the retained earnings of €47.3 million were carried forward to new account. SAP SI was also authorised to acquire Company shares amounting to up to 10 % of the capital stock (this corresponds to 3,580,000 shares) via the stock market by October 31, 2004.

We increased our IR service range considerably: a chart module and consensus estimates were, for example, added to our Web site. We broadcasted the entire Stockholders' Meeting online for the first time too.

Awards that were presented to us last year are evidence of the success of our sustained investor relations work. We came in third on the ranking list published by the magazine CAPITAL for our investor relations work in the TecDAX category. SAP SI also received the highest possible rating A+ on repeated occasions in the SES risk rating for "a particularly low company-specific risk".

We made an analysis of the external perception of our Company in August. The objective of this was to review the image of SAP SI and the satisfaction of the financial community with SAP SI investor relations. The results showed that we succeeded in improving the good performance we had already achieved in the previous year and were given sound suggestions for our investor relations activities in future too.

Convertible bond programme

The Executive Board of SAP SI subscribed 90,000 new convertible bonds for SAP SI shares in fiscal 2003. The number of convertible bonds held by the Company's employees increased substantially in the fiscal year too and amounted to about 2.0 million at the end of the year.

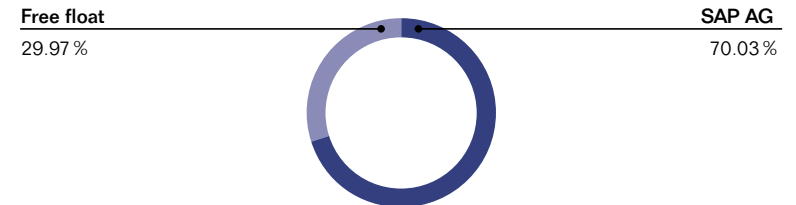
Stockholder structure

The number of bearer ordinary shares outstanding during fiscal 2003 remained unchanged at 35.8 million. SAP AG held 67.9 % of the shares at the beginning of the year and increased its interest to 70.0 % because of the low price level in the 1st quarter. SAP AG continues to see its majority holding in SAP SI as a strategic investment in an IT integration and service partner with a long-term mission to operate independently.

Our free float totalled 30.0 % at the end of the year. A stockholder analysis as per November 30, 2003 showed that about 60 % of the free float was owned by private investors, while about 40 % was held by institutional investors.

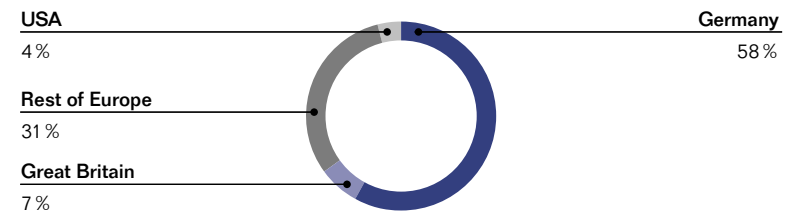
Stockholder structure

in % / on December 31, 2003



Institutional free float by regions

in % / on November 30, 2003





SHAPING MARKETS

Global markets, fast innovation cycles in product development and process optimisations inside and outside the supply chain are the challenges our customers in **consumer & process industries** face. In this context, we optimise added value in our core fields: chemicals/pharmaceuticals, beverages, consumer products and the retail trade.

Clear strategy for growth markets

SAP SI is a process and systems integrator that operates internationally on the IT consulting market. Service-oriented architectures, systems integration, hosting and application management are the growth markets on which we are focussing our service portfolio.

We are involved in innovative assignments right from the start thanks to our national and international projects along the value chain and our participation in industry-specific SAP developments. We exploit this experience in the implementation of best practice solutions that increase value and concentrate on the needs of the customer and the consumer.

Development of the IT consulting market

After years of strong growth, there was strong reluctance to invest on the market for information technology (IT) all over the world and particularly in our core market Germany from the end of the 90s up to and including 2003 due to economic developments. According to an estimate made by the industry association BITKOM in September 2003, the German IT services market – including the fast-growing outsourcing field – is likely to have decreased by 1.2 % in 2003. BITKOM estimates that the implementation and consulting sectors recorded drops of as much as 4 % and 5 % respectively. In the analysis it compiled in January 2004, the market research institute PAC even assumes that the German IT services market as a whole will have shrunk by 11.5 % in 2003. However, Gartner Dataquest has calculated that 2003 brought the North American IT services market moderate growth of 3.6 % again.

Market researchers' growth expectations for 2004 are slightly better. There are more and more signs that the end of the IT recession will be reached soon. A positive trend is apparent on many markets. Most analysts, such as Meta Group, Forrester Research and IDC, assume that expenditure on IT services around the world will be increasing by 4 % on average. The market recovery is being led by the USA, for which Gartner Dataquest anticipates growth of 5.6 % in 2004. In its latest forecast, BITKOM predicts growth of 1.5 % in Germany, while PAC's estimate is 1.8 %.

The reluctance to invest in recent years has been accompanied by a steady deterioration of margins. The market is extremely competitive and this situation is being intensified even more by the direct or indirect entry of new competitors from countries like China, India and Russia.

This development is at the same time accelerating the global consolidation process in the IT industry. The process of structural change has entered a new dimension with the take-over battle between two of the major suppliers of enterprise resource planning software solutions in the USA. A consolidation process is taking place all over the world in the IT services market too. According to the experts, market players' ability to survive will depend on how successfully the transition to a global player or a niche supplier can be completed. IT service companies with firm ties to a globally oriented software producer will be particularly able to generate a crucial competitive edge as well as better margins than the industry average.

Basically still a growth market

The fact that the economic environment has weakened the IT consulting business does not mean that the potential offered by the market for information technology has been exhausted. What is at most the case is that the times when entire company divisions were equipped with new software are over to a large extent.



Barbara Beck,
Application Management

»The variety of different assignments and the opportunity I have to assume personal responsibility motivate me day in, day out.«

Only 6 % of the managers think that they have the relevant data to make corporate decisions at their disposal in good time.

Customers now tend to need special detailed solutions. Banks are demanding special solutions to meet the requirements of Basel II. Power companies require new software components for customer management because of the deregulation of their markets. Solutions to speed up decision-making processes within management continue to be important too. A survey by the US company NCR Teradata has revealed that three quarters of the managers interviewed have to take far more decisions now than only a year ago. Only 6 % of the managers think, however, that they have the relevant data to make corporate decisions at their disposal in good time.

The requirement structure confirms these trends. The emphasis is on solutions and IT services that improve decision-making quality and innovative skills, that complete the added value chain and that facilitate outsourcing. High growth rates are expected in the coming years with such issues as business intelligence, portals, systems integration, service-oriented architectures, ERP, industry-specific and cross-industry solutions, hosting and application management.

Growing customer requirements – limited implementation

Many companies have to try and do the impossible. On the one hand, they need to adapt to new market situations quickly and flexibly, while they on the other hand are forced to satisfy the increasingly extensive IT requirements with tighter budgets. According to information available on the market, up to 80% of funds at most companies are spent solely on maintaining the existing system environment. This explains why demands are being made for optimisation and flexibilisation of the existing IT environment. The aim of systems integration is to make it possible to save costs, to provide comprehensive support for internal and external business processes, to protect investments that have been made and to guarantee better access to company information as well greater platform independence. Customers also expect an increase in corporate agility, by which they mean the ability

to redefine the scope of their own business on an ongoing basis by means of acquisitions, co-operation, time to market, flexibility of the business model or expansion of the areas of business operation.

The integration approaches that have been proposed up to now have not been adequate to implement these customer requirements completely and inexpensively. Most existing IT environments have grown historically and are heterogeneous rather than homogeneous. Integration is from one point to the next. Although the integration approaches available, such as enterprise application integration are established, they are, however, only capable to a limited extent of creating an open, flexible system that supports all further changes.

New technologies indicate the answer

Such new software architectures as service-oriented architectures (SOA), new application and integration platforms and new integration approaches like Web services will be dominating the integration debate in future. These new technologies permit decisively more flexible support for business processes by IT systems. Better synchronisation between both “worlds” is possible because of modified design principles and open standards. The advantages for the customer are obvious:

- Since they are far more flexible, the new technologies can be implemented more quickly and thus enable new or changing business processes to be exploited earlier.
- Corporate agility in the case of structural changes caused by acquisitions or spin-offs is increased considerably.
- The total costs of ownership (TCO) for adapting the IT environment to changes are reduced.

This means that the IT systems follow the business and not vice-versa.

SAP SI has an excellent position on the IT consulting market as a comprehensive process and systems integrator.

Experts estimate that service-oriented architectures and the technology platforms for them will trigger the next growth phase on the IT market. SAP has developed a strategic position in this market with SAP NetWeaver. SAP NetWeaver is at the same time an excellent platform for SAP SI as a systems integrator to fulfil our mission of “integration for customer value”.

SAP SI firmly established on the market

We have the skills to combine business processes and technologies with each other in any phase of the life cycles of IT environments with the help of conventional integration approaches and new architecture and platform technologies. More than 1,000 active customers inside and outside Germany are impressive evidence of the reputation we enjoy on the market. Surveys by Meta Group indicate that we are among the most well-known and efficient German IT consulting companies. In the year under review, we moved up from 12th place to 8th place in the list of the 25 biggest consulting and systems integration companies in Germany by revenues (source: Lünendonk).

Our excellent industry know-how means that we appreciate the demands made by our customers' business. We are in a position to liaise with our customers on further optimisation of their business processes and to support them as effectively as possible with the help of modern IT systems and technologies.

The close relationship to SAP, our parent company and the market leader for enterprise resource planning software solutions, represents another major competitive edge. We are involved in the product life cycles of SAP solutions at an early stage and have extensive SAP development, technology and application know-how. Incorporation in the global network of the SAP Group and the brand name “SAP”, which is a synonym for high technology standards, give us considerable advantages over the competition.

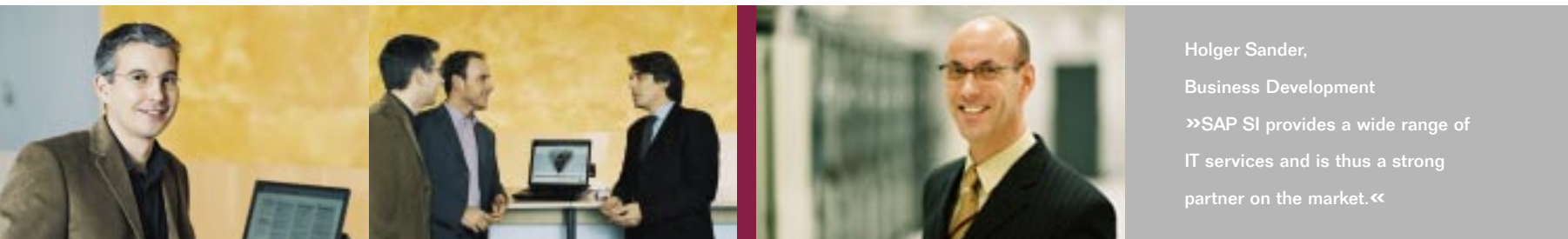
We demonstrate our capabilities outside the SAP world as well by integrating SAP components in existing non-SAP environments. We are a trusted advisor for our customers, because we consistently generate benefits as a single-source optimiser and solution partner. We performed successfully in 2003 in what was a weak and fiercely competitive market. We obtained new customers and reached a high level in the utilisation of our consultants' capacity. We are highly profitable by European standards.

Strategic emphases

Our strategic approach is “integration for customer value”. We focus on benefits for the customer rather than on what is technically feasible. We create sustained added value for our customers by the in-depth integration of processes and systems. “Systems Integration” (SI) in our name stands in this context for

- Process design from business- and process-oriented point of view (solution integration),
- Technical integration of SAP and other software solutions (systems integration) and
- Structuring of open, flexible IT environments, development of customer-specific solutions or productive integration of new technologies (solution innovation).

Our medium-term goal is to generate profitable growth, both organically and via acquisitions and partnerships along the value chain. Our service portfolio here covers the IT strategy and business consulting phase (“plan/design”), the integration of SAP and non-SAP systems as well as completion of them (“build”) and operation of the solutions with application management and hosting (“run”).



Holger Sander,

Business Development

»SAP SI provides a wide range of IT services and is thus a strong partner on the market.«

Not only the technology platform SAP NetWeaver but also the platforms of other manufacturers form the basis for systems integration. The acquisition of SPM Technologies in December 2003 plays a central strategic role for us in this. SPM gives us a leading position in the high-end professional IT services market for SOA and SAP NetWeaver consultancy. The combination of SAP SI and SPM capabilities creates added value for the customer. We provide sustainable IT architecture, IT strategy consulting (including implementation of the agreed strategies) and an extensive range of services for customers' existing platforms.

Rapid progress is being made in the development of industry-specific consultancy fields within the SAP SI business operations. Business consulting helps customers to simplify their business processes and to facilitate a convincing corporate strategy by means of proven best practices. The IT strategy and system environment are tailored exactly to customers' special requirements.

Internationalisation of the business is another key element of our growth strategy. We aim to increase the proportion of total revenues accounted for by business outside Germany from less than 20 % to more than 30 % in two

to three years, thus reducing the Company's high level of dependence on Germany as its domestic market. According to this strategy we acquired SLI Consulting AG, Regensburg (Switzerland), in September 2003. SLI is a consulting company for SAP solutions and has an attractive customer base of about 150 companies, most of them in the food, chemical and pharmaceutical industries, the retail trade and manufacturing. The acquisition is strengthening SAP SI's access to the Swiss market above and beyond the healthcare field. We intend to grow significantly in the USA as well. Initial activities have begun and are being continued systematically.

Our Company goal is to increase the customer's corporate value by carrying out process and systems integration. We prove specifically what value our customers can add with SAP SI by means of benchmarking, best-in-class processes and the cultivation of close relationships to them. We demonstrate our quality clearly at all levels and are continuing to raise our profile as an overall solution architect. We consider ourselves to be designers and combine the skills of different partners in order to provide the customer with exactly the solutions that give him the maximum benefits.



ADDING VALUE

Product innovations today generate sales tomorrow. Speeding up the innovation process from the original idea to successful introduction on the market creates multiple benefits: shorter times to market with new products cut launch costs and faster market penetration leads to earlier sales – at premium prices

Innovative solutions and comprehensive services increase corporate value

SAP SI is a full-service provider. We cover all the phases of the life cycle of an IT system with our services. Our core skill is the integration of intra- and inter-industry SAP and non-SAP solutions. We have comprehensive industry, technology and solution know-how that equips us to do this.

while an edge is still held. Substantially shorter launch times for production companies with Product Lifecycle Management (PLM) – an attractive consulting service offered by SAP SI for **manufacturing industries**.

The focus is on benefits for the customer

We are constantly broadening our horizons. New technologies like the integration and application platform SAP NetWeaver will be playing a central role in companies' future application environments. Consultants will need to have extensive know-how not only about business processes but also about IT processes and technologies in future. SAP SI and its consultants have all the necessary skills.

At home in all the important areas of the IT markets

SAP SI has positioned itself on the market as a full-service provider right from the start. Our comprehensive range of services covers all the phases of the life cycle of an IT system. We owe our thorough process know-how to our many years of project experience in different industries. Our in-depth understanding of technological developments is due to our proven capabilities in the integration of customer-specific SAP and non-SAP solutions. This all-round approach necessitates a new type of consultant too, something we adapted to at an early stage.

A wide range of industries

We have divided the industries in which we operate up into four major business divisions. Consumer & process industries includes the beverage and chemical/pharmaceutical industries, consumer products and the retail trade. Banks, insurance companies and financial service providers are combined in the financial services division. The manufacturing industries division concentrates on areas of industry with a mainly discrete production typology, such as automotive, high-tech, engineering & construction. Healthcare, media, public institutions, universities, utilities and waste disposal management are included in the service industries division.

In-depth solution know-how

We assist companies in the integration of industry-specific and cross-industry solutions for optimisation of business processes. We integrate and optimise inter-company e-business applications for customers mainly on the basis of the SAP solution portfolio. We are the leading systems integrator in the SAP-based environment. Major issues are customer relationship management, supply chain management, business intelligence and human resources. We help customers to make strategic decisions that promote corporate management based on shareholder value by applying strategic enterprise management (SEM) principles. The integration service known as "conversions" facilitates the prompt and reliable migration of IT environments in mergers, take-overs or spin-offs. Enterprise application integration (EAI) is the conventional solution for linking heterogeneous system environments to form a homogeneous IT world.



Thomas Schick,

Automotive

»Performance and the observance of deadlines are two of SAP SI's major success factors.«

**Integration of external partners:
evolution in the IT field thanks to
Web services.**

Web services – a trend-setting service range

Experts agree that Web services represent the most important stage in evolution of the IT field at the present time. We are expecting this technology to be introduced on a large scale in the next few years. Web services are software components that are able to exchange data and information with other software components by using standardised Internet protocols. By comparison with traditional integration methods, integration based on Web services requires relatively little new investment, because existing systems can continue to be used to complete new assignments. It does at the same time offer a maximum of flexibility, because new systems and applications can be integrated smoothly in existing environments. The use of Web services also leads to a significant reduction in interface maintenance costs.

Most Web services projects relate at present to internal corporate integration assignments or to links with business partners. Companies' primary aim in making early investments in such projects is to exploit cost-cutting potential and to eliminate process inefficiencies. They also familiarise themselves with Web services and avoid the risk of being driven by a technology that they have not anticipated and tested.

We are working on the assumption that the new Web services technology will intensify considerably the trend towards the incorporation of external partners in the existing business process structure of a company and the outsourcing of more business processes to such partners in the coming years. Web services make it easier to find external providers who can take over specific business processes at lower cost. This means that Web services technology solves the problem of incorporating external partners in existing process and IT structures at the information technology level. Whereas only information has been exchanged via the Internet up to now, it will be possible in future to divide even complex processes up via the worldwide network and have them carried out jointly by different partners. This development is creating completely new potential for the shaping of corporate strategies and management structures. Meta Group has determined on the basis of interviews with 195 companies that SAP SI holds a leading position on the German market for Web services.



Matthias Kühn,
Higher Education

»Social skills and the open corporate culture create an optimum working environment.«

Lifelong system support

Our IT services support IT systems in all phases of the life cycle:

- At the “plan/design” level, we provide IT strategy, IT architecture and business consulting. In liaison with customers, we design new industry-specific processes and develop individual IT concepts that give optimum support.
- Our core skills are the implementation and integration of separate individual solutions in an overall solution (“build”). We connect non-SAP software to SAP applications and integrate company-specific software in the overall IT environment. The integration basis is either the platform technology SAP NetWeaver or other alternatives from different manufacturers. We close functional gaps by developing individual add-ons based on SAP technology.
- At the “run” level, we operate systems for third parties and provide such services as application management and hosting (managed services). In the context of managed services, the fastest-growing area of SAP SI's business operations at the current time, we run the IT systems of our customers, including the necessary software solutions. Cost-cutting, concentration on the core business, optimisation of internal resources and the desire for more modern IT equipment are the growth drivers.

This expertise throughout all the different phases of the value chain enables SAP SI to provide high-quality services also in complex IT projects. We have acquired our proven integration and consulting capabilities by carrying out numerous successful projects. The requirements and scope of our customers' projects vary widely. The following selection of practical examples gives an insight into individual national and international projects for customers from different industries.

Freudenberg Haushaltsprodukte

MySAP.com in operation all over the world

Freudenberg Haushaltsprodukte KG (FHP) is part of the Freudenberg Group, which was founded in 1849 as a tannery in Weinheim an der Bergstrasse, Germany. The Group now operates globally in the areas of sealing, vibration, plant and tool engineering, while it also manufactures nonwovens, household products, special lubricants, building systems and flexible printed circuit boards. The Group is represented in more than 40 countries, has about 28,000 employees and generates revenues of over €4 billion. The subsidiary Freudenberg Haushaltsprodukte, which includes the global brand Vileda, contributes about half a billion euros to Group revenues.

International harmonisation of core business processes

FHP's decision to replace the existing heterogeneous IT structure by a homogeneous IT environment goes back to 2002. The requirements were global process integration, the availability of consistent information, considerably simplified internal communication between different countries and more efficient internal processes. FHP chose SAP SI because it is a consulting company with many years of experience in the consumer goods industry. In the context of the PATH programme, which stands for Process Application Teamwork Harmonisation, SAP SI is assisting with the international harmonisation of the core business processes on the basis of mySAP.com. This major international project is scheduled to take four years and involves implementation of the SAP R/3 modules for accounting, materials management, production planning and sales & distribution. SAP SI is introducing a data warehouse based on the SAP application Business Information Warehouse (SAP BW) for data storage. The SAP solution is creating a consistent master data basis at all the companies and is supporting the globally harmonised business processes.

Always in line with the changing market requirements

Strategy consultants from SAP SI and an international FHP team analysed the specific SAP software requirements for logistics and accounting up to the middle of last year. A pilot project with 110 users was then carried out at FHP Iberica in Spain and Portugal. The new process and system environment is supposed to be in operation with 900 users at 21 FHP companies all over the world by 2006.

Experience counts:

Freudenberg places additional application management order

At the end of last year, SAP SI was commissioned to assume responsibility for application management in addition to the joint consulting and implementation project. SAP SI's application management services cover the administration, maintenance and expansion of the SAP systems. This involves user service and administration, optimisation of existing business processes, the development of new reports and workflows as well as interface maintenance and optimisation of system performance. The services are being provided mainly at the SAP SI service centre but also on the users' sites in some cases.

FHP is therefore taking advantage of the synergy benefits between the SAP SI implementation and application management services teams and is at the same time making sure that the solution is always up to date. Dr Harald Berger, IT International Director at Freudenberg Haushaltsprodukte, comments as follows about the decision to award the commission to SAP SI:

"SAP SI has acquired just as good a reputation for its application management services as it has as a consulting and implementation partner. Since we have come to appreciate SAP SI's impressive skills in the consumer goods industry and SAP SI is responsible for implementation too, it was an obvious solution to commission the company to carry out application management of our SAP solution in view of the synergy benefits associated with this."

Deutsche Postbank AG

Postbank goes live with current account business

Deutsche Postbank AG (Postbank) is the biggest retail bank in Germany with about 11.5 million customers and 24 million accounts. It is one of the major players on the market in the core areas of ,payment transactions and deposits', with 10 million payment transactions every day and almost 18 million savings accounts. As a specialised provider in business with corporate customers, it also operates primarily in the sectors of payment transactions and commercial property financing. Some 40 million master data about customers have already been administered in the existing Kordoba-based address administration system since November 2002. More than 27,000 customer service systems, 2,100 automated teller machines and about 1,400 statement printers are connected to the new core banking system.

Postbank went live successfully with the new SAP solution in October 2003. SAP SI liaised with SAP and Postbank to support this project right from the start and completed start-up successfully for the current account operations. The foundations for the development of joint standard bank software between Postbank and SAP AG were laid back in 1999 when a co-operation agreement was concluded.

SAP SI role in the co-operation process was to provide support in the requirement analysis and in implementation of the newly developed software and to act as the software supplier for selected add-on developments for the new core banking system. When it was introduced live, the entire current account business of what were originally the 14 Postbank locations, which had been Kordoba-based before, was transferred to the new SAP "Transaction Banking" platform. This system is one of the biggest SAP installations in the world.

N-ERGIE Aktiengesellschaft

Co-ordination is the key

N-ERGIE Aktiengesellschaft, Nuremberg, Germany, supplies electricity, natural gas, heat and water to about 650,000 customers in Northern Bavaria. The Group was formed in March 2000 when the regional utilities EWAG Energie und Wasserversorgung AG, Fränkisches Überlandwerk AG (FÜW) and MEG Mittelfränkische Erdgas GmbH merged. The company has about 2,800 employees and generates annual revenues of approximately €1 billion.

A complex assignment

The management took advantage of the restructuring of the company to establish an integrated system environment. Completely new systems technology to implement the supply and service relationships was needed for the organisational transfer of the supply services to nine newly established subsidiaries. It was also necessary to consolidate the different SAP R/3 systems and SAP consumption billing systems in operation at the old companies. The Group as a whole also required such functions as profitability analysis and contribution margin accounting as well as a general information system for corporate management.

The complexity of the project was increased by the tight schedule. Due to the pressure of time, the system consolidation exercise already began before the Group structure had been finalised. The largely parallel introduction and integration of R/3 core functions and industry-specific accounting software mySAP Utilities (IS-U/CCS) represented another challenge. In addition to this, all the existing applications had to be administered and interim solutions created until the new systems started operation.

Many years of project experience

SAP SI applied to be an implementation partner in the context of a European tender. The consulting company satisfies practically all the criteria: many years of joint project activities with the companies in the past, migration experience, product and project know-how with the SAP utility industry solution and expertise in the deployment of SAP Business Information Warehouse (SAP BW).

More than 1,800 users integrated

SAP SI co-operated with N-ERGIE to compile the consolidation plan and the migration strategy for the existing applications as well as the customer-specific configuration of the three new SAP R/3 systems with the core functions financial accounting, asset accounting, controlling, maintenance, materials management, purchasing and sales & distribution in addition to the industry solution IS-U/CCS and the data warehouse solution SAP BW. SAP SI also advised the utility group about implementation, the start-up of systems operation and fine-tuning and was involved in the development of training documentation and the holding of courses for the users.

The consolidated SAP R/3 system went live in July 2002 and this was followed by the IS-U/CCS accounting system in January 2003. 1,800 users are now working with the SAP solutions. About 900,000 supply contracts are processed via the industry-specific accounting system. The SAP Business Information Warehouse application was started up and introduced gradually in January 2004. SAP BW analyses all the data from SAP R/3, SAP IS-U/CCS and non-SAP systems and makes extensive information available to the management in order to back up operational and strategic decisions.

“We owe the smooth and punctual introduction of the new SAP environment to the high personal commitment and in-depth know-how of our staff”, is IT Division Manager Seyen’s summary. And he adds: “The capable assistance of the consulting partner with his experience of our industry also helped to enable us to co-ordinate the information technology and business administration aspects of the merger and to implement the system environment as scheduled in the context of the Group restructuring exercise”.



Dirk Lohe,
Solution Optimization

»SAP SI encourages its staff to develop their strengths by allowing them to work independently.«



Claudia Neudeck,
Application Management
»Fast adaptation to market requirements
is one of SAP SI's success factors.«

Messer Griesheim GmbH

Gas bottle transparency

Messer Griesheim GmbH (Messer) is one of the leading manufacturers of industrial gases in Europe. The company produces and supplies oxygen, nitrogen, argon, carbon dioxide, hydrogen, helium, inert welding gases, special gases, medical gases and a large number of different mixtures. Messer has a comprehensive network of more than 400 production and sales locations in 45 countries. The gases are supplied via pipelines, in tanker lorries and containers of various kinds. The company fills a large proportion of the gases in compressed gas bottles that reach the customer either via intermediate storage facilities or directly. Messer has about 4 million bottles in circulation in Europe.

Bottle tracking problem

The many different types of product, several hundred thousand customers and thousands of bottle movements every day represent a tremendous supply chain management challenge. There are numerous areas in which problems arise. Empty bottles loaded during transport have to be documented, for example, while bottles owned by gas users or specially prepared gas bottles for customised high-quality gas mixtures need to be channelled through the supply chain. The traceability of medical gases has to be guaranteed too, so that recall campaigns are possible at any time. Messer therefore initiated a pilot bottle tracking project in Austria with the aim of knowing at all times where the gas bottles are, what they contain and what stage of the process they have reached.

Systematic bottle and container tracking was supposed to provide the necessary data to guarantee transparency in the supply chain. Further requirements were to improve planning reliability, to save logistic costs and to avoid possible mistakes with data that had been entered manually in the past. Customers were supposed to enjoy these benefits too – in the form of simple determination of the location of their gas bottles at hospitals, production plants or building sites – if appropriate investments were made in the logistic solution.

Virgin territory entered with “Mobile Business”

Messer analysed the quotations submitted for mobile systems to cover these exacting demands. The company opted for the SAP solution mySAP Mobile Business (Mobile Engine 2.1 and WAS 6.20) based on the new technology platform SAP NetWeaver. The decision-making criteria were, firstly, the guarantee that the new system fits in smoothly with the existing SAP ERP environment and can be integrated in the supply chain, secondly, the use of a platform-independent technology in order to ensure the long-term ongoing development of the customised solution and, thirdly, confidence in further development of the mySAP Mobile Business solution by SAP.

Messer was one of the first customers for this solution when the company took its decision. Others had had no integration and customising experience. The company came across SAP SI in its search for a partner who was able to provide advice about development and implementation and who had specific SAP know-how.

Marc Dierckx, CIO at Messer, is still certain that the right choice was made. The Messer project manager, Victor Riga, confirms this: “Management consultants are as good as the people who work for them. The SAP SI staff are excellent”.

Messer started development work in August 2002 with assistance from SAP SI consultants. SAP SI concentrated primarily on solving specific problems where the developers from Messer had to enter virgin territory. “We would never have started the project if we had not been certain that we had reliable backup in case the application did not work properly”, is Dierckx’ summary a year later.

Smooth operation right from the start

Two releases of the new software have in the meantime been introduced successfully in Austria. The first release involved the module for bottle filling and automatic data recording in the back-end system. The mobile system for loading the lorries was introduced in the second release. The drivers use a Personal Digital Assistant (PDA) to record the scanned freight. The destination and other data are transferred to the PDA online via wireless connection and the PDA synchronises the data with the database at Messer several times a day. Further releases are being prepared. Customers will be able to inform themselves about the location and status of their bottles in a Messer database in a next step. The connection will be established via a virtual private network and the data will be provided with the help of Web services. This means that customers can load information directly into their own system without running an application themselves.

Roll-out in Europe

The system has met the expectations of the roughly 60 users in Austria. The software is soon to be made available at various subsidiaries in Europe via the Messer intranet for local implementation.

“We are benefitting from our co-operation with SAP SI: we expected a great deal and have received a great deal. Efficiency has increased significantly. And both partners shared the risk”, summarises Dierckx, adding: “At some time or other, we will have the “transparent” bottle, about which we know really everything, right down to the tiniest detail”.



MAKING DISCOVERIES

The **service industries** operations support companies and organisations whose customers are the general public: healthcare, universities/research institutions, media, the public sector, utilities and waste disposal management. Our IT solutions are citizen-friendly and promote local government synergy benefits.

Commitment, innovative skills and reliability facilitate success

We have our excellent consultants to thank for our reputation on the market: professional and self-assured, creative and approachable. Their expertise and their conduct make SAP SI a trusted advisor.

Regulation and unbundling requirements are implemented systematically. Our industry specialisation strategy enables us to turn the varying demands of our customers into benefits both quickly and effectively.



Antonio Dati,

Human Resources

»Pleasant co-operation between colleagues creates an enjoyable working atmosphere.«

“People make it run”

The reputation of a consulting company is determined by its staff. No software works by itself. It is consultants who make IT solutions run and set quality and capability standards in this process.

Thanks to their outstanding commitment and motivation, SAP SI's employees played a crucial role in enabling SAP SI to return to its normal profitability level in a very difficult environment in 2003. The qualifications of SAP SI's staff decide the Company's image on the consultancy market: extensive industry know-how, practical experience, in-depth technological understanding and innovative skills.

Efficient and dedicated staff are our most important assets. We sell no hardware and very little software. Our staff generate our sales and profits by optimising IT systems and creating added value for customers. All of them together are SAP SI and they act as a team that pools its know-how. Team spirit and the sharing of information are part of our corporate culture.

Responsibility for human capital

It is one of the most important management assignments to assume responsibility for the employees and jobs at the Company. This assignment is completed successfully when the Company's employees at the same time assume responsibility for the area in which they work and expand their know-how steadily and in line with market requirements.

Responsible management at SAP SI means guaranteeing that the Company continues to develop soundly and that jobs are safeguarded on a sustained basis. The experience, qualifications and number of staff correspond to market requirements; utilisation of the consultants' capacity increased significantly by comparison with the previous year.

Another assignment human resources management is at the same time required to complete is to make sure that high quality standards are maintained at the Company. It is part of our strategy to generate growth by expanding core skills and making acquisitions. Following our take-over of a majority holding in COPA GmbH in 2002, the Swiss company SLI Consulting AG with about 50 employees and SPM Technologies, Berlin, Germany, with about 190 employees joined us in the year under review. Both of these acquisitions are of great strategic importance to SAP SI. The success we are hoping to achieve depends to a decisive extent on our ability to integrate the new staff and their corporate community in our organisation.

Scope for personal development

Our human resources policy therefore focusses on the creation of a working environment that promotes team spirit and staff loyalty. Our corporate culture, which is characterised by close co-operation, mutual respect and recognition of individual performance, and our fringe benefits represent a framework that allows staff to contribute and develop their individuality and personality in an optimum way. We give our employees varied and challenging assignments in Germany and abroad and provide them with the scope to take decisions themselves and to assume personal responsibility. We encourage motivation by granting staff high flexibility in the personal arrangement of their work and by co-operating at all levels.

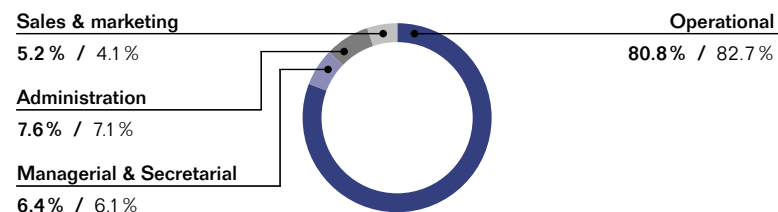
Participation in corporate success

Our remuneration system includes variable elements – which the individual can influence – and makes sure in this way that good performance and personal commitment are rewarded. The SAP SI system with its numerous special benefits compares favourably with the rest of the market.

Following the IPO in 2000, we issued convertible bonds again in 2003. One third of them can be converted into shares for the first time after two years, the second third after three years and the final third after four years. Practically all employees participated in this programme. Our staff benefit from our close association with SAP too. Membership of the SAP pension scheme guarantees the employees of the SAP SI Group an attractive Company pension too.

Employee structure

in % / 2003 / 2002



An experienced team with extensive know-how

Our staff profile corresponds to the wide range of services we provide. We primarily employ trained economists, computer scientists and engineers. Many of our staff worked at industrial or service companies before they joined SAP SI and obtained specific industry know-how there. The average age of our consultants is 37. Almost 90 % of them are university graduates. The qualification structure is unusually high. More than half of the consultants are senior professionals, while 37 % are professionals and 11 % are associate consultants.

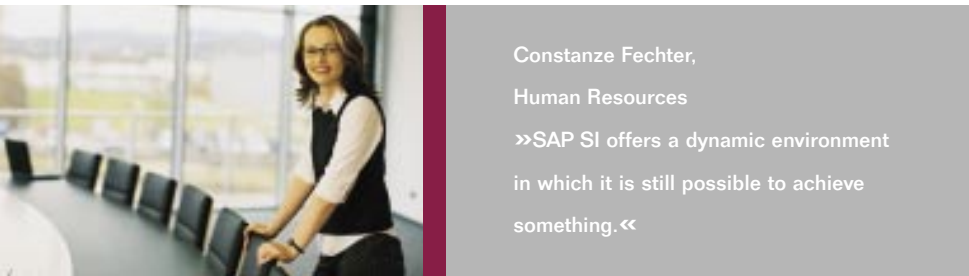
The professional requirements we make on ourselves are at the same time the decision-making criteria for the recruitment of new staff. People who combine flexibility and creativity with a willingness and ability to take decisions and to co-operate fit in with our team. In addition to professional capabilities and experience, they need to be able to communicate with customers and colleagues in an open and friendly manner and be nationally and internationally mobile.

High level of advanced training

We meet our objective of providing excellent consulting services by maintaining a disproportionately high quality level. Ongoing professional and personal qualification measures have high priority. They guarantee the development of individual staff potential and give every single employee personal prospects of career advances. We consider talent management to be a process for the purposeful promotion of staff with particular potential. We have chosen staff with high potential to be participants in the SAP Group AHEAD programme. The AHEAD programme is designed to be an international programme for the promotion of staff with special potential and is based on close co-operation with St. Gallen University.

The emphases in the training of management and other staff during the fiscal year were on further development of the sales methods and concerted training of staff involved in or associated with sales. We have a broad understanding of responsibility for sales and the generation of new business. Staff at all levels are required to contribute. Management staff by visiting customers, consultants by demonstrating high quality and commitment in pre-sales support and the staff responsible for sales projects by compiling competitive quotations.

Another emphasis is the business consulting development programme that we initiated in the various areas of the Company's business divisions. Staff focussing on different industries have been given specific training to become process designers. The aims of this programme are to familiarise the participants with the general framework of transformation projects, business cases and return on investment (ROI) calculation as well as to develop method capabilities and soft skills.



Constanze Fechter,
Human Resources

»SAP SI offers a dynamic environment
in which it is still possible to achieve
something.«

FINANCIAL REPORT

Forward-looking statements

Any statements made in the Annual Report that are not historical facts are forward-looking statements as defined in the US Private Securities Litigation Reform Act of 1995. Such words as “believe”, “expect”, “intend”, “estimate”, “should”, “can”, “may”, “will” and “plan” and similar expressions in relation to the Company are supposed to indicate such forward-looking statements. The Company makes no commitment to the public to update or correct forward-looking statements. All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ from expectations. The forward-looking statements communicate assessments as they are at the time when the statements are made. Readers are cautioned not to place undue reliance on these statements.

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CONSOLIDATED MANAGEMENT REPORT AND MANAGEMENT REPORT OF SAP SYSTEMS INTEGRATION AG

Group highlights

- Substantial increase in EBIT of 76.6 % to €40.4 million
- With an EBIT margin of 14.4 %, SAP SI holds a leading position in the European IT services industry
- Only a small reduction in revenues to €280.3 million in spite of reluctance to invest and a weak US dollar
- Strategic acquisitions in Switzerland as well as in the IT architecture consulting and integration services field
- Systematic implementation of the “integration for customer value” strategy
- Profitable growth anticipated for 2004

Preliminary remarks

SAP Systems Integration AG (SAP SI) prepares its financial statements in accordance with the United States Generally Accepted Accounting Principles (US GAAP). To meet the requirements of commercial and tax law, SAP SI compiles accounts in accordance with the rules stipulated by the German Commercial Code (HGB).

The figures that relate to the years 1999, 2000 and 2001 are taken from financial statements for these fiscal years drawn up on an as-if merged basis.

The management report provides information about business development, analyses the income statements and explains the accounting principles as well as SAP SI's risk management.

Economic environment

Overall economic situation

The global economy continued to develop slowly in 2003. The Economic Research Institute at Munich University (Ifo Institut) has calculated that the gross domestic product (GDP) in real terms grew worldwide by 3.5 % in 2003 following 3.0 % in the previous year. Economic development in the industrialised countries varied again: whereas the GDP in the USA increased by 3.0 % (previous year: 2.2 %), GDP growth in the euro zone was only a moderate 0.5 % (previous year: 0.9 %). The German economy stagnated again in 2003 at 0.0 % (previous year: 0.2 %), thus losing further ground internationally.

Ifo Institut is expecting real GDP in Germany to rise by 1.8 % in 2004. This means that the economy in Germany appears to be recovering again for the first time in three years. Ifo estimates that real GDP growth will be 4.4 % worldwide, 4.2 % in the USA and 2.0 % in the euro zone.

Development of the industry

In 2003, the world IT market did not yet follow the global economy, which grew again somewhat, probably recording a reduction of 0.2 % according to the market research institute IDC. Gartner Dataquest reported in June 2003 that the IT services market was expected to increase slightly in 2003, by 3.5 % worldwide and by 3.6 % in the USA. For SAP SI's core market Germany research institute PAC, however, estimated in January 2004 that it decreased by 11.5 %. In its survey of September 2003, the industry association BITKOM made very varied forecasts for the individual service categories in the German IT services market: while drops of 5.0 % and 4.0 % were expected in the areas of consulting and implementation, the outsourcing field would probably grow by 7.0 % in 2003.

The forecasts for all IT markets for 2004 are more positive again. Whereas IDC is predicting worldwide IT market growth of 4.1 %, Gartner Dataquest is expecting the global and North American IT services market to increase by as much as 5.2 % and 5.6 % respectively. The market research companies think that the German IT services market will be growing slightly too: their forecasts range between 1.5 % (BITKOM) and 1.8 % (PAC). Demand is to vary again according to service category, according to BITKOM: while outsourcing is to grow by 7.0 % and implementation by 1.0 %, IT consulting is to drop a further 2.0 %.

SAP SI Group business development according to US GAAP

Acquisitions and changes in the companies consolidated

It is SAP SI's strategy to generate long-term, profitable growth – organically and by means of purposeful acquisitions.

The remaining 49.9 % of COPA GmbH, Wesel, Germany, were acquired with effect from January 1, 2003. In the course of fiscal 2003, the company was merged with SAP Systems Integration AG at book values with backdated effect from January 1, 2003 (according to German law).

SAP SI took over 100 % of the shares in SLI Consulting AG, Regensdorf, Switzerland (SLI), in September 2003 to strengthen its market presence in Switzerland. SLI is a consulting company for SAP solutions and has an attractive customer base of about 150 medium-sized and large companies, most of them from the food, chemical and pharmaceutical industries, the retail trade and manufacturing. The customers include Altana Pharma, Bosch, Chocolat Frey and Zumtobel. The emphasis in the operations of SAP Systems Integration (Schweiz) AG (SAP SI Switzerland) has been on the healthcare field in the past. The main objective of the SLI acquisition is to strengthen SAP SI's access to the Swiss market and to expand the business in Switzerland substantially. The company was merged with SAP SI Switzerland with effect from November 1, 2003. SAP SI Switzerland had 55 employees on December 31, 2003.

In December 2003, 100 % of the shares in SPM Technologies Deutschland GmbH (SPM), which is based in Berlin, were acquired. SPM is one of the leading providers of IT architecture consulting services in Germany and has about 190 employees. By making this take-over, SAP SI is strengthening its own service portfolio appreciably and will be able in future not only to support its customers in the integration of IT solutions in their heterogeneous system environments but also to give them comprehensive advice about the decisions they already take beforehand about IT architecture. With the substantial improvement in its IT architecture capabilities, SAP SI will be appealing to all customers who want to adapt their IT systems from SAP and other suppliers to their business requirements in the most effective possible way.

SAP SI spent a total of €34.1 million on all the company acquisitions in 2003. This expenditure led to goodwill of €30.8 million. The SLI and SPM acquisition costs may increase by €7.1 million if the business targets are achieved by 100 %, depending on the revenues and earnings generated in fiscal 2004 and 2005.

The changes in the companies consolidated in fiscal 2003 did not have any major impact on comparability with the consolidated financial statements for the previous year.

Revenue development

In a weak economic environment, revenues decreased by 4.4 % from €293.2 million in the previous year to €280.3 million. The reduction in revenues in constant currency was 2.5 %. Utilisation of consultants' capacity increased to over 90 % in the fourth quarter of 2003 and reached an annual average of more than 85 % (previous year: about 70 %).

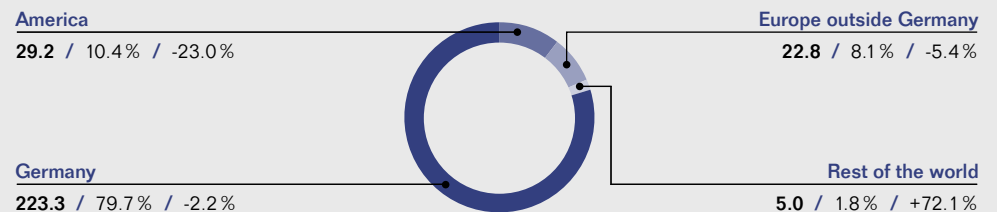
The revenues generated by the SAP SI companies in Germany and Switzerland amounted to €250.8 million following €257.5 million in the previous year. Included are the revenues of the companies SLI and SPM (€6.6 million) that were included in the consolidated financial statements for the first time in the year under review. SAP SI America recorded revenues of €29.5 million, 17.5 % (constant currency: 1.4 %) lower than in the previous year (€35.7 million).

Revenue breakdown by region

SAP SI completes some projects outside the countries in which it has companies of its own. The revenue breakdown by location where service is provided was as follows:

Revenue breakdown by regions

in € millions / percent / change year on year in %



Revenue breakdown by type of business

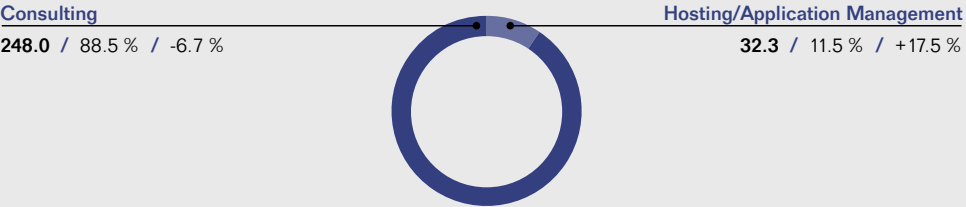
Revenues from service business decreased by 7.2 % over the previous year to €236.1 million. Revenues in the Hosting/Application Management business were increased by 17.5 % to €32.3 million, while product revenues from software sales and maintenance went up by 6.9 % to €9.3 million. The other revenues were €0.1 million or 3.6 % lower at €2.5 million.

Revenue breakdown by segments

Revenues in the “Consulting” segment decreased by 6.7 % to €248.0 million in fiscal 2003, whereas revenues in the “Hosting/Application Management” segment rose by 17.5 % to €32.3 million. The new “Hosting/Application Management” segment established by SAP SI with effect from January 1, 2003 includes the revenues of what were reported as “Outsourcing/Application Services” in the previous year, excluding revenues from “Technical Consulting”. The figures for the previous year have been adjusted accordingly. In view of the restructuring of the Company segments with effect from January 1, 2003, the revenues, costs and contributions of the “Components” segment that was reported separately in the previous year have been included appropriately in the “Consulting” and “Hosting/Application Management” segments. The figures for the previous year have been adjusted accordingly.

Revenue breakdown by segments

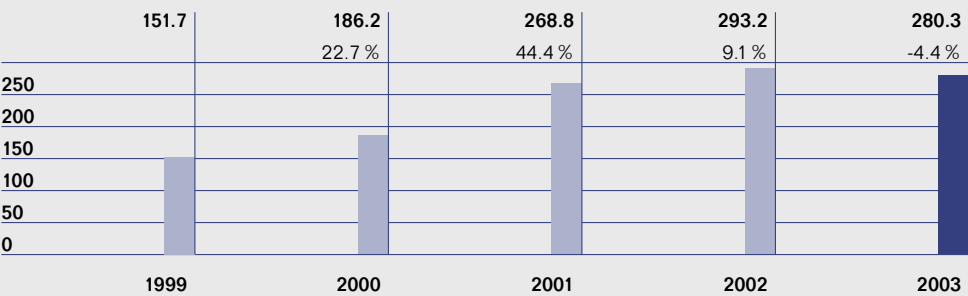
in € millions / percent / change year on year in %



The fees charged for consulting services decreased again slightly in individual areas in 2003.

Five-year summary (revenues)

in € millions / change year on year in %



Cost development

Adaptation of the cost structures is a major success factor that is vital in order to achieve attractive margins again even in the current difficult market environment. SAP SI began this process in 2002 and continued it systematically in 2003. Total costs (including SPM and SLI, which were consolidated for the first time) decreased by 11.2 % over the previous year, from €269.8 million to €239.7 million. This was attributable in particular to a reduction in the number of employees, systematic resource and travel expenses management, a substantial cut in third-party expenses and the restructuring costs of €9.8 million that were incurred in 2002 and not in the year under review. Disregarding the two acquisitions, costs were down 13.1 % at €234.3 million. Costs at the companies in Germany and Switzerland (excluding SPM and SLI) were reduced by 12.1 % from €237.7 million to €209.0 million. Both of these figures include COPA, which was merged with SAP SI with backdated effect from January 1, 2003.

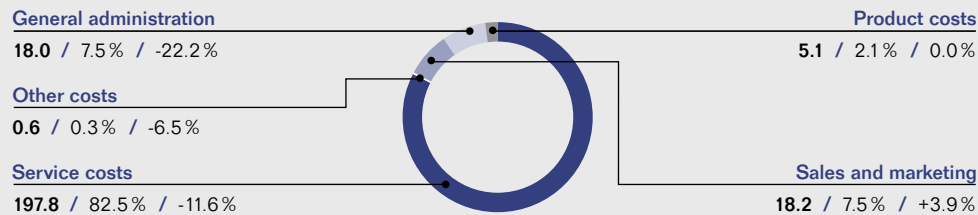
SAP SI America succeeded in cutting costs by 21.0 % over the previous year to €25.4 million.

Cost structure

The cost breakdown by the cost of sales method was as follows:

Cost structure

in € millions / percent / change year on year in %



The service costs were 11.6 % lower than in the previous year (€223.9 million) and accounted for €197.8 million or 82.5 % of the total costs (previous year: 83.0 %). If the restructuring costs incurred in the service field in the previous year (€6.8 million) are disregarded, the reduction in costs was 8.9 %.

The sales costs increased by 3.9 % from €17.5 million to €18.2 million due to an increase in marketing and sales activities and expansion of the sales organisation.

The administration costs were 22.2 % lower than in the previous year (€23.1 million) at €18.0 million. This reduction was due to the restructuring expenses of €3.0 million incurred in 2002 and not in the year under review as well as to the cost-cutting measures that were initiated.

The product costs of €5.1 million (previous year: €5.1 million) were mainly attributable to licence and maintenance expenditure.

In its capacity as a consulting company, SAP SI only carries out research and development to a minimal extent. The research and development costs in the fiscal year amounted to €0.6 million – as in the previous year – and were due to the development by the Company of software components of its own. They consisted essentially of personnel costs and were incurred exclusively in further development of the software solution REA (Recycling Administration).

Cost breakdown by cost elements

As in the previous year, most of the costs incurred in the SAP SI Group (61.2 %) were personnel costs. They decreased by 7.3 % to €146.7 million (previous year: €158.2 million).

SAP SI had third-party expenses of €21.7 million in the year under review (previous year: €29.3 million). This represents a reduction of 25.9 %.

Most of the other costs were travel expenses, rent and other cost elements.

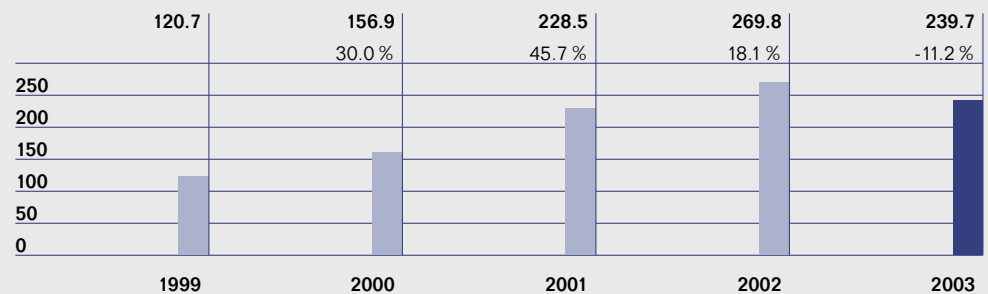
Cost breakdown by segments

Costs in the Consulting segment were reduced by 11.7 % over the previous year to €197.7 million.

In spite of the 17.5 % increase in revenues in the Hosting/Application Management segment, costs in this segment only rose by 3.7 %, from €23.1 million to €24.0 million.

Five-year summary (costs)

in € millions / change year on year in %



Earnings development

SAP SI succeeded in improving the EBIT margin substantially from 7.8 % to 14.4 % in spite of the economic situation, which continued to be weak. EBIT amounted to €40.4 million and were therefore 76.6 % higher than in the previous year (€22.9 million). Major reasons for this were a considerable increase in the capacity utilisation level, effective cost management and the restructuring costs incurred in 2002 and not in the year under review. Adjusted to eliminate these restructuring costs, EBIT in the previous year were €32.7 million, while the EBIT margin was 11.1 %.

In Germany and Switzerland an EBIT margin of 14.5 % (€36.3 million) was achieved (including the acquisitions), which was 88.1 % higher than in the previous year (€19.3 million). EBIT here were €35.0 million (14.4 %) excluding the contribution made by SLI and SPM.

EBIT by SAP SI America amounted to €4.1 million (14.0 %) after €3.6 million (10.1 %) in the previous year.

Segment contributions

The Consulting segment contributions were increased by 20.2 % to €50.2 million (margin 20.3 %). This increase is due primarily to the high utilisation of consultant capacity and cost savings.

The Hosting/Application Management segment contribution rose by 90.7 % from €4.4 million (margin 15.9 %) to €8.3 million (margin 25.7 %) because of higher utilisation of computer centre capacity.

These margin improvements emphasise the high quality of SAP SI's services.

Reconciliation of EBIT to consolidated net income and earnings per share

The following table indicates the development in earnings by comparison with the previous year:

in € millions	2003	2002	Δ in %
Earnings before interest and tax (EBIT)	40.4	22.9	77 %
+ Net financial income	3.1	3.3	-8 %
= Earnings before tax (EBT)	43.5	26.2	66 %
- Income tax	-17.1	-10.6	62 %
- Minority interest	0.0	-0.8	N/A
= Consolidated net income	26.4	14.8	78 %
Earnings per share (undiluted) in €	0.74	0.41	78 %
Earnings per share (diluted) in €	0.74	0.41	78 %

The earnings before interest and tax (EBIT) were increased by 76.6 % from €22.9 million in the previous year to €40.4 million.

Net financial income amounted to €3.1 million (previous year: €3.3 million). It was generated by investment of the cash and cash equivalents. In fiscal 2003, the net financial income included depreciation of financial assets amounting to €0.3 million (previous year: €0.7 million). The change in the net financial result is due in particular to the lower interest rates than in the previous year.

Earnings before tax (EBT) amounted to €43.5 million (previous year: €26.2 million). Income tax totalled €17.1 million (previous year: €10.6 million), so that the tax rate was 39.4 % in the year under review (previous year: 40.3 %).

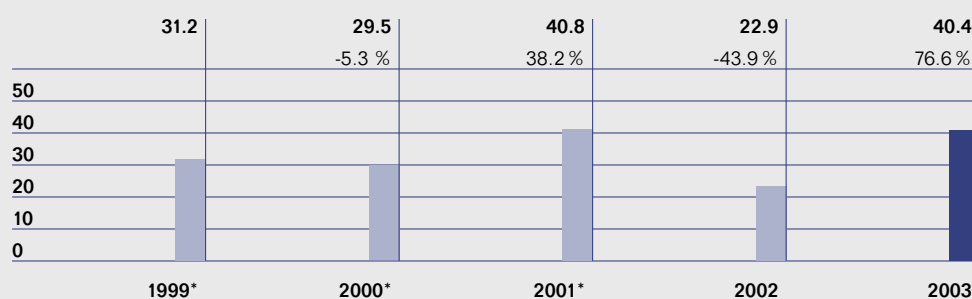
The profit accounted for by minority interests that was reported in the previous year related solely to other COPA shareholders.

Even though the market situation in fiscal 2003 was difficult, a very encouraging consolidated net income of €26.4 million (previous year: €14.8 million) was achieved. Undiluted earnings per share therefore amounted to €0.74 in the year under review (previous year: €0.41).

The diluted earnings per share are calculated by including the convertible bonds issued on the balance sheet date in accordance with the treasury stock method. The average market price of the SAP SI share in 2003 was €12.51 (previous year: €13.31) and was thus below the average exercise price of €15.81.

Five-year summary (EBIT)

in € millions / change year on year in %

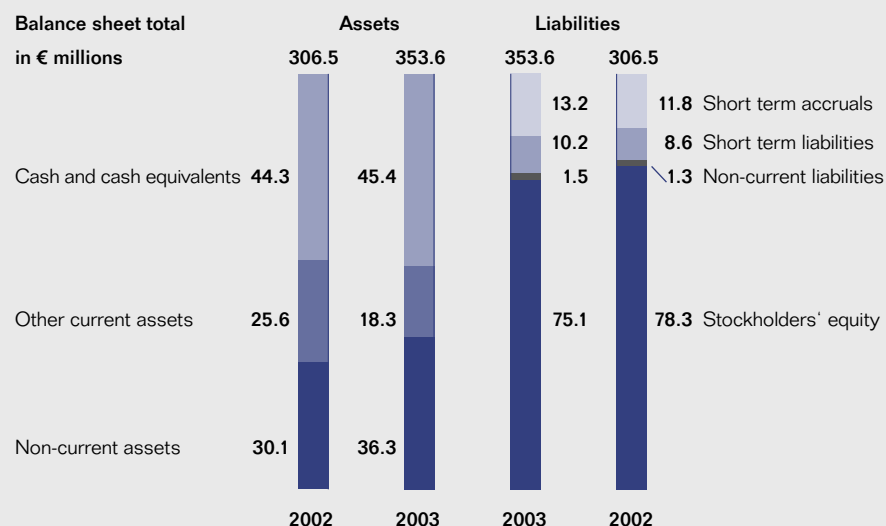


* Figures taken from financial statements drawn up on an as-if merged basis excluding goodwill amortization

Group assets and financial situation

Consolidated balance sheet structure

in % / December 31



Assets

The total balance sheet assets amounted to €353.6 million (previous year: €306.5 million). The change over the previous year was due primarily to the increase in fixed assets (+37.5 %), essentially because of the additions to goodwill following the acquisition of COPA, SLI and SPM in 2003.

Thanks to the positive operating cash flow, cash and cash equivalents totalled €160.6 million, an increase of €24.9 million over the previous year (€135.7 million), in spite of significant investments. Cash and cash equivalents amounted to 45.4 % (previous year: 44.3 %) of the balance sheet total.

The increase in receivables from goods and services was due exclusively to the additions to this balance sheet item following the acquisitions of SLI and SPM.

The “days sales outstanding” (DSO) indicator, which represents the average time until customers pay receivables, was reduced considerably from 64 to 55 days in fiscal 2003. This is attributable in particular to a large improvement in receivables management.

Liabilities

The change in the current accruals is due mainly to larger accruals for variable salary components (bonuses) and taxes because of the substantial improvement in earnings compared with 2002.

The increase in current liabilities was attributable in particular to the remaining purchase price commitment for acquisition of SPM. Payment was made in January 2004.

Stockholders' equity was €25.5 million higher than in the previous year because of the good corporate earnings. The equity-to-total-assets-ratio decreased slightly to 75.1 % (previous year: 78.3 %) due to the acquisitions.

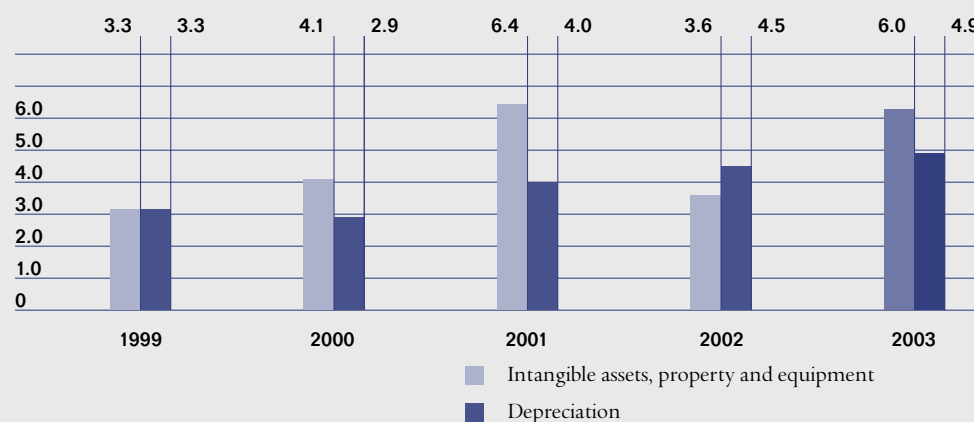
Capital investment

Excluding the additions of assets due to acquisitions, SAP SI invested a total of €6.0 million in the year under review, €0.6 million of this in intangible assets. The investments in property and equipment were primarily in miscellaneous office equipment including minor-value assets (€3.0 million), hardware (€1.3 million) and leasehold improvements (€1.1 million).

Capital investment (excluding additions to assets due to acquisitions and excluding goodwill) and depreciation have developed as follows in the past few years:

Five-year summary (capital investment)

in € millions



Capital investment was 68.6 % higher than in the previous year. This was due in particular to the investments made in connection with the move into a building that was rented. Depreciation and amortization were 8 % higher than in the previous year.

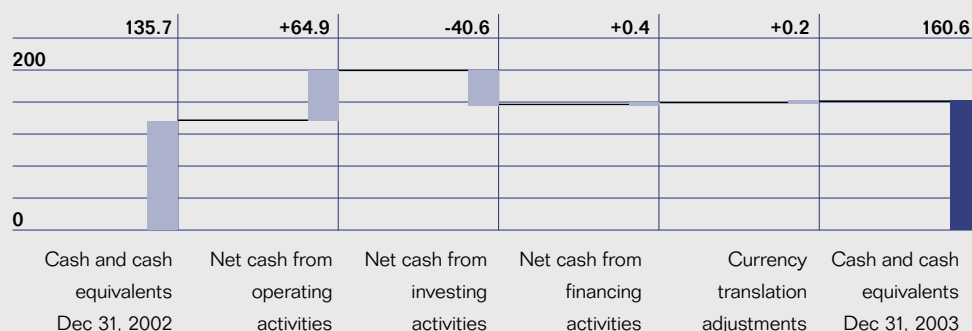
Statements of cash flows, cash and cash equivalents

The statements of cash flows indicate the source and use of funds in the two fiscal years 2003 and 2002.

The net cash inflow from operating activities amounted to €64.9 million in the fiscal year (previous year: €15.1 million) and was attributable in particular to the high earnings and active receivables management.

Change in cash and cash equivalents

in € millions



The net cash from investing activities amounted to -€40.6 million and was attributable mainly to the change in the companies consolidated (-€27.1 million) due to the inclusion of SPM and SLI for the first time as well as to the additions of intangible assets and property & equipment including the increase in the interest in COPA by 49.9 % to 100 % with effect from January 1, 2003 (-€12.4 million).

This means that the main reasons for the changes in cash and cash equivalents in 2003 were the net cash inflow from operating activities and the net cash outflow from investing activities.

Taking the currency translation adjustments into account that were attributable in particular to the development of the US dollar exchange rate, the free cash flow of €24.9 million led to an increase in cash and cash equivalents from €135.7 million at the beginning of the period under review to €160.6 million on December 31, 2003.

Credit lines

The high level of cash and cash equivalents gives SAP SI great financial flexibility. Above and beyond these funds, SAP SI currently has credit lines of €17.6 million, €6.3 million of which have been taken advantage of as guarantees and €0.9 million as loans.

Contractual commitments

SAP SI's most important contractual commitments relate to operating leasing contracts, including rental contracts and guarantees. Further details about their breakdown and amounts can be found in note (36) to the consolidated financial statements in this Annual Report.

Separate SAP SI AG financial statements in accordance with the German Commercial Code (HGB)

SAP SI is obliged to prepare a set of financial statements covering only the legal entity of the parent company SAP Systems Integration AG in addition to the consolidated financial statements compiled in accordance with US GAAP.

SAP SI's financial statements prepared in accordance with the accounting rules of the German Commercial Code (HGB) reported revenues of €242.6 million (previous year: €238.2 million). The revenues generated by COPA, which was merged with SAP SI with effect from January 1, 2003, amounted to €22.6 million in 2002.

In view of the lower average number of employees and the restructuring costs that were incurred in the previous year but not in the year under review, personnel costs were reduced by 6.2 % to €127.3 million (previous year: €135.8 million). Third-party expenses were cut by 35.7 % from €26.4 million to €17.0 million thanks to higher utilisation of Company employees' capacity.

The operating profit was increased by 222.7 % to €38.8 million. This exceptionally high growth was due to higher capacity utilisation than in the previous year and the restructuring costs of €8.2 million that were incurred in 2002 but not in the year under review. The growth amounted to 92.3 % if the restructuring costs are disregarded. The net income generated by SAP SI amounted to €13.3 million after €10.4 million in the previous year and included the loss of €11.8 million arising from the merger of COPA GmbH with SAP SI that was posted as exceptional expenditure. This merger was made at book values with backdated effect from January 1, 2003 (according to German law).

The balance sheet total increased by 16.1 % or €37.7 million to €272.3 million. This is primarily attributable on the asset side to the increase in cash and cash equivalents (+€28.2 million) and financial assets. Financial assets were €42.5 million higher because of the acquisitions of SPM and SLI and because of the capital increase made at a subsidiary. The merger of COPA had the opposite effect (€13.7 million). The receivables and other current assets were reduced by €23.2 million or 31.7 % as a result of an improvement in receivables management. The equity-to-total-assets-ratio amounted to 67.1 % (previous year: 72.3 %). The reduction in the equity-to-total-assets-ratio is due mainly to the increase of €37.7 million in the balance sheet total, which is attributable primarily to the acquisitions that were made and the increase in cash and cash equivalents combined with the reduction in receivables at the same time. Stockholders' equity was €13.3 million higher than in the previous year because of the net income.

Company shares

At the Annual Stockholders' Meeting on May 22, 2003, the stockholders of SAP SI authorised the Company to acquire Company shares amounting to up to 10 % of the capital stock at the time the resolution was passed, i.e. up to a total of 3,580,000 shares, by October 31, 2004. This authorisation can be exercised completely or partly on one or more occasions and permits company shares to be acquired via the stock market by means of a public offer to buy directed at all the stockholders or by means of a public offer to exchange the shares in SAP SI for shares in a company with a stock market listing as defined in § 3 paragraph 2 of the German Stock Corporation Act (AktG) that is also directed at all the stockholders. No advantage was taken of this authorisation in the year under review.

Dividend proposal

The Executive Board and the Supervisory Board of SAP SI propose to the Annual Stockholders' Meeting that the retained earnings of SAP SI AG of €60,554 thousand calculated in accordance with the principles of the German Commercial Code (HGB) are carried forward to new account.

Employees

Development

The total number of employees on December 31, 2003 was 1,859 (previous year: 1,744). This means that SAP SI had 115 or 6.6 % more employees than on December 31 of the previous year. These figures include 240 employees at the companies SLI (51 employees) and SPM (189 employees) that were acquired in September and December.

If the employees from the acquired companies are disregarded, the number of employees on December 31, 2003 was 7.2 % lower than in the previous year (1,744) at 1,619. The smaller number of employees is due to the restrictive recruitment policy and the restructuring programme that was carried out in the second half of 2002. The turnover rate (14.2 %) was slightly lower than in the previous year (14.5 %). About 6.5 % of the turnover rate in the year under review is attributable to the restructuring programme carried out in fiscal 2002.

1,760 of the 1,859 employees were accounted for by Germany and Switzerland (previous year: 1,636), while 99 of them were in the USA (previous year: 108). The average number of employees (total of the figures at the end of the months divided by the number of months) in fiscal 2003 was 1,658 (previous year: 1,819).

Revenue per employee in 2003 increased by 5.0 % from €161 thousand to €169 thousand. The Company also managed to reduce the costs per employee by 2.5 % from €148,324 to €144,570.

Educational background and experience

As in the previous years, SAP SI's employees were primarily economists, engineers, computer scientists, mathematicians and physicists. Almost 90 % of staff are university graduates.

The employee structure only changed insignificantly over the previous year. The consultant quota (number of chargeable staff in relation to the total number of employees) was 80.8 %. The other staff were deployed in administration (7.6 %), management and secretarial services (6.4 %) and sales & marketing (5.2 %). The average age of the consultants was 37. More than half of the consultants had more than four years of relevant professional IT experience, while a further 37 % had more than two years of such experience. SAP SI is able to operate on the IT consulting market in a flexible and success-oriented way thanks to this employee structure, which represents an optimum for our purposes.

Training

The main emphasis in the training activities in fiscal 2003 was on advanced training programmes. One of the programmes concentrated on sales activities, which are expected of staff at all levels. SAP SI also participated in the SAP Group AHEAD programme, which is based on the contents of an MBA programme. It is meant for consultants who have high potential for more responsible positions. Thirdly, the Company developed a "business consulting" training programme, in which staff from different areas are trained to be process designers.

Risk report

SAP SI's risk policy is based on the objective of achieving a systematic and steady increase in shareholder value. Reasonable and manageable risks that are attributable to the development and exploitation of business potential are deliberately accepted.

No guarantee can, however, be given that all risks are identified and neutralised as a result. This is due in part to the fact that these risks are to some extent outside the area SAP SI is able to influence. When risks materialise, they can lead to changes to or the non-realisation of the assumptions on which the Executive Board's expectations about future business trends are based and thus jeopardise fulfilment of the forecasts about revenue and earnings development.

SAP SI is exposed to risks in its day-to-day consulting and outsourcing operations. Numerous measures have been taken to identify and respond to these risks appropriately in good time. The risk management system that has been expanded in the past two years is an established element of corporate planning and business strategies. It is part of the corporate responsibility of the SAP SI management to deal with business risks. Specific reporting and control systems have been introduced to determine, evaluate and control risks. In addition to this, the Group has rules of conduct that have been recorded in a corporate code, in guidelines and in other specifications. Measures that are speculative are not permitted.

Major elements are summarised in a risk management system, which was expanded again in 2003. The purpose of the special risk management instruments is not only to avoid unacceptably high risks but also and above all to identify, evaluate and control business risks as well as to exploit opportunities. The methods and systems used (e.g. early warning indicators and measures co-ordinated with them) and the frequency of the checks vary according to the type of risk. Adjustments to changes in business environments are made on an ongoing basis.

SAP SI is not exposed to any risks that might endanger the Company's survival which are likely to materialise with any significant probability. The following points list individual risks that do not endanger the Company's survival:

- Major deteriorations in the general economic conditions can have a negative impact on SAP SI's revenue and earnings development.
- There is fierce competition on the consulting markets, which is leading in particular to decreasing prices for standard services. The economic downturn in 2003 and 2002 has affected business development too and meant that some customers have been reluctant to invest.
- It is essential for SAP SI's success in future to identify industry-specific trends at an early stage. Customers' behaviour patterns in the different industries are analysed regularly to make this possible. The sectors of particular interest to us are consumer & process industries, financial services, manufacturing industries and service industries.
- The potential loss in the case of foreign currency risks is considered to be the amount by which the equivalent of the foreign currency in the home currency at the time of payment could decrease as a result of a negative development of exchange rates – particularly between the US dollar and the euro. SAP SI is exposed to foreign currency risks arising from business operations, investments and other financial transactions. This risk is countered by means of incorporation in the SAP AG Group foreign exchange management system. On the balance sheet date, SAP SI Germany had an unhedged receivables portfolio of US\$ 1.4 million. This portfolio was valued at the exchange rate on the balance sheet date. In view of the due dates, SAP SI anticipates that these amounts only involve a minimal exchange rate risk.
- The risk of bad debts is countered by SAP SI generally co-operating with partners who have excellent credit ratings. This point is investigated while business transactions are still at the quotation stage. A broad customer base makes sure there is further diversification in this area too. We expanded our receivables management system again in 2003 to control these risks. The average number of days receivables remain unpaid was reduced from 64 days to 55 days at the end of the year.

- SAP SI's hosting operations involve the transmission and processing of data and are therefore exposed to the typical data transfer risks. These risks, which can, for example, include a reduction in service quality or availability restrictions, are countered by taking extensive security measures. In order to avoid these risks, SAP SI has specified rules for the operations and makes sure that the processes are improved constantly, the equipment is maintained carefully and the staff receive appropriate basic and advanced training.
- A report is given in the notes about pending legal disputes and claims for damages.
- SAP SI has concluded insurance contracts to provide cover against possible claims and liability risks. In order to make sure that the financial consequences of risk materialisation are avoided or at least reduced, the scope of the insurance cover is reviewed regularly and then adapted if necessary.
- The development, identification and management of risks depend to a large extent on the skills and commitment of the SAP SI management. SAP SI will be continuing to position itself as an attractive employer. SAP SI initiated a number of attractive training and qualification measures in 2003 to guarantee this.

Like any other company, SAP SI is exposed to management risks. They are countered by such measures as an internal monthly reporting system, detailed planning and control processes as well as processes for taking appropriate action and a clearly defined quotation process. The public is kept informed at regular intervals too. The monitoring system also includes the Supervisory Board, which monitors the work done by the Company management. A code of conduct for staff was introduced in 2003 as well.

The overall assessment made of the risks and the risk management system followed showed that the existing risks are limited and manageable and that the risk management system is efficient.

German Corporate Governance Code

In February 2002, the German federal government published the German Corporate Governance Code, which includes a number of recommendations and suggestions in addition to legal regulations. German companies with a stock market listing are only required to apply the regulations. As far as recommendations are concerned, § 161 of the German Companies Act (AktG) stipulates that companies with a stock market listing have to publish an annual statement confirming their observance of the recommendations. Companies are entitled to deviate from suggestions without being committed to publish a statement about this. The Executive Board and the Supervisory Board of SAP SI issued such conformity statements in fiscal 2002, 2003 and on March 24, 2004. The statement has been published on the Company's Web site and has thus been made available to the stockholders on a permanent basis.

Report about relationships to affiliated companies in accordance with § 312 AktG

SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung, Walldorf, Germany, holds more than 50 % of the capital stock of SAP SI. In accordance with § 312 of the AktG, the Executive Board of SAP SI has compiled a report about relationships to affiliated companies and has submitted it to the auditor and the Supervisory Board.

The report closes with the following statement: "Under the circumstances known to it at the time, the Company received fair and adequate compensation for each and every legal transaction that is listed in the report about relationships to affiliated companies. The Company neither took any action nor refrained from taking any action as defined in § 312 of the AktG."

Events between the balance sheet date and March 25, 2004

SAP AG, Walldorf, intends to make the shareholders of SAP SI a voluntary public offer to acquire their SAP SI shares in return for payment of an amount of €20.40 per SAP SI share and in accordance with the other provisions and conditions that still have to be announced in the offer document. SAP SI AG's aim in doing this is to increase its interest in SAP SI AG from the current level of about 70 % to up to 100 %.

Outlook

The statements made in this outlook apply not only to SAP SI AG but also to the SAP SI Group.

Revenues and earnings

The forecasts for the global IT and IT services market in 2004 indicate average growth of about 4 % to 5 %. Similar growth is expected for the North American market too. The growth anticipated for the German IT services market – SAP SI's core market – are only between 1.5 % and 2.0 %, on the other hand. SAP SI is expecting the market in Germany/Switzerland to develop sluggishly overall in the first half of 2004 with a recovery in the second half of the year.

In view of this assessment of the market, we are expecting revenue growth of between 8 % and 12 % and an EBIT margin of 14 % to 15 % in 2004, including the effects of the SLI and SPM acquisitions but no further take-overs.

Markets and strategy

We will continue to have a broad customer structure, covering the markets consumer & process industries, financial services, manufacturing industries and service industries. We think that the greatest potential in the next few years will be in banking, utilities & waste management and insurance.

SAP SI is expecting customers to continue increasing their requirements on IT consultants in 2004. IT environments need to support business processes even better and allow themselves to be adapted and/or extended flexibly to satisfy new demands. It is important in this context to optimise the existing IT environments further on limited budgets. The integration and application platform SAP NetWeaver supports this objective: business processes and IT solutions will be integrated even more closely in future and will be designed jointly. SAP SI has already taken over a leading position in Germany in the SAP NetWeaver consulting business. Meta Group, for example, considers that SAP SI is a leading provider in the Web services field and the most well-known service provider for business intelligence solutions.

SAP SI will be continuing to strengthen the service portfolio along the value chain on the basis of the increasingly exacting demands made on consulting services provided to customers in order to optimise their IT environments. The core skills in application development, implementation and integration are being developed on an ongoing basis. It has already been possible to expand the IT strategy and architecture consulting operations for designing upgradeable IT environments emphatically by acquiring SPM. We intend to expand our capacities for Hosting/Application Management (Managed Services) systematically too, as we are expecting high growth rates in this area in future as well. The proportion of revenues accounted for by Managed Services is to increase from 11.5 % at the moment to about 15 % by 2006.

SAP SI's growth strategy includes expansion of the Company's international presence too. We have already been able to extend our Swiss business considerably by acquiring SLI. The USA, the Benelux countries and Great Britain will be the focal points in future. The proportion of revenues contributed by international business is to increase from 20 % at the present time to about 30 % by 2006.

Summary

SAP SI already holds a leading position on the IT consulting market and has adapted its operations systematically to meet customers' requirements. This is reflected in the order backlog of €163 million at the end of 2003. Comprehensive market coverage, a service portfolio strategically extended along the value chain and an appropriate acquisition strategy are the basic features of SAP SI's approach to continue our success. SAP SI is expecting to report a positive business development and profitable growth again in 2004 with the help of an improving economic situation.

CONSOLIDATED INCOME STATEMENTS

€ thousands	Note	2003	2002
Software revenues		4,006	3,646
Maintenance revenues		5,306	5,063
Product revenues		9,312	8,709
Service revenues		236,063	254,383
Hosting/Application Management		32,331	27,509
Other revenues		2,544	2,638
Total revenues	(5)	280,250	293,239
Product costs		-5,098	-5,096
Service costs		-197,848	-223,888
Research and development		-600	-642
Sales and marketing		-18,170	-17,487
General administration		-17,993	-23,114
Other operating expenses and income, net	(8)	12	425
Total costs	(6)	-239,697	-269,802
Consolidated operating profit		40,553	23,437
Other non-operating expenses and income, net	(9)	-118	-536
Consolidated earnings before interest and tax (EBIT)		40,435	22,901
Financial income, net	(10)	3,071	3,329
Consolidated earnings before tax (EBT)		43,506	26,230
Income tax	(11)	-17,140	-10,580
Consolidated earnings after tax		26,366	15,650
Minority interest	(12)	0	-836
Consolidated net income		26,366	14,814
Earnings per share in €			
Earnings per share (undiluted)	(13)	0.74	0.41
Earnings per share (diluted)	(13)	0.74	0.41

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

The Hosting/Application Management segment created with effect from January 1, 2003 as part of the reorganisation exercise includes the revenues of what used to be the Outsourcing/Application Services segment, excluding the revenues from Technical Consulting. These revenues are now included in service revenues. The figures for the previous year have been adjusted accordingly.

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CONSOLIDATED BALANCE SHEETS

ASSETS

€ thousands	Note	Dec 31, 2003	Dec 31, 2002
Trademarks, similar rights and other intangible assets	(14)	3,121	1,120
Goodwill	(14)	110,807	80,936
Property and equipment	(15)	10,189	7,668
Financial assets	(16)	733	1,106
Fixed assets		124,850	90,830
Inventories	(17)	367	883
Receivables from goods and services		41,418	38,479
Receivables from affiliated companies		16,188	16,542
Other current assets		6,156	20,963
Receivables and other current assets	(18)	63,762	75,984
Cash and cash equivalents	(19)	160,569	135,719
Non-fixed assets		224,698	212,586
Deferred taxes		2,355	1,800
Prepaid expenses	(20)	1,652	1,253
Total assets		353,555	306,469
of which short-term		225,239	214,079

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

STOCKHOLDERS' EQUITY AND LIABILITIES

€ thousands	Note	Dec 31, 2003	Dec 31, 2002
Capital stock ¹⁾	(21)	35,800	35,800
Additional paid-in capital	(22)	218,478	218,070
Retained earnings/accumulated loss		13,165	-13,201
Accumulated other comprehensive loss	(23)	-1,921	-640
Stockholders' equity		265,522	240,029
Minority interest	(26)	0	1,286
Accruals for pensions	(27)	2,927	1,557
Other accruals	(28)	46,674	36,044
Accrued liabilities		49,601	37,601
Convertible bonds	(29)	2,056	1,210
Other liabilities	(30)	35,722	25,840
Liabilities		37,778	27,050
Deferred income	(31)	654	503
Total stockholders' equity and liabilities		353,555	306,469
of which short-term liabilities excluding stockholders' equity		82,693	62,387

¹⁾ Authorized-but-unissued capital at the relevant date €2,056 thousands (previous year: €1,210 thousands)

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

€ thousands	Number of shares issued in thousands	Comprehensive income/loss	Accumulated other comprehen- sive income/loss	Retained earnings/ accumulated loss	Additional paid-in capital	Capital stock	Total
As of Dec 31, 2000	35,800		-63	-7,816	218,524	35,800	246,445
Consolidated net loss		-19,582		-19,582			-19,582
Other comprehensive income		70	70				70
Comprehensive loss		-19,512					
As of Dec 31, 2001	35,800		7	-27,398	218,524	35,800	226,933
Consolidated net income		14,814		14,814			14,814
Other comprehensive loss		-647	-647				-647
Comprehensive income		14,167					
Dividend payments				-617			-617
Exceptional items from the initial consolidation of COPA GmbH					-454		-454
As of Dec 31, 2002	35,800		-640	-13,201	218,070	35,800	240,029
Consolidated net income		26,366		26,366			26,366
Other comprehensive loss		-1,281	-1,281				-1,281
Comprehensive income		25,085					
Exceptional items from the gradual acquisition of COPA GmbH					408		408
As of Dec 31, 2003	35,800		-1,921	13,165	218,478	35,800	265,522

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

€ thousands	Note	Jan 1, 2003 – Dec 31, 2003	Jan 1, 2002 – Dec 31, 2002
Consolidated net income		26,366	14,814
Depreciation and amortization of intangible assets, property & equipment and financial assets		5,136	5,286
Write-ups of financial assets		-5	-3
Changes in accruals for pensions		1,370	680
Changes in deferred taxes		898	294
Changes in inventories		524	-706
Changes in receivables and other assets		18,853	6,442
Changes in short-term accruals		6,609	-7,447
Changes in liabilities		5,452	-5,033
Changes in other assets and liabilities		-297	803
Net cash from operating activities	(32)	64,906	15,130
Additions to intangible assets and property & equipment		-12,399	-3,572
Additions due to changes in the scope of consolidation		-27,137	-1,921
Additions to financial assets		-14	-613
Disposals of fixed assets		225	359
Changes in minority interest		-1,286	0
Net cash used in investing activities	(33)	-40,611	-5,747
Dividend payments		0	-617
Other changes in stockholders' equity		408	-454
Net cash from financial activities	(34)	408	-1,071
Currency translation adjustments		147	962
Net change in cash and cash equivalents (term up to 3 months)	(34)	24,850	9,274
Cash and cash equivalents at the beginning of the period under review	(19)	135,719	126,445
Cash and cash equivalents at the end of the period under review	(19)	160,569	135,719

The following 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:

- Strategic IT consulting
- Systems integration
- Administration and operation of complete systems

The Company considers itself to be a full-service provider that supports customers throughout the life cycle of IT solutions. SAP SI's service portfolio is divided up into the "Consulting" and "Hosting/Application Management" segments and is designed to satisfy the specific requirements in the following areas: consumer & process industries, financial services, manufacturing and service industries.

In the year under review, most of the business operations were in Germany and the USA, with a smaller focus on Switzerland.

SAP Systems Integration AG (SAP SI) was established as a company following the merger of three affiliated companies that took economic effect on July 1, 2000. Merger accounting was carried out in accordance with the Accounting Principles Board Opinion No. 16 "Business combinations". Since the exchange of shares in the first stage represented an internal Group transfer, book values were applied. The purchase method was on the other hand applied in the subsequent acquisition of the minority interests in SRS AG, Dresden (SRS) and SAP Solutions GmbH Systeme, Anwendungen, Produkte in der Datenverarbeitung, Freiburg am Neckar (SAP S) in return for SAP SI shares, which led to the inclusion of goodwill amounting to €136 million. This figure corresponded to the difference between the acquisition cost of the minority interests and the stockholders' equity they accounted for. The value of these shares was calculated on the basis of an expert's report. All of the difference was allocated to goodwill. This goodwill was amortized as scheduled up to December 31, 2001. In line with Statements of Financial Accounting Standards (SFAS) 142, no scheduled amortization charges have been made since January 1, 2002, see note (4).

2) Basic accounting principles

These SAP SI consolidated financial statements were prepared in euros (€) in accordance with the US Generally Accepted Accounting Principles (US GAAP). All the US GAAP principles that were binding in the fiscal year were applied.

SAP SI satisfies the conditions for exemption from the requirement to prepare consolidated financial statements in accordance with German accounting rules as specified in § 292a of the German Commercial Code (HGB). The consolidated financial statements and consolidated management report that have to be filed in the commercial register and have to be published in the German Federal Bulletin comply with the US Generally Accepted Accounting Principles. The rules have been interpreted in this context as indicated in German Accounting Standard No. 1 (DRS 1) "Consolidated financial statements that provide exemption in accordance with § 292a of the HGB" and DRS 1a "Consolidated financial statements that provide exemption in accordance with § 292a of the HGB, consolidated financial statements prepared in accordance with US GAAP: goodwill and other intangible assets" issued by the German Accounting Standards Committee e.V. (DRSC).

3) Companies consolidated

Apart from SAP SI, the companies that are consolidated in full include all the subsidiaries in which SAP SI directly or indirectly holds a majority of the voting rights. The Company made acquisitions in the fiscal years 2001 to 2003 that have all been consolidated by the purchase method.

In November 2001, SAP SI decided to acquire 100 % of the shares in COPA Computer Organisation, Programmierung und Anwendungssoftware GmbH, Wesel (COPA). The take-over related solely to COPA's SAP business and was made in three stages. 25.1 % were transferred to SAP SI by SAP AG in December 2001 and a further 25.0 % were acquired in January 2002. The company was included at equity up to December 31, 2001 (book value €3.427 thousand). Since January 1, 2002, the company has been consolidated in full in the consolidated financial statements. The remaining 49.9 % were acquired with effect from January 1, 2003. The company was merged with SAP SI with effect from January 1, 2003.

SAP SI acquired 100% of the shares in SLI Consulting AG, Regensdorf, Switzerland (SLI), in the 3rd quarter of 2003. SLI is a consulting company for SAP solutions and has an attractive customer base of about 150 medium-sized and large companies, most of them from the food, chemical and pharmaceutical industries, the retail trade and manufacturing. The customers include Altana Pharma, Bosch, Chocolat Frey and Zumtobel. The emphasis in the operations of SAP Systems Integration (Schweiz) AG (SAP SI Switzerland) has been on the healthcare field in the past. The main objective of the SLI acquisition was to strengthen SAP SI's access to the Swiss market and to expand the business in Switzerland substantially. Most of the revenues were generated in Switzerland and Germany. The company generated revenues of about €10 million in 2003. EBIT amounted to €1.4 million. The company was merged with SAP SI Switzerland with effect from November 1, 2003. SAP SI Switzerland had 54 employees on the acquisition date and 55 employees on December 31, 2003.

100% of the shares in SPM Technologies Deutschland GmbH (SPM), which is based in Berlin, were acquired in December 2003. SPM is one of the leading providers of IT architecture consulting services in Germany and has about 190 employees. By making this take-over, SAP SI is strengthening its own service portfolio appreciably and will be able in future not only to support its customers in the integration of IT solutions in their heterogeneous system environments but also to give them comprehensive advice about the decisions they already take beforehand about IT architecture. With the substantial improvement in its IT architecture capabilities, SAP SI will be appealing to all customers who want to adapt their IT systems from SAP and other suppliers to their business requirements in the most effective possible way. SPM was established in Berlin in 1993 and had 189 employees on December 31, 2003. In the 2003 fiscal year, SPM generated revenues of about €18 million and an EBIT margin of 8.4% (€1.5 million).

The acquisition costs of the assets and liabilities that were taken over and the relevant goodwill have been summarised in the following table:

	€ thousands
Intangible assets	1,864
Goodwill	24,871
Property and equipment	1,653
Current assets including cash and cash equivalents	6,866
Prepaid expenses	733
Total assets acquired	35,987
Accruals	3,196
Liabilities including deferred income	5,483
Total liabilities acquired	8,679
Net assets acquired	27,308

SAP SI spent a total of €34.1 million on company acquisitions in 2003. This expenditure led to differences on the assets side of €32.3 million. On the basis of the purchase price breakdown, €1.5 million were capitalised as customer relationships and €30.8 million as goodwill. The acquisition costs for SLI and SPM may increase by €7.1 million if the business targets are achieved at 100 % depending on the revenues and earnings generated in fiscal 2004 and 2005.

The increase in the number of companies consolidated in fiscal 2003 did not have any major impact on comparability with the consolidated financial statements for the previous year.

A list of all the subsidiaries and other equity holdings, indicating the size of the interest, revenues, net income/loss, stockholders' equity and number of employees can be found in the list of equity holdings (Appendix 1).

Two more companies were consolidated in full in the year under review (previous year: one company). Two companies were merged. This means that six companies, three of them outside Germany, were consolidated on December 31, 2003, the same number as at the end of the previous year.

4) Accounting and valuation principles

Consolidation principles

The financial statements of subsidiaries are included in the consolidated financial statements for the first time by the purchase method following their acquisition. Differences between the acquisition costs and the relevant proportion of stockholders' equity are allocated initially to the assets and liabilities of the subsidiary. Valuation is carried out at market values. The market value of research and development projects which have not been completed yet and the technical feasibility of which cannot be demonstrated yet has to be charged directly as expenditure. The same applies to assets that are used in research and development projects or result from them, if there is no further potential use for them in future. Any remaining differences on the assets side are posted as goodwill.

Changes in equity holdings that have an impact on earnings have been included in financial income.

Receivables, liabilities, revenues, expenses and income between the companies included are eliminated. Deferred tax charges are made wherever necessary in relation to consolidation entries to the extent that the differing tax expenditure will probably balance in subsequent fiscal years.

Estimates and assumptions

The valuation of assets, liabilities and financial commitments and the determination of expenditure and income in the preparation of the consolidated financial statements are based on certain assumptions and estimates. When the Company works out such estimates and assumptions, it makes use – among other things – of historical information and planning data to assess the future value and realisability of financial and other assets. The actual results may differ from the estimates and assumptions made, because of changes in the general economic conditions in the industries or regions in which SAP SI or its customers operate.

Currency translation

The financial statements of the subsidiaries located outside Germany are translated in accordance with the functional currency concept in the consolidated financial statements. Since all the subsidiaries are economically independent and their functional currency is therefore the local currency, the balance sheets are translated into the Group currency at the mean rates on the balance sheet date, while the income statements are translated at average rates for the year. The differences that arise in foreign currency translation are included in stockholders' equity.

Assets and liabilities in foreign currencies are valued at the exchange rates on the balance sheet date in the individual company accounts. Any differences that arise from currency translation are included in the income statements as other expenses and income.

The exchange rates for the currencies that are most important for the consolidated financial statements changed as follows:

	Median exchange rate on the balance sheet date		Average exchange rate for fiscal year	
	2003 for €1	2002 for €1	2003 for €1	2002 for €1
US dollar	1.2630	1.0494	1.1343	0.9422
Swiss franc	1.5579	1.4549	1.5325	1.4669

Revenue recognition

The fundamental rule is that revenues from consulting and other services are recognised after the services have been completed.

SAP SI provides some of its consulting services on a fixed-price basis. In such cases, revenues are recognised by the “percentage of completion method” in accordance with AICPA Statement of Position (SOP) 81-1 “Accounting for Performance of Construction-Type Contracts” (“SOP 81-1”). The extent to which the projects have been completed is determined by comparing the services already provided (valued on the basis of standard charges) with the total costs planned to complete the projects. Adjustments are made on an ongoing basis as progress is achieved with the projects. Write-downs and/or accruals are made for potential losses relating to such services in the period in which they are caused (2003: €1 thousand, previous year: €510 thousand).

If contracts about software revenues include agreements about maintenance that is to be provided free of charge or at special lower rates, future consulting or other services, some of the software revenues are allocated to the relevant periods to cover these services. The revenue breakdown is made by the residual value method.

Revenues from software licences are shown in accordance with SOP 97-2.

Maintenance revenues are recognised on a pro rata basis over the maintenance period agreed in the contract.

Hosting/Application Management revenues are recognised on a pro rata basis according to the provision of the service over the period covered by the contract.

Research and development

In accordance with SFAS No. 86 “Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed” (“SFAS 86”), research and development expenditure has to be capitalised when it has been incurred between the dates of “technological availability” and “marketability”. No major research and development expenditure was incurred during this period at the Group. Development costs that were incurred before the “technological availability” stage was reached were included in the income statements at the time when they were incurred.

Advertising expenses

Advertising expenses are included in the income statements at the time when they are incurred.

Earnings per share

Earnings per share are determined in accordance with SFAS No. 128 “Earnings per share” (“SFAS 128”). The undiluted earnings per share are calculated by dividing the consolidated net income by the weighted average number of ordinary shares in circulation. The diluted earnings per share also take the potential dilution effect into account that would result from the possible conversion of all the convertible bonds that have been issued into ordinary shares.

Intangible assets, property and equipment

Intangible assets are goodwill, software and similar rights. The goodwill shown is mainly the result of the merger outlined in note (1). It was amortized over a period of three years up to December 31, 2001 by the straight-line method. FASB published SFAS No. 141 „Business Combinations“ and SFAS No. 142 „Goodwill and Other Intangible Assets“ in June 2001. Following the application of SFAS 142 for the first time from January 1, 2002 onwards, goodwill and other intangible assets with an unlimited useful life have no longer been subject to scheduled amortization charges; instead of this, they have been reviewed on a regular basis once a year to determine whether their value has diminished („impairment test“), with additional checks being made during the year if there are any signs that unscheduled amortization charges need to be made. The value of the assets was checked in accordance with the two-stage cash flow method by comparing the book values with the future cash flows. Application of SFAS 142 has not led to the need for any write-downs.

Other intangible assets acquired are capitalised at acquisition cost and are depreciated on a scheduled basis over a maximum of 5 years by the straight-line method.

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

	Useful life of property and equipment
	In accordance with the
Leasehold improvements	lease contract
Hardware	3 to 5 years
Office equipment	4 to 20 years
Motor vehicles	5 years

Leasehold improvements were depreciated using the straight-line method. Other property and equipment was depreciated by the straight-line method, with the declining-balance method being applied in a few cases instead.

Impairment of long-lived assets

SAP SI reviews the value of its long-lived assets – which include property and equipment as well as intangible assets excluding goodwill – in accordance with the rules stipulated by SFAS 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”. This standard requires that the value of long-lived assets is always reviewed when special events or changes in the general conditions make it possible that the book value of an asset or a group of assets is lower than the projected future cash flows. If an unscheduled depreciation charge is considered to be necessary for such assets, this charge corresponds to the difference between the book value and the lower market value. Long-lived assets that are to be disposed of are valued at the lower of their book value or market value less the estimated costs of disposal.

Financial assets

Miscellaneous loans are valued at acquisition cost. Interest-free loans to Company employees and third parties are discounted to their cash value. Equity holdings where it is not possible to exert any major influence are valued at acquisition cost. Depreciation to a lower value on the balance sheet date is only charged to earnings if the reduction in value is considered to be probable. A depreciation charge of €245 thousand was made in the year under review, see note (16).

Current assets

Receivables are posted with their nominal value, which corresponds to the market value. This item also includes services provided in consulting projects that are being completed on a fixed-price basis and have not been invoiced yet. Provisions for bad debts are made according to the probability that they will not be paid. Interest-free receivables due in more than one year are discounted.

Inventories are reported at the lower of acquisition/production cost or market value.

Cash and cash equivalents in the balance sheets only include cash in hand and deposits with an original term of less than 90 days.

The other current assets are shown with their nominal value, which corresponds to the market value.

Deferred taxes

Deferred taxes are calculated by the liability method. This means that deferred tax assets and liabilities are included with the tax effect of temporary differences between the relevant figures under tax law and in accordance with US GAAP accounting rules that will probably be reversed in future. Deferred taxes are also reported for tax losses carried forward.

When the liability method is used, the tax rate that will probably apply at the time when the differences are eliminated is used as the basis. The effects of changes in tax rates on deferred taxes are taken into account in the income statements in the reporting period in which the change in the tax rate comes into force.

Deferred tax assets are reduced when it is improbable that the receivable concerned will be paid.

Accruals and liabilities

Accruals for pension liabilities are determined on the basis of actuarial reports using the “Projected Unit Credit Method”. This means that increases in pensions, vested entitlements and salaries that are expected in future are taken into consideration in valuation as well. The accounting principles are outlined in note (27) “Accruals for pensions”.

Other accruals are only reported if disclosure is mandatory. This is the case when there is a commitment to third parties, payment is likely and the probable size of the accrual amount needed can be estimated reliably. All the cost elements that need to be taken into account are included in calculation of the other accruals. Accruals for warranties are formed corresponding to the estimated costs.

Liabilities are shown with the amount that is payable, which corresponds to the market value.

Accounting for stock-based compensation programs

SAP SI values its stock-based employee compensation programs by the intrinsic value method in accordance with Accounting Principles Board Opinion 25 (“APB 25”), application of which is permitted by Statement of Financial Accounting Standards No. 123 “Accounting for Stock-Based Compensation” (“SFAS 123”). This means that SAP SI does not post any expenses for the convertible bonds that have been issued, as the conversion price corresponds to the market value of an SAP SI share on the date of issue.

SFAS 123 requires the additional indication of the consolidated net income and the earnings per share which would have been generated if the expenses of the stock-based compensation models had been determined on the basis of the market value (“pro forma”). The calculation was based on the following assumptions:

	2003	2002
Estimated time until the option is exercised (in years)	3.7	4.0
Risk-free interest rate	2.8 %	3.0 %
Expected volatility	50.6 %	50.0 %
Average expected dividend yield on issue	0.0 %	0.0 %

The following table shows the impact that application of the market value method specified in SFAS 123 would have on the consolidated net income:

	2003	2002
Consolidated net income (in € thousands)		
Consolidated net income according to the income statements	26,366	14,814
less expenses of stock-based compensation programmes in accordance with SFAS 123	-1,625	-1,698
Pro forma income	24,741	13,116
Earnings per share (in €)		
Undiluted – according to the income statements	0.74	0.41
Diluted – according to the income statements	0.74	0.41
Undiluted – pro forma	0.69	0.37
Diluted – pro forma	0.69	0.37
Number of shares/undiluted (in thousands)	35,800	35,800
Number of shares/diluted (in thousands)	35,815	35,800

Details about the calculation of the number of diluted shares can be found in note (13).

The average market value of the conversion rights granted in fiscal 2003 amounted to €5.11 on December 31, 2003 (December 31, 2002: €2.67). In view of the fluctuations in the assumptions on which the calculation of the market value of the convertible bonds is based, the impact of application of SFAS 123 on the consolidated net income and the earnings per share in 2003 were not representative for future periods.

Financial derivatives

As a Company that operates in regions with several different currencies, SAP SI is exposed in its business activities to risks relating to changes in the exchange rates and interest rates. We used only standard hedging contracts with adequate market liquidity to reduce such risks. These instruments are subject to strict internal rules and controls.

SAP SI is exposed to the risk of default by the contract partners in each case when financial derivatives are used. This risk was countered by making sure that contracts are only concluded with financial institutions that have an impeccable credit rating.

SAP SI has applied the latest version of the Statement of Financial Accounting Standards No. 133 “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”) since January 1, 2001. According to this accounting standard, financial derivative contracts must be included in the balance sheets with their market value, irrespective of why they were concluded. The changes in the market value of such derivatives were taken into account in the income statements, see note (38).

Comprehensive income

SFAS No. 130 “Reporting Comprehensive Income” (“SFAS 130”) requires the reporting of comprehensive income. It includes net income as well as other comprehensive income, which consists of all changes to stockholders’ equity that are not made in connection with transactions with the stockholders. Both the other comprehensive income and the total comprehensive income are shown in the consolidated statements of changes in stockholders’ equity.

Consolidated statements of cash flows

The statements of cash flows show the effects of inflows and outflows on SAP SI’s cash and cash equivalents in the course of the year under review. They are prepared in accordance with SFAS No. 95 “Statement of Cash Flows” (“SFAS 95”). A distinction is made here between cash flows from operating, investing and financing activities. The statements of cash flows are based on cash and cash equivalents with original terms of up to 3 months. They are the same as the cash and cash equivalents outlined in note (19), where a breakdown is given.

New accounting regulations

The FASB published SFAS No. 143 “Accounting for Asset Retirement Obligations” (“SFAS 143”) in June 2001. This standard specifies the accounting and reporting requirements for legal obligations associated with the retirement of property and equipment and the acquisition, design, development and/or normal operation of assets. According to SFAS 143, such obligations have to be posted as liabilities at their market value in the period in which they are economically incurred, provided that their market value can be estimated reliably. The book value of the relevant property and equipment has to be increased by the same amount. Certain obligations of lessees are exempted from these rules. Application of SFAS 143 from January 1, 2003 onwards did not have any significant impact on the consolidated financial statements.

The FASB published SFAS No. 146 “Accounting for Costs Associated with Exit or Disposal Activities” (“SFAS 146”) in July 2002. This standard replaces Emerging Issues Task Force (EITF) Issue 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 applies prospectively to all exit or disposal activities that were initiated after December 31, 2002. SFAS 146 specifies that expenses incurred in connection with the exit from or disposal of operations are only included in the income statements in the period in which the expenses are actually incurred and a reliable estimate can be made. Under accounting rules that had applied before, it was possible to include a liability at the time when the management approved an exit or disposal plan. Application of SFAS 146 did not have any significant impact on the consolidated financial statements. The necessary explanations can be found in note (28).

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”) was approved in November 2002. FIN 45 specifies the disclosure requirements guarantors have to satisfy in their financial statements for certain guarantees that have been made. FIN 45 also specifies guarantors’ obligation to include a liability for the guarantees they have made at their market value, irrespective of whether the guarantees are likely to be required. If the general rules for the formation of accruals in accordance with SFAS 5 “Accounting for Contingencies” (“SFAS 5”) require the inclusion of a larger liability, this larger amount must be included. FIN 45 was applied prospectively to all guarantees that were made or modified after December 31, 2002. Application of it did not have any significant impact on the consolidated financial statements. The necessary explanations can be found in note (35).

The FASB published SFAS No. 148 “Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment to FASB Statement No. 123” (“SFAS 148”) in December 2002. SFAS 148 amends SFAS 123 “Accounting for Stock-Based Compensation” by making alternative methods available for the voluntary transition to market valuation of stock-based compensation programmes. As has already been explained, SAP SI applies APB 25 and therefore determines the expenses on the basis of the intrinsic value of the subscription rights granted. According to SFAS 123, the personnel expenses of stock-based compensation programmes depend on the market value on the date of issue, using an option price model. Both methods require allocation of the salary expenses over the period when the benefit is provided; the counterentry is made in stockholders’ equity (additional paid-in capital). If SAP SI was to decide to apply the market value method in future, additional expenditure would have to be shown in the consolidated income statements, the amount of which depends on the number, value and other conditions of the options issued. SFAS 148 also requires more detailed explanations in the notes about the accounting method applied for stock-based compensation programmes and in particular about their impact on the earnings reported. The necessary explanations can be found in notes (4) and (21).

The EITF approved final rules relating to EITF 00-21 “Revenue Arrangement with Multiple Deliverables” (“EITF 00-21”) in November 2002. The rules about application of this were modified slightly in May 2003. EITF 00-21 deals with certain aspects of the recognition of revenue in combined business transactions, where multiple deliveries are made by one supplier. EITF 00-21 specifies the circumstances under which individual components are to be considered as transactions that must be treated separately in accounts and how the revenues for the overall business transaction must be allocated to the different components in such cases. EITF 03-05 “Applicability of AICPA Statement of Position 97-2, Software Revenue Recognition, Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software”, which was approved on July 31, 2003, deals with this issue too. SAP SI has applied EITF 00-21 and EITF 03-05 prospectively to all the contracts concluded after June 30, 2003. Application of them did not have any significant impact on the consolidated financial statements.

EITF 01-8 “Determining Whether an Arrangement Contains a Lease” (“EITF 01-8”) was published in May 2003. EITF 01-8 refers to the regulations in SFAS No. 13 “Accounting for Leases” (“SFAS 13”) and makes the circumstances clear under which contractual agreements must be classified as leasing contracts, even if they are not actually described as such in the contract. If the conditions specified in EITF 01-8 are met, the general rules for the

accounting of leasing contracts have to be applied to such contracts. EITF 01-08 has to be applied prospectively by both the lessee and the lessor for all the agreements that have been made, modified or purchased within the framework of company acquisitions in reporting periods since May 28, 2003. Application of EITF 01-08 from July 1, 2003 onwards did not have any significant impact on SAP SI's consolidated financial statements.

The FASB published SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity" ("SFAS 150") in May 2003. SFAS 150 changes the accounting and classification rules for certain financial instruments. They include, for example, instruments that are frequently used in share buyback programmes and have been treated as stockholders' equity in balance sheets up to now. According to SFAS 150, certain kinds of financial instruments that have features of both stockholders' equity and loan capital must be included in balance sheets as liabilities. Changes in market value have to be incorporated in income statements. SFAS 150 can have an impact on certain balance sheet and income statement key indicators as well as on share buyback programmes. SAP SI has applied SFAS 150 to all new or modified business transactions since May 31, 2003. This did not have any significant impact on the consolidated financial statements.

On October 9, 2003, the FASB postponed the introduction of FIN 46 "Variable Interest Entities" that were established before February 1, 2003 to December 31, 2003 with FASB Staff Position FIN 46-6 "Effective Date of FASB's Interpretation No. 46, Consolidation of Variable Interest Entities". Application of FIN 46 did not have any impact on SAP SI's consolidated financial statements.

In December 2003, the FASB published Interpretation 46 (revised in December 2003) "Consolidation of Variable Interest Entities" (FIN 46R), which specifies how a company is required to investigate whether it controls another company in a different way than via voting rights and therefore may need to consolidate this other company. FIN 46R replaces FIN 46 "Consolidation of Variable Interest Entities", which was published in January 2003. The regulations of FIN 46R have to be applied from December 31, 2003 onwards to all companies that were classified beforehand as "special purpose entities". Since SAP SI did not have any special purpose entities, application of this FIN 46R rule did not have any impact on SAP SI's consolidated financial statements. FIN 46R also has to be applied to all variable interest entities that are established after December 31, 2003. FIN 46R has to be applied to variable interest entities established before January 1, 2004 from March 31, 2004 onwards. SAP SI is currently investigating the implications of this FIN 46R rule for the consolidated financial statements, but does not expect application of it to have any impact.

The EITF reached partial agreement on EITF 03-1 "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" in November 2003. According to this agreement, information has to be provided about the existence of unrealised losses with marketable securities.

The FASB published SFAS No. 132 (revised) "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132 (revised)") in December 2003. SFAS 132 (revised) specifies the information that has to be provided about pension schemes and similar arrangements; entry and valuation regulations are not affected by the revised standard. SFAS 132 (revised) essentially contains additions to the existing explanation requirements for performance-based pension schemes. Additional information is required about pension scheme assets, pension commitments, pension scheme endowments, pension payments and pension expenses. SFAS 132 (revised) was already applicable from December 31, 2003 onwards.

The Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 104 published "Revenue Recognition" ("SAB 104") in December 2003. SAB 104 replaces SAB 101 "Revenue Recognition in Financial Statements" ("SAB 101"). The main purpose in publishing SAB 104 was to replace the rules in SAB 101 that referred to the revenue recognition of combined business transactions and thus to take account of the publication of EITF 00-21. SAB 104 also replaces the "Frequently Asked Questions and Answers" published in connection with SAB 101 and codified in SEC Topic 13 "Revenue Recognition". The primary aim of the changes that were made in SAB 104 with respect to the publication of EITF 00-21 is to standardise the terminology used. The principles of revenue recognition in SAB 101 remained largely unchanged, on the other hand. SAB 104 became applicable on publication of the announcement in December 2003. Implementation of it did not have any significant impact on SAP SI's consolidated financial statements.

B) Notes to the income statements

5) Revenues

The revenues were generated primarily by the provision of SAP related consulting services, 85.7 % of them in Germany. A detailed breakdown of the revenues can be found in the segment report, see note (39).

The Hosting/Application Management segment created as part of the reorganisation exercise includes the revenues of what used to be the Outsourcing/Application Services segment, excluding the revenues from Technical Consulting. These revenues are now included in service revenues. The figures for the previous year have been adjusted accordingly.

6) Costs

Costs of materials:

The costs of materials included in the costs reported can be broken down as follows:

€ thousands	2003	2002
Costs for raw materials, utilities, consumables and goods	5,894	5,931
Costs for services	21,686	29,282
	27,580	35,213

The costs of externally purchased services were reduced by about 25.9 % to €21,686 thousand in the year under review in favour of higher utilisation of SAP SI's own consultants.

Payrate and related costs/number of employees:

The costs of personnel included in the costs reported can be broken down as follows:

€ thousands	2003	2002
Salaries	124,790	137,315
Social security costs	18,468	17,933
Pension contributions	3,406	2,983
	146,664	158,231

The expenditure on performance-based compensation included in the costs of personnel amounted to €33,636 thousand (previous year: €34,207 thousand). The larger amount in the previous year is attributable to a 8.9 % lower average number of employees in the year under review by comparison with the previous year.

The average number of employees (total of the figures at the end of the months divided by the number of months) in the year under review (2003) was 1,658 (previous year: 1,819).

Additional statements:

- (1) €2,741 thousand were spent on advertising in the year under review (previous year: €2,074 thousand).
- (2) Personnel recruitment expenditure amounted to €309 thousand in 2003 (previous year: €320 thousand).

7) Restructuring costs

SAP SI carried out restructuring measures involving expenditure of € 9,769 thousand in the previous year, which were already completed to a large extent in the previous year too. These measures essentially involved an adjustment in the number of employees to the decline in business development because of the reluctance of customers to invest. The accrual for employees who did not leave the Company until after December 31, 2002 amounted to €4,270 thousand on December 31, 2003. €2,588 thousand of this accrual was required in the year under review. This means that the accrual amounted to €1,682 thousand on December 31, 2003. No restructuring expenditure was incurred in fiscal 2003.

8) Other operating expenses and income

The other operating expenses and income can be broken down as follows:

€ thousands	2003	2002
Provisions for bad debts, net	334	-24
Income from claims for damages	364	320
Rental income	214	106
Expenditure for building vacancy costs	-909	0
Expenditure from previous periods	-13	0
Others	22	23
	12	425

9) Other non-operating expenses and income

The other expenses and income included the following items in the period under review:

€ thousands	2003	2002
Net effects of currency translation	-277	-721
Net effects of asset disposals	-3	0
Miscellaneous expenses and income	162	185
	-118	-536

The currency translation adjustments were due in particular to the development in the US dollar exchange rate.

10) Financial income, net

The interest income mainly included interest from credit balances at banks and loans. The reduction in spite of the larger volume involved was attributable particularly to declining interest rates. One equity holding was written down by €245 thousand to the lower market value in the year under review, see note (16).

€ thousands	2003	2002
Interest income	3,790	4,180
Interest expenses	-473	-138
Write-down of financial assets	-251	-730
Other financial income, net	5	17
	3,071	3,329

11) Income tax

Consolidated earnings before tax (EBT) in Germany and the rest of the world were as follows:

€ thousands	2003	2002
Germany	38,266	22,835
Rest of the world	5,240	3,395
	43,506	26,230

Income tax expenses were as follows in fiscal 2003 and 2002:

€ thousands	2003	2002
Current taxes – Germany	15,668	9,075
Current taxes – foreign	1,322	1,319
	16,990	10,394
Deferred taxes – Germany	-491	59
Deferred taxes – foreign	641	127
	150	186
Income taxes	17,140	10,580

The average domestic trade tax rate in Germany in relation to the earnings before taxes on income amounted to 17.1 % in 2003 (previous year: 17.3 %).

The average tax rate in relation to the consolidated earnings before income taxes amounted to 39.4 % in 2003 (previous year: 40.3 %).

Reconciliation to the actual tax charge based on the present combined German rate of taxes on income of 39.9 % (previous year: 38.4 %) is shown in the table below. This combined rate of taxes on income consists of the rates for corporation and reunification tax (taking the deductibility of trade tax into account) of 23.3 % (previous year: 22.1 %) and trade tax of 16.6 % (previous year: 16.3 %).

€ thousands	2003	2002
Consolidated earnings before tax (EBT)	43,506	26,230
Expected taxes on income 39.9 % (previous year: 38.4 %)	17,355	10,059
Difference from tax rates outside Germany	-125	-298
Taxes on non-deductible expenses	26	292
Others	-116	527
Income taxes	17,140	10,580

The statutory corporation tax rate was raised to 26.5 % for the 2003 assessment period on the basis of the legislation passed to provide aid to the victims of the flood catastrophe. The tax rate of 25.0 % applies again from the 2004 assessment period onwards. Deferred taxes have to be calculated at the rate that applies when the effects on which the deferred taxes are based are reversed. This means that the proportion of the deferred taxes that will be reversing in 2004 has been calculated at a corporation tax rate of 25.0 % plus the relevant reunification tax for the German companies in the Group. The impact of this reduction in the tax rate on deferred tax assets and liabilities at the German companies in the Group amounted to -€13 thousand (previous year: €0 thousand).

€ thousands	2003	2002
Fixed assets	11	0
Losses carried forward	855	676
Accruals for pensions	426	130
Other accruals/other liabilities	1,063	994
Deferred tax assets	2,355	1,800
Fixed assets	1,075	314
Receivables and other assets	883	905
Liabilities	70	0
Deferred tax liabilities	2,028	1,219
Deferred taxes, net	327	581

The following table shows the deferred taxes broken down according to their timing:

€ thousands	2003	2002
Short-term	1,842	1,670
Long-term	513	130
Deferred tax assets	2,355	1,800
Short-term	953	905
Long-term	1,075	314
Deferred tax liabilities	2,028	1,219

€841 thousand of the deferred tax assets relating to losses carried forward (€855 thousand) were accounted for by losses carried forward by SPM. The management of the company is working on the assumption that it will be possible to take advantage of the deferred tax assets in the short term because of the anticipated income tax situation.

12) Profit allocated to minority interests

Following the take-over of the remaining 49.9% of COPA with effect from January 1, 2003, there was no profit allocated to minority interests in 2003. The figure for the previous year was €836 thousand.

13) Earnings per share

The earnings per share are determined in accordance with SFAS No. 128 "Earnings per share" ("SFAS No. 128"). The convertible bonds (2,055,632 of them; December 31, 2002: 1,209,647) issued by SAP SI as of December 31, 2003 did not lead to a material dilution effect in 2003 on the basis of the treasury stock method.

In the calculation of the average number of shares, it was assumed that all the shares represented ordinary shares with a nominal value of €1.

The earnings per share were as follows:

	2003	2002
Consolidated net income, in € thousands	26,366	14,814
Average number of shares (undiluted), in thousands	35,800	35,800
Dilution effect because of convertible bonds, in thousands	15	0
Average number of shares (diluted), in thousands	35,815	35,800
Earnings per share (undiluted), in €	0.74	0.41
Earnings per share (diluted), in €	0.74	0.41

The average market price of the SAP SI share in 2003 was €12.51 and was therefore below the average exercise price of €15.81, see note (21).

C) Notes to the balance sheets

14) Intangible assets

The goodwill reported was attributable essentially to the take-over of minority interests in return for SAP SI shares in connection with the corporate merger outlined in note (1). It corresponds to the difference between the acquisition cost of the minority interests and the stockholders' equity they account for and was amortized on a pro rata basis over three years up to December 31, 2001 (see note (1)). €86,932 thousand of the goodwill reported as of December 31, 2003 were subjected to the two-stage impairment test as specified in SFAS 142 (see note (4)) in 2003. This test is carried out once a year. The additions to the goodwill were due mainly to the acquisition of the remaining 49.9% of the shares in COPA. No amortization was required in this context. The changes in the companies consolidated resulted from the acquisition of SLI Consulting AG, Regensburg (Switzerland), and SPM Technologies Deutschland GmbH, Berlin (see note (3)). The additions to the trademarks, similar rights and assets related to software programs.

€ thousands	Trademarks, similar rights and other intangible assets	Goodwill	Total
Acquisition cost as of Jan 1, 2003	2,263	152,167	154,430
Currency translation adjustments	-10	-1,409	-1,419
Changes in the scope of consolidation	2,863	24,871	27,734
Additions	592	6,409	7,001
Disposals	53	0	53
As of Dec 31, 2003	5,655	182,038	187,693
Accumulated depreciation as of Jan 1, 2003	1,143	71,231	72,374
Currency translation adjustments	-10	0	-10
Changes in the scope of consolidation	1,000	0	1,000
Additions	451	0	451
Disposals	50	0	50
As of Dec 31, 2003	2,534	71,231	73,765
Book value as of Dec 31, 2003	3,121	110,807	113,928
Book value as of Dec 31, 2002	1,120	80,936	82,056

The following table shows the estimated depreciation charge for trademarks, similar rights and other intangible assets for the next five years:

year	€ thousands
2004	1,003
2005	822
2006	708
2007	148
2008	148
Total	2,829

15) Property and equipment

€ thousands	Leasehold rights	Office and other equipment	Payments and construction in progress	Total
Acquisition cost as of Jan 1, 2003	2,206	24,119	152	26,477
Currency translation adjustments	-1	-72	0	-73
Changes in the scope of consolidation	584	5,872	0	6,456
Additions	1,061	4,337	0	5,398
Disposals	261	2,516	0	2,777
Reclassifications	152	0	-152	0
As of Dec 31, 2003	3,741	31,740	0	35,481
Accumulated write-down as of Jan 1, 2003	1,609	17,200	0	18,809
Currency translation adjustments	0	-54	0	-54
Changes in the scope of consolidation	335	4,464	0	4,799
Additions	347	4,087	0	4,434
Disposals	254	2,442	0	2,696
As of Dec 31, 2003	2,037	23,255	0	25,292
Book value as of Dec 31, 2003	1,704	8,485	0	10,189
Book value as of Dec 31, 2002	597	6,919	152	7,668

The changes in property and equipment are due mainly to the acquisition of SLI and SPM, while the additions to office equipment are attributable primarily to hardware purchases and office equipment for a new building.

16) Financial assets

€ thousands	Equity holdings	Miscellaneous loans	Total
Acquisition cost as of Jan 1, 2003	975	895	1,870
Additions	0	14	14
Disposals	0	145	145
As of Dec 31, 2003	975	764	1,739
Accumulated write-down as of Jan 1, 2003	730	34	764
Additions	245	6	251
Disposals	0	4	4
Write-ups	0	5	5
As of Dec 31, 2003	975	31	1,006
Book value as of Dec 31, 2003	0	733	733
Book value as of Dec 31, 2002	245	861	1,106

The equity holding in UTILITE-Place AG, Hamburg, was written down by €245 thousand to the lower fair value in the year under review.

The miscellaneous loans relate to loans to employees and financing loans. The market value of the miscellaneous loans corresponded essentially to their book value. The interest rates charged for the loans ranged between 5.5% and 6% p.a.

17) Inventories

The inventories were valued at the lower of their acquisition/production costs or market value (lower of cost or market). Inventories worth €367 thousand were reported on December 31, 2003 (previous year: €883 thousand). The inventories included consulting services valued at cost rates (€60 thousand), raw materials, utilities and consumables (€110 thousand) and stocks of merchandise (€197 thousand).

18) Receivables and other assets

€ thousands	Dec 31, 2003	Dec 31, 2002
Receivables from goods and services	41,418	38,479
Receivables from affiliated companies	16,188	16,542
Other current assets	6,156	20,963
	63,762	75,984

The amounts reported for trade receivables in the balance sheets as of December 31, 2003 were reduced by provisions for doubtful debts of €1,528 thousand. The corresponding figure for 2002 was €1,719 thousand.

The receivables and other assets can be broken down as follows by their due dates:

€ thousands	Dec 31, 2003	Dec 31, 2002
Due in less than one year	60,809	74,424
Due between 1 and 5 years	2,953	1,560
	63,762	75,984

The danger of business concentration and doubtful debts associated with this must be considered minimal at SAP SI because of the broad customer base and the spread of the business over several different industries. Revenues with one single customer outside the SAP Group did not correspond to 10 % or more of the total revenues in any of the fiscal years. The unbilled receivables reported in the receivables amounted to €1,093 thousand in the year under review (previous year: €329 thousand).

The receivables from affiliated companies related to SAP AG and its subsidiaries.

The other assets include tax reimbursement claims (€2,440 thousand), pro rata interest and insurance claims.

19) Cash and cash equivalents

The cash and cash equivalents item can be broken down as follows:

€ thousands	Dec 31, 2003	Dec 31, 2002
Cash at banks	3,511	9,139
Time deposits with a term of up to three months	157,058	126,580
	160,569	135,719

20) Prepaid expenses

Prepayments for rent, leasing fees and maintenance expenses are the main items reported here.

21) 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 €2,056 thousand (€1,210 thousand in 2002).

The changes in stockholders' equity can be found in the table preceding these notes.

The stockholders were as follows:

	Dec 31, 2003		Dec 31, 2002	
	Number of shares	% of the capital stock	Number of shares	% of the capital stock
SAP AG	25,072,479	70.03 %	24,290,654	67.85 %
Free float	10,727,521	29.97 %	11,509,346	32.15 %
	35,800,000	100.00 %	35,800,000	100.00 %

SAP AG held 70.03 % of the capital stock on December 31, 2003. It is the principal owner as defined by SFAS No. 57 "Related party disclosures" ("SFAS No. 57").

Stock-based savings plan

Within the framework of stock-based savings plans, the Company acquires its own shares to pass them on to some of its employees. Any discounts granted in the context of the programme amount to a maximum of 15 % of the share price and reduce stockholders' equity directly. SAP SI bought 18,610 shares (previous year: 27,232 shares) at average prices of €13.04 (previous year: €13.26) in the fiscal year with the aim of offering them to employees. These shares were transferred to employees at average prices of €12.76 in the fiscal year (previous year: €14.12).

Convertible bonds

The shareholders of SAP SI passed resolutions on August 16, 2000 and May 14, 2002 to introduce an employee stock option plan based on convertible bonds for members of the Executive Board and other employees of SAP SI and subsidiaries. 2,055,632 convertible bonds had been issued by December 31, 2003 (previous year: 1,209,647).

Every employee who is entitled to participate receives the same number of shares as the number of convertible bonds he holds when he exchanges them. The average conversion price of all the convertible bonds issued by December 31, 2003 amounted to €15.81. Conversion is possible within a maximum period of 8 years. Starting from the time when they are issued, 33 % of the convertible bonds can be converted after 2 years, a further 33 % after 3 years and the remaining 34 % after 4 years.

Information about the convertible bonds granted to the members of the Executive Board can be found in note (42).

With the aim of issuing convertible bonds, the capital stock of the Company was increased conditionally by up to €2 million in 2000 by the issuing of up to 2 million bearer shares and in 2002 by the issuing of up to 1.58 million bearer shares. The total number of convertible bonds issued increased by 845,985 to 2,055,632 in the year under review. The issue amount was €1 and corresponds to the nominal value.

The convertible bonds issued developed as follows up to December 31, 2003:

€ thousands	Number of convertible bonds outstanding	Average exercise price of the convertible bonds in €
As of Jan 1, 2001	1,356,897	19.00
Granted	101,200	18.88
Redeemed	146,500	19.00
Matured	8,250	19.00
As of Dec 31, 2001	1,303,347	18.99
Granted	14,500	13.05
Redeemed	106,750	19.00
Matured	1,450	19.00
As of Dec 31, 2002	1,209,647	18.92
Granted	1,005,610	12.58
Redeemed	159,625	19.00
Matured	0	N/A
As of Dec 31, 2003	2,055,632	15.81

The following table summarises the convertible bonds outstanding on December 31, 2003:

Exercise price range in €	Number of convertible bonds	Average remaining term in years	Average exercise price in €
8.80	8,500	5.00	8.80
10.07	90,000	7.39	10.07
12.83	915,610	7.75	12.83
16.22	4,000	6.62	16.22
18.98 to 19.75	1,037,522	4.77	19.00
8.80 to 19.75	2,055,632	6.22	15.81

Authorized-but-unissued and contingent capital

The Executive Board was authorised to take the following capital measures with the Supervisory Board's approval by resolutions passed at the Annual Stockholders' Meetings on August 16, 2000, May 8, 2001 and May 14, 2002:

1. Contingent capital

The capital stock was increased conditionally by up to €2 million divided up into 2,000,000 bearer shares (€1 each) by a resolution passed at the Annual Stockholders' Meeting on August 16, 2000. The purpose of the conditional capital increase is to satisfy conversion rights of the owners of convertible bonds (contingent capital I).

The Executive Board was authorised by the Annual Stockholders' Meeting on May 8, 2001 to increase the capital stock of the Company conditionally by up to €10 million by the possible issue of up to 10,000,000 new shares (€1 each) on the condition that the number of shares increases in the same ratio as the capital stock (contingent capital II).

The Executive Board was authorised by the Annual Stockholders' Meeting on May 14, 2002 to issue convertible bonds up to a total nominal amount of €1,580 thousand with a maximum term of five years in one or more stages up to December 31, 2005, following the prior obtainment of the approval of the Supervisory Board. The issue price of the convertible bonds is the same as their nominal amount. To make this possible, the capital stock was increased conditionally by up to €1,580 thousand by the issue of 1,580,000 bearer shares (€1 each) (contingent capital III).

2. Authorized-but-unissued capital

The Executive Board was also authorised by a resolution passed at the Annual Stockholders' Meeting on May 8, 2001 to increase the capital stock of the Company by a total of €10 million on one or more occasions up to May 1, 2006 in return for injections of cash by issuing new bearer shares following the prior obtainment of the approval of the Supervisory Board, on the condition that the number of shares increases in the same ratio as the capital stock. The new shares are to be offered to the shareholders for subscription (authorized-but-unissued capital I).

The Executive Board was also authorised to increase the capital stock by up to a total of €7.5 million in return for injections of cash or contributions in kind on one or more occasions up to May 1, 2006 by issuing new bearer shares following the prior obtainment of the approval of the Supervisory Board, provided that the number of shares increases in the same ratio as the capital stock (authorized-but-unissued capital II). In this context, the statutory subscription right of the shareholders can be suspended in the following cases with the approval of the Supervisory Board:

- in respect of fractional shares
- when the capital increase is made by the injection of cash and the total pro rata amount of the capital stock that is accounted for by the new shares for which the subscription right is being suspended does not exceed 10 % of the capital stock at the time when the new shares are issued and when the issue price of the new shares is not materially lower than the stock market price of the shares of the same class and with the same rights that are already listed on the stock market, as defined in §§ 203 paragraphs 1 and 2, 186 paragraph 3 sentence 4 of the German Companies Act (AktG)
- in the case of capital increases in return for contributions in kind to issue shares for the purpose of acquiring companies or equity holdings in companies

Contingent capital and authorized-but-unissued capital can be broken down as follows:

€ thousands	Contingent capital		Authorized-but-unissued capital		Contingent and Authorized-but-unissued capital	
	2003	2002	2003	2002	2003	2002
As of Dec 31	13,580	13,580	17,500	17,500	31,080	31,080

No advantage was taken of the authorisations in the fiscal year.

22) Additional paid-in capital

The additional paid-in capital is the result of the take-over of the minority interests in SRS and SAP S in return for SAP SI shares in connection with the corporate merger outlined in note (1) as well as of net inflows of €82.5 million from the IPO in 2000.

23) Accumulated other comprehensive loss

Changes in stockholders' equity with no effect on earnings are shown in this item. They included the currency translation adjustment difference (€1,207 thousand) and the posting of the discounts granted in connection with the stock-based savings plan with no effect on earnings (€74 thousand), see note (21).

24) Company shares

At the Annual Stockholders' Meeting on May 22, 2003, the stockholders of SAP SI authorised the Company to acquire Company shares amounting to up to 10 % of the capital stock at the time the resolution was passed, i.e. up to a total of 3,580,000 shares, by October 31, 2004. This authorisation can be exercised completely or partly on one or more occasions. The shares are to be acquired via the stock market by means of a public offer to buy directed at all the stockholders or by means of a public offer to exchange the shares in SAP SI for shares in a company with a stock market listing as defined in § 3 paragraph 2 of the German Companies Act (AktG) that is also directed at all the stockholders. No advantage was taken of this authorisation in the year under review.

SAP SI AG did not hold any SAP SI shares and/or rights to SAP SI shares on December 31, 2003.

25) Dividend proposal

The Executive Board and the Supervisory Board of SAP SI propose to the Annual Stockholders' Meeting that the retained earnings of SAP SI AG of €60,554 thousand calculated in accordance with the principles of the German Commercial Code (HGB) are carried forward to new account.

26) Minority interest

This item does not appear in 2003 because of the take-over of the remaining 49.9 % of the shares in COPA in the fiscal year.

27) Accruals for pensions

The Company pension scheme for employees includes both contribution-based and performance-based commitments by SAP SI to pay old-age, disability and survivors'/dependants' pensions.

The legal predecessor of SAP SI introduced a contribution-based pension scheme in 1999 that replaced the old performance-based scheme for most of the employees. The contributions to the performance-based scheme are calculated as a specific percentage of the compensation paid to the employees concerned. The contribution-based scheme led to expenditure of €3,314 thousand for the employer's contributions in 2003 (previous year: €2,865 thousand).

There is also an employee-financed old-age pension scheme, in which the contribution is paid by the participants renouncing part of their salary. In return for this, SAP SI concludes life insurance contracts with an employer's pension liability insurance company, which guarantee a specific minimum interest rate. The size of the reinsurance claim corresponds to the commitment given to the employees by SAP SI in the employee-financed old-age pension scheme. The claim is shown in the other assets.

The pension liabilities and fund assets have developed as follows:

€ thousands	2003	2002
Change in benefit obligation		
Projected benefit obligation (PBO) as of Jan 1	68	55
Service cost: cash value of entitlements accrued in the year	10	10
Interest cost	4	3
Actuarial loss	-4	0
Projected benefit obligation (PBO) as of Dec 31	78	68
Change in plan assets		
Market value of plan assets as of Jan 1	60	43
Actual return on plan assets	3	3
Employer contributions	19	33
Life/disability insurance premiums and expenses	-7	-19
Market value of plan assets as of Dec 31	75	60
Unfunded status	3	8
Unrecognised net actuarial loss	37	29
Unrecognised transition asset	0	0
Contributory pension according to SFAS 87	2,887	1,520
Net amount recognized	2,927	1,557

The calculation of the actuarial commitments for the pension plans was based on the following assumptions:

	2003	2002
Discount rate	5.25 %	6.00 %
Expected return on plan assets	6.00 %	6.50 %
Expected rate of increase in employee compensation	3.60 %	2.25 %

28) Other accruals

€ thousands	Dec 31, 2003	Dec 31, 2002
Accruals for tax liabilities (including deferred tax liabilities)	8,508	4,909
Accruals for other non-tax liabilities	38,166	31,135
	46,674	36,044

The accruals for tax liabilities included deferred tax liabilities of €2,028 thousand (previous year: €1,219 thousand); the accruals for tax liabilities consist of commitments for the current fiscal year as well as for previous years. €1,075 thousand of them (previous year: €314 thousand) had terms of more than one year.

The accruals for the other non-tax liabilities can be broken down as follows:

€ thousands	Dec 31, 2003	Dec 31, 2002
Bonuses and other obligations to employees.	24,649	20,727
Obligations to suppliers	5,451	4,107
Vacation entitlement	5,006	5,023
Contribution to employees' accident insurance account	1,323	617
Costs of vacant space	909	0
Auditing and reporting costs/ cost of annual stockholders' meeting	828	661
	38,166	31,135

As in the previous year, all the accruals for other non-tax liabilities were short-term liabilities.

The accrual relating to bonuses and other obligations to employees is formed essentially for variable salary commitments and the part-time working scheme for older employees. The increase was attributable mainly to bonus commitments including profit-sharing (€19,613 thousand), accruals for the part-time working scheme for older employees (€2,584 thousand) and further personnel accruals.

In the part-time working scheme for older employees, staff do an increased amount of work in advance, which is paid for in instalments during the subsequent "retirement phase". This accrual was formed in accordance with SFAS No. 112 "Employers' Accounting for Postemployment Benefits".

The accruals for obligations to suppliers consisted in particular of warranty accruals (€2,786 thousand) and accruals for invoices to suppliers that have not been paid yet (€2,665 thousand). The accruals for warranty claims are formed on the basis of the estimated future requirements.

An accrual of €909 thousand was formed for the vacant space in a building. It was assumed in this context that it will be possible to rent out the unused space at a lower price within one year.

29) Convertible bonds

On December 31, 2003, €1,016 thousand of the convertible bonds of €2,056 thousand that are shown could be converted for the first time at the earliest within one year, a further €698 thousand at the earliest within two years and a further €342 thousand within three years. All of them are convertible bonds within the framework of an employee stock option plan. Details about the conditions can be found in note (21).

A maximum number of 2,055,632 shares with no par value can be issued if the existing conversion rights are exercised.

30) Other liabilities

The other liabilities can be broken down as follows:

€ thousands	Due in less than 1 year	Due in 1 to 5 years	Dec 31, 2003	Dec 31, 2002
Due to banks	573	320	893	61
Customer downpayments	0	0	0	317
Accounts payable for goods and services	8,042	0	8,042	9,668
Payables to affiliated companies	51	0	51	670
Taxes	10,118	0	10,118	9,659
Social security	3,341	0	3,341	2,760
Others	12,277	1,000	13,277	2,705
	34,402	1,320	35,722	25,840

One subsidiary outside Germany has a credit line which enables it to obtain short-term credit up to a specific amount in the local currency, for which SAP SI provides a guarantee. Total credit lines of €17,566 thousand (previous year: €12,216 thousand) were held for the SAP SI Group as a whole on December 31, 2003, €6,329 thousand of which SAP SI had taken advantage of as guarantees (previous year: €2,540 thousand) at the end of the year. The interest rates for the credit obtained in each case were based on the current market interest rate at this time. The average interest rate in 2003 was 4.6 % p.a. Security was not provided for liabilities, with the exception of the retention of title that is standard practice in the industry and comparable rights.

The liabilities to affiliated companies related to SAP AG and its subsidiaries. The tax liabilities included income tax, church tax and VAT that still have to be paid. The miscellaneous liabilities consisted essentially of the remaining fixed purchase price commitment in connection with the acquisition of SPM (€10.5 million). In the previous year, all the miscellaneous liabilities were due within less than one year.

31) Deferred income

This item almost exclusively involves deferred software revenues in connection with the multi-element arrangements (combined business transactions, see note (4)). As in the previous year, all of the items are due within one year.

D) Notes to the statements of cash flows

The cash and cash equivalents with an original term of up to three months are used as the basis for preparation of the consolidated statements of cash flows. All of SAP SI's cash and cash equivalents were short-term investments on the balance sheet date.

32) Net cash from operating activities

The increase of €11,552 thousand in the consolidated net income compared with the previous year led to a net cash inflow of €32,867 thousand, taking write-ups and -downs and changes in the accruals for pensions into account. The reduction in inventories (€524 thousand) as well as in receivables and other assets (€18,853 thousand) and the increase at the same time in accruals (€6,609 thousand) and liabilities (€5,452 thousand) resulted in a net cash inflow from operating activities of €64,906 thousand (previous year: €15,130 thousand). All in all, SAP SI succeeded in reducing the average days sales outstanding by 14% to 55 days and in cutting the receivables portfolio substantially as a result too.

33) Net cash used in investing activities

The outflow of cash and cash equivalents in the context of investing activities increased by €34,864 thousand in the year under review by comparison with the previous year. The considerably higher liquidity outflow in 2003 was attributable to the acquisition of the remaining 49.9% of the shares in COPA as well as to the acquisitions of SLI and SPM (€34.1 million), see note (3). The cash and cash equivalents acquired in this context amounted to €0.2 million. The investments in fixed assets (including licences) were 68.6% higher than in the previous year at €5,990 thousand. This is due in particular to investments in connection with the move into a newly rented building. The net cash outflow from investing activities was financed completely from the net cash inflow from operating activities in both years under review.

34) Net cash used in financing activities, net change in cash and cash equivalents

The currency translation adjustments of €147 thousand shown in the statements of cash flows resulted from currency translation during consolidation.

The cash and cash equivalents increased by 18.3 % or €24,850 thousand in the year under review to €160,569 thousand.

The net cash inflow for fiscal 2003 includes interest received of €3,790 thousand. Taking tax reimbursements into account, taxes on income totalling €4,991 thousand were paid for the fiscal year and previous fiscal years.

E) Additional information

35) Contingent liabilities

In isolated cases, SAP SI issues function or performance guarantees in connection with standard consulting or customer development orders as well as other guarantees. At the present time, the Company has given various guarantees of these kinds that will be expiring on different dates. On the basis of its past experience, SAP SI does not currently think that material losses from these contracts are probable. No liabilities were therefore included in the consolidated financial statements to cover them. SAP SI also provides warranty for its consulting services for a period of 12 to 24 months. The nature of this warranty makes it impossible to estimate a maximum default risk. The accrual to cover warranty is included in the accruals for other non-tax liabilities, see note (28).

On December 31, 2003 and 2002, there were no credit guarantees for third-party financial commitments or contract performance guarantees for third-party services.

36) Other financial commitments

The total expenditure arising from rental and leasing contracts that have to be classified as operating leases in accordance with US GAAP amounted in the year under review to €15,855 thousand (previous year: €14,095 thousand). The future minimum rental and leasing payments in connection with such non-terminable contracts on December 31, 2003 were due as follows:

year	€ thousands
2004	13,874
2005	9,559
2006	7,381
2007	5,542
2008	5,335
Due after 2008	35,300

The commitments from capital investment orders amounted to €21 thousand on December 31, 2003 (previous year: €265 thousand).

37) Pending litigation

SAP SI was subject to court cases relating to claims that were made in the context of normal business operations. Although the outcome of these cases and the enforceability of these claims cannot be predicted with any certainty, the Executive Board is of the opinion that the outcome of the cases will not have any material adverse impact on the Company's earnings, its financial position or its cash flow.

38) Financial instruments

SAP SI makes use of various financial instruments in its normal business operations. The market values of these financial instruments are determined as follows:

- Loans, bank loans and overdrafts and bonds: the market values correspond to the book values.
- Financial derivatives: the market values reflect the estimated amounts that the Company would have had to pay or would have received in order to terminate the current contracts on the balance sheet date.

€ thousands	Dec 31, 2003		Dec 31, 2002	
	Market value	Book value	Market value	Book value
Other loans	733	733	860	860
Bonds	-2,056	-2,056	-1,210	-1,210
Bank loans and overdrafts	-893	-893	-61	-61
Financial derivatives				
Forward exchange contracts	0	0	8,786	8,786
	-2,216	-2,216	8,375	8,375

SAP SI made foreign currency loans available to finance the US subsidiary. In order to hedge the expected payments by the subsidiary against the exchange rate risks outlined above partly or completely, SAP SI made use of forward exchange contracts. The term of them amounted to 12 months. Where necessary, they were extended in accordance with the business transactions concerned, in order to guarantee constant coverage of the anticipated flows of funds until payment was received. SAP SI is of the opinion that the use of these instruments reduced the risks outlined above which arose from its business operations on international markets and used such instruments solely to hedge risks and not for speculative purposes. The foreign currency loans were converted into stockholders' equity of the subsidiaries on December 17, 2003. This means that the forward exchange contracts for hedging the foreign currency loans were no longer in existence on December 31, 2003.

On December 31, 2003, there were losses from the basic and hedging business transaction of €12 thousand (previous year: €22 thousand), which were included in the income statements as other operating expenses.

39) Segment information

SAP SI provides segment information in accordance with the rules specified in SFAS No. 131 „Disclosures about Segments of an Enterprise and Related Information“ (‘‘SFAS 131’’). SFAS 131 includes reporting rules relating to the operating segments of a company. A breakdown of information by products and services as well as by geographical regions is also required.

The fundamental rule made by SFAS 131 is that the figures which form the basis for evaluating performance and allocating resources within the company have to be communicated as segment information. SAP SI’s internal organisational structure is divided up into areas of business. The Company’s business operations are presented in a differentiated way in the internal reporting system. On the basis of this reporting system, the SAP SI Executive Board as the main decision-maker as defined by SFAS 131 assesses business development primarily by areas of business.

Description of the individual segments

SAP SI has two operating segments: ‘‘Consulting’’ and ‘‘Hosting/Application Management’’. Revenues, costs and earnings in connection with the implementation and integration of software products as well as in the areas of project planning, application and feasibility studies, analyses, organisational consulting, system adaptation and optimisation, release changes and interface implementation are reported in the ‘‘Consulting’’ segment. In the ‘‘Hosting/Application Management’’ segment, an offer is in particular made to customers to have their IT solutions operated by SAP SI. In addition to services relating to the ongoing operation of systems and infrastructure, SAP SI also supports the users and makes all the necessary application adaptations. Following the restructuring of the Company’s operations that was made with effect from January 1, 2003, the segment revenues, costs and contributions of the ‘‘Components’’ segment that was shown separately in the previous year have been allocated appropriately to the ‘‘Consulting’’ and ‘‘Hosting/Application Management’’ segments. The figures for the previous year have been adjusted as shown below.

The accounting principles applied in the internal reporting about the areas of business correspond to the accounting and valuation principles outlined in note (4).

	2002				
	Consulting & Customer Development	Technical Consulting	Components	Allocation of other costs	Change in reporting
					Consulting
€ thousands					
Segment revenues	257,748	7,483	500	0	265,731
Segment costs	211,484	5,751	967	5,766	223,968
Segment contribution	46,264	1,732	-467	-5,766	41,763
Segment profitability as a % of segment revenues	17.9 %	23.1 %	-93.4 %		15.7 %

2002		
Outsourcing/ Application Services	Technical Consulting	Change in reporting
		Hosting/Application Management
34,991	-7,483	27,508
28,896	-5,751	23,145
6,095	-1,732	4,363
17.4 %	23.1 %	15.9 %

Geographical information

The following table breaks various information provided in the consolidated financial statements down by regions. All the figures provided were determined in the same way as the relevant consolidated data. The totals of the segmented data therefore correspond to the consolidated figures.

	Revenues by location where service is provided		Revenues by the location of the SAP SI company	
	2003	2002	2003	2002
€ thousands				
Germany	223,331	228,419	240,057	252,211
Rest of Europe	22,767	24,065	10,717	6,981
Europe	246,098	252,484	250,774	259,192
America	29,178	37,864	29,476	34,047
Asia/Pacific	4,974	2,891	0	0
	280,250	293,239	280,250	293,239

	Earnings before income tax		Balance sheet total	
	2003	2002	2003	2002
€ thousands				
Germany	38,266	22,835	327,913	286,106
Switzerland	1,294	216	10,151	2,678
America	3,946	3,179	15,491	17,685
	43,506	26,230	353,555	306,469

	Property and equipment		Investments in property and equipment	
	2003	2002	2003	2002
€ thousands				
Germany	9,905	7,510	5,242	2,393
Switzerland	149	0	88	0
America	135	158	68	33
	10,189	7,668	5,398	2,426

	Depreciation of property and equipment in € thousands		Number of employees on December 31	
	2003	2002	2003	2002
Germany	4,297	3,993	1,705	1,626
Switzerland	65	0	55	10
America	72	93	99	108
	4,434	4,086	1,859	1,744

The information about Germany relates to SAP SI Germany and SPM. The segment figures for 2003 include the revenues of €1,465 thousand accounted for by SPM and earnings before income tax of €157 thousand as well as the revenues of €5,101 thousand accounted for by SLI in 2003 and earnings before income tax of €1,094 thousand. Further information about the companies can be found in note (3).

Segment contribution

The following table provides a reconciliation calculation between the total segment revenues and the revenues shown in the income statements:

	Consulting		Hosting/Application Management		Total	
	2003	2002	2003	2002	2003	2002
€ thousands						
Segment revenues	247,920	265,731	32,330	27,508	280,250	293,239
Segment costs	197,705	223,968	24,011	23,145	221,716	247,113
Segment contribution	50,215	41,763	8,319	4,363	58,534	46,126
Segment profit-ability as a % of segment revenues	20.3 %	15.7 %	25.7 %	15.9 %	20.9 %	15.7 %

Since the revenues generated with orders in which several segments are involved are allocated directly to the segments concerned, there are no internal revenues between the segments.

The segment contributions indicated only include the expenses that are allocated to the segments. Administration and other costs are not allocated to the segments. Interest income and interest expenses are not included in the segment contributions either. Depreciation is mainly charged to the segments as part of the cost allocations.

The following table provides a reconciliation calculation between the total segment contributions and the earnings before income tax shown in the income statements:

€ thousands	2003	2002
Total contribution of the segments	58,534	46,126
Costs not allocated to the segments	-17,981	-22,689
Consolidated operating profit	40,553	23,437
Other expenses and income	-118	-536
Net financial income	3,071	3,329
Consolidated earnings before tax	43,506	26,230

The “Costs not allocated to the segments” item mainly includes internal costs (e.g. administration costs).

Allocation of goodwill to segments

On the basis of the application of SFAS 142, the goodwill that was available at the time when the impairment test was carried out in 2003 (€86,932 thousand, previous year: €81,941 thousand) was reviewed with the help of the two-stage impairment test that has to be completed every year to determine reductions in value at the level of the segments. The market value and the book value of a segment (including goodwill) were compared in a first stage. The market value was determined in this context on the basis of future discounted cash flows. The market value of a segment was not lower than its book value in any case.

€103,566 thousand of the goodwill of €110,807 thousand on December 31, 2003 were accounted for by the “Consulting” segment and €7,241 thousand by the “Hosting/Application Management” segment.

Segment assets

Neither assets nor the capital investments made in 2003 were allocated to the segments reported as of December 31, 2003.

40) Transactions with related parties

Members of the Supervisory Board held senior positions at SAP AG or companies affiliated with SAP AG in 2003. SAP SI has normal business relationships to SAP AG. SAP SI buys products and services and sells services at arm’s length in this context. The auditor examined the report prepared by the Executive Board about the relationships to affiliated companies and raised no objections. All the legal transactions with the parent company or a company associated with the parent company are listed in this report.

SAP SI co-operates with SAP AG, Walldorf, and the latter’s subsidiaries on development and consulting projects. All the transactions involving the provision of goods and services are charged at market prices. The revenues with SAP Group in 2003 amounted to €112,722 thousand (previous year: €115,579 thousand).

SAP SI has also rented buildings and offices from stockholders and/or affiliated companies or has rented offices to them. The Company management assumes that the conditions of the relevant rental contracts concluded by SAP SI are no worse than the conditions which would have been obtained in appropriate contracts with independent third parties.

The receivables from and liabilities to stockholders on the relevant qualifying dates are listed in the following table:

€ thousands	Dec 31, 2003	Dec 31, 2002
Receivables from SAP AG	7,525	8,589
Receivables from stockholders	7,525	8,589
Receivables from other affiliated companies	8,663	7,953
Receivables from stockholders and affiliated companies	16,188	16,542
Liabilities to other affiliated companies	51	670
Liabilities to affiliated companies	51	670

There were no further significant business relationships to stockholders.

41) Events between the balance sheet date and March 25, 2004

SAP AG, Walldorf, intends to make the shareholders of SAP SI a voluntary public offer to acquire their SAP SI shares in return for payment of an amount of €20.40 per SAP SI share and in accordance with the other provisions and conditions that still have to be announced in the offer document. SAP SI AG's aim in doing this is to increase its interest in SAP SI AG from the current level of about 70 % to up to 100 %.

42) Executive Board and Supervisory Board

Compensation paid to the Supervisory Board

In accordance with SAP SI's articles of association, the members of the Supervisory Board receive compensation in addition to payment of their expenses. Every member of the Supervisory Board receives fixed annual compensation of €10 thousand. The Chairman of the Supervisory Board receives twice this amount, while his deputy receives one-and-a-half times this amount. The members of the Supervisory Board also receive annual compensation based on the Company's long-term success, which amounts to €0.65 per €1,000 of the consolidated earnings before tax (EBT) that exceeds €45,000 thousand. The success-based compensation determined in this way totals a maximum of €5 thousand.

€ thousands	Fix	Variable
Dr Werner Brandt (Chairman)	20	0
Thomas Maik Nestler (Deputy Chairman)	15	0
Léo Apotheker (until April 30, 2003)	4	0
Frank Ficker (until May 31, 2003)	4	0
Dr Jürgen Fuchs (since June 1, 2003)	10	0
Erwin Gunst (since May 22, 2003)	10	0
Professor Dr Henning Kagermann (until April 30, 2003)	4	0
Michael Kleinemeier (since May 22, 2003)	10	0
Richard Stewart	10	0
	87	0

The members of the Supervisory Board received total compensation of €87 thousand for their assignments in fiscal 2003. This amount consisted solely of fixed compensation.

The members of the Supervisory Board held the following shares and convertible bonds on December 31, 2003:

	Number of shares	Number of convertible bonds
Dr Werner Brandt	-	-
Thomas Maik Nestler	571	1,900
Dr Jürgen Fuchs	1,153	2,550
Erwin Gunst	-	-
Michael Kleinemeier	-	-
Richard Stewart	-	-

Compensation paid to the Executive Board

The compensation paid to the Executive Board is determined by the personnel committee of the Supervisory Board and is based on the economic and financial situation of the Company as well as on the size and structure of the compensation paid to the Executive Boards of comparable companies. It is performance-based and consists of three components: fixed compensation, variable compensation and compensation based on convertible bonds. The size of the variable compensation depends on the extent to which the corporate targets of the SAP SI Group are reached. The Supervisory Board has specified the number of convertible bonds issued individually per member of the Executive Board (the conditions for issuing them can be found in note (21)).

The members of the Executive Board received total compensation of €1,561 thousand in fiscal 2003, €529 thousand of which were accounted for by variable salary components.

There were no loans, guarantees or warranties to members of the Executive and Supervisory Boards on December 31, 2003.

On December 31, 2003, the members of the Executive Board held the following convertible bonds from allocations in the year under review and previous years:

	Exercise price in €	Exercisable on Dec 31, 2003		Not yet exercisable on Dec 31, 2003		Total	
		Number	Residual term (in years)	Number	Residual term (in years)	Number	Residual term (in years)
Dr Bernd-Michael Rumpf (Chairman of the Executive Board)	10.07			25,000	7.4	25,000	7.4
Alfred Ermer	10.07			25,000	7.4	25,000	7.4
	19.00	25,000	4.7			25,000	4.7
Ronald Geiger	10.07			15,000	7.4	15,000	7.4
Joachim Müller	10.07			25,000	7.4	25,000	7.4
Total		25,000		90,000		115,000	

The exercise prices indicated for convertible bonds are the prices that the member of the Executive Board would have to pay when converting the bond into a SAP SI share. The exercise prices are fixed and correspond to the average price of the SAP SI share on the last five stock exchange days before the convertible bond was issued.

The average market value at the time of allocation amounted to €4.78 per bond in the case of the convertible bonds issued to the members of the Executive Board. The original term was 8 years. The members of the Executive Board did not exercise any of their convertible bond options in the fiscal year.

The following list shows the members of the Executive Board and Supervisory Board of SAP SI AG on December 31, 2003 as well as their membership of the supervisory boards and other comparable control bodies of business enterprises in Germany and other countries:

Executive Board	Membership of the supervisory boards and other comparable control bodies of business enterprises in Germany and other countries (as of Dec 31, 2003)
Dr Bernd-Michael Rumpf Chairman of the Executive Board Muttentz/Switzerland	Supervisory board of SAP SI (Schweiz) AG, Regensdorf/Switzerland
Alfred Ermer Winnenden	Board of directors of SAP Systems Integration America Holding Inc., Atlanta Supervisory Board of SAP Systems Integration America LLC., Atlanta
Ronald Geiger Wiesbaden (since Apr 1, 2003)	
Joachim Müller Heppenheim	Board of directors of SAP Systems America Integration Holding Inc., Atlanta Supervisory board of SAP Systems Integration America LLC., Atlanta

Supervisory Board	Membership of the supervisory boards and other comparable control bodies of business enterprises in Germany and other countries (as of Dec 31, 2003)
Dr Werner Brandt ^{2) 3)} Bad Homburg Chief Financial Officer of SAP AG (Chairman)	LSG Lufthansa Service Holding AG, Neu-Isenburg SAP America, Inc., Newton Square/USA SAP Global Marketing Inc., Wilmington/USA SAP Ireland Ltd., Dublin/Ireland Systems Applications Products (Africa) Pty Ltd., Woodmead/South Africa SAP FRANCE S.A., Paris/France SYSTEMS APPLICATIONS AND PRODUCTS IN DATA PROCESSING (NV SAP BELGIUM SA), Brussels/Belgium SAP Hellas Systems Application and Data Processing S.A., Athens/Greece SAP Türkiye Yazılım Üretim ve Ticaret A.S., Istanbul/Turkey SAP ANDINA Y DEL CARIBE, C.A., Caracas/Venezuela SAP ANDINA Y DEL CARIBE C.A., SUCURSAL DEL PERU, San Isidro/Peru SAP Andina y del Caribe, C.A. (Puerto Rico), Guaynabo/Puerto Rico SAP ANDINA Y DEL CARIBE C.A. EN COLOMBIA, Santafé de Bogotá/Colombia SAP México, S.A. de C.V., Mexico City/Mexico SAP Korea Ltd., Co., Seoul/Korea S.A.P. Italia Sistemi, Applicazioni, Prodotti, in Data Processing S.p.A., Milan/Italy SAP Software Holding GmbH, St. Ingbert SAP Portals Europe GmbH, Walldorf SAP JAPAN Co., Ltd., Tokyo/Japan PT SAP Indonesia, Djakarta/Indonesia
Thomas Maik Nestler ^{1) 2)} Dresden Consultant (Deputy Chairman)	

Dr Jürgen Fuchs ^{1) 3)} Dresden Consultant (since Jun 1, 2003)	
Erwin Gunst Le Landeron, Switzerland Management consultant (since May 22, 2003)	
Michael Kleinemeier ³⁾ Leimen (since May 22, 2003) Director of SAP Deutschland AG & Co. KG President EMEA Central	
Richard Stewart ²⁾ Denver (USA) SAP America Senior Vice President SAP Consulting	

The following list shows the members who resigned from the Supervisory Board in the course of the fiscal year and their membership of further supervisory boards and other comparable control bodies of business enterprises in Germany and other countries:

	Membership of the supervisory boards and other comparable control bodies of business enterprises in Germany and other countries (as of Dec 31, 2003)
Léo Apotheker Fourqueux (France) Executive Board of SAP AG (until Apr 30, 2003)	Board of directors of Enigma, Inc., Burlington/USA SAP FRANCE S.A., Paris/France S.A.P. Italia Sistemi, Applicazioni, Prodotti, in Data Processing S.p.A., Milan/Italy SAP HELLAS SYSTEMS APPLICATIONS AND DATA PROCESSING S.A., Athens/Greece SAP America, Inc., Newtown Square/USA SAP JAPAN Co., Ltd., Tokyo/Japan SAP Manage Ltd., Tel Aviv/Israel SAP Global Marketing Inc., Wilmington/USA

Frank Ficker ^{1) 3)} Dresden Works council (until May 31, 2003)	
Professor Dr Henning Kagermann Hockenheim Chairman of the Executive Board of SAP AG (until Apr 30, 2003)	Supervisory board of Deutsche Bank AG, Frankfurt Supervisory Board of DaimlerChrysler Services (debis) AG, Berlin Supervisory board of Münchener Rückversicherungs-Gesellschaft AG, Munich SAP America, Inc., Newtown Square/USA SAP (UK) Limited, Feltham/Great Britain SAP FRANCE S.A., Paris/France S.A.P. Nederland B.V., s Hertogenbosch/Netherlands SYSTEMS APPLICATIONS AND PRODUCTS IN DATA PROCESSING (NV SAP BELGIUM SA), Brussels/Belgium SAP LABS FRANCE S.A., Mougins/France SAP International, Inc., Miami/USA SAP ANDINA Y DEL CARIBE C.A., SUCURSAL DEL PERU, San Isidro/Peru SAP JAPAN Co., Ltd., Tokyo/Japan SAP Asia Pte Ltd, Singapore SAP TAIWAN CO., LTD., Taipei/Taiwan SAP Korea Ltd., Co., Seoul/Korea SAP INDIA SYSTEMS APPLICATIONS AND PRODUCTS IN DATA PROCESSING PVT. LTD, 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

¹⁾ Employees' representative

²⁾ Member of the audit committee

³⁾ Member of the personnel committee

43) German Corporate Governance Code

In February 2002, the German federal government published the German Corporate Governance Code, which includes a number of recommendations and suggestions in addition to legal regulations. German companies with a stock market listing are only required to apply the regulations. As far as these recommendations are concerned, § 161 of the German Companies Act (AktG) stipulates that companies with a stock market listing have to publish an annual statement confirming their observance of the recommendations. Companies are entitled to deviate from suggestions without being committed to publish a statement about this.

The Executive Board and the Supervisory Board of SAP SI issued such conformity statements in fiscal 2002, 2003 and on March 24, 2004. The statements have been published on the Company's Web site and have thus been made available to the stockholders on a permanent basis.

44) Main differences between German and US accounting

Preliminary remarks

As a German parent company, SAP SI is required to prepare consolidated financial statements in accordance with the accounting rules of the German Commercial Code (HGB). Exemption from this requirement is, however, possible in accordance with § 292 a of the HGB when consolidated financial statements are prepared in accordance with internationally recognised accounting principles (US GAAP or IFRS) and are disclosed. To be able to obtain exemption, the main differences between the accounting principles that are applied and the relevant German regulations have to be outlined.

Basic differences

There is a fundamental difference between US GAAP accounting and German HGB accounting in the objective that is pursued. Whereas the main aim of US GAAP is to provide investors with information that will help them in their decision-making processes, HGB accounting puts a stronger emphasis on the protection of creditors and the concept of prudence.

Revenue recognition

Under HGB rules, revenue recognition is fundamentally independent of the payment periods agreed. In accordance with SOP 97-2 "Software Revenue Recognition", on the other hand, longer-term payment conditions are an indication that the relevant licence fee is not definite and may therefore only be recognised when the payment is due. As a rule, SAP SI concludes a software maintenance contract with its customers at the same time as the licence contract. The maintenance fee is normally calculated as a standard percentage of the relevant licence revenues. If a service period has been agreed during which no charge is made, HGB stipulates that an accrual has to be formed that is the equivalent of the expected costs. SOP 97-2, on the other hand, stipulates that the agreement both of maintenance charges which are below the standard percentage and of the provision of services free of charge are treated as a discount on the licence price of the software. The software revenues therefore have to be reduced by market value of the services provided free of charge and/or by the difference from the standard percentage and the standard maintenance revenues during the relevant service period have to be increased appropriately.

Deferred taxes

HGB rules do not allow deferred taxes to be capitalised for losses carried forward. US GAAP stipulate that deferred taxes must be included for losses carried forward. A write-down is provided for deferred tax assets that are unlikely to be realised.

Goodwill and intangible assets

Derivative goodwill and intangible assets are subject to both scheduled and unscheduled amortization and depreciation charges under HGB rules. SFAS 142, on the other hand, prohibits the scheduled amortization and depreciation of goodwill and intangible assets with an indefinite useful life from acquisitions and specifies an annual impairment test instead of this, in order to verify whether these assets have maintained their value on the basis of future cash flows.

Financial derivatives

Most financial derivatives are not included in financial statements under German law. Unrealised profits are not taken into consideration; an accrual has to be formed for unrealised losses. According to SFAS 133, financial derivatives must be included in the balance sheets at their market value. If specific hedge criteria are fulfilled, profits and losses – after the deduction of taxes – are included first of all in the stockholders' equity item accumulated other comprehensive income and are only posted in the income statements together with the profit or loss from the hedged item or transaction.

Stock-based savings plan

SAP SI employees receive SAP SI shares with special conditions in the context of employee stock option programmes. All the expenses incurred in connection with this have to be charged in the income statements according to HGB. Under US GAAP rules, on the other hand, the discounts that lead to the special share price are posted to the additional paid-in capital with no effect on earnings.

Dresden, March 25, 2004

SAP Systems Integration AG

The Executive Board

Dr Bernd-Michael Rumpf

Alfred Ermer

Ronald Geiger

Joachim Müller

APPENDIX 1: SUBSIDIARIES, JOINT VENTURES AND ASSOCIATED PARTNERS

	Holding in %	Revenues in 2003 in € thousands	Net income /loss in 2003 in € thousands	Stockholders equity of the company Dec 31, 2003 in € thousands	Number of employees on Dec 31, 2003
I. Affiliated companies/subsidiaries					
SAP Systems Integration (Schweiz) AG, Regensdorf, Switzerland ²⁾	100.0	10,717	978	954	55
SAP Systems Integration America Holding Inc., Atlanta, USA ²⁾	100.0	0	-83	10,415	0
SAP Systems Integration America LLC., Atlanta, USA ²⁾	100.0	29,476	2,380	13,094	99
SAP Systems Integration Consulting GmbH, Walldorf ²⁾	100.0	0	0	10	0
SPM Technologies Deutschland GmbH, Berlin ²⁾	100.0	18,092	-185	395	189
		58,285	3,090	24,868	343
II. Other equity holdings					
UTILITe-Place AG, Hamburg ¹⁾	19.0	487	-1,142	-368	2
		487	-1,142	-368	2
		58,772	1,948	24,500	345

¹⁾ The figures relate to the financial statements for the 2002 fiscal year prepared according to German commercial law (HGB).

²⁾ Financial statements in accordance with US GAAP.

INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH GERMAN GENERALLY ACCEPTED AUDITING STANDARDS

We have audited the amended consolidated financial statements prepared by SAP System Integration AG, Dresden, comprising the balance sheet, the income statement, the statement of changes in shareholders' equity, the statement of cash flows as well as the amended notes thereto as of and for the year ended December 31, 2003. The preparation and content of the consolidated financial statements in accordance with Accounting Principles Generally Accepted in the United States of America (US GAAP) are the responsibility of the company's management. Our responsibility is to express an opinion on these amended consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with Auditing Standards Generally Accepted in the United States of America (US-GAAS). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the amended consolidated financial statements present a true and fair view of the net assets, financial position, results of operations and cash flows of the business year in accordance with Accounting Principles Generally Accepted in the United States of America (US GAAP).

Our audit, which also extends to the amended combined Business Review Report of SAP SI Group's and SAP SI AG's operations prepared by SAP SI AG's management for the business year from January 1 to December 31, 2003, have not led to any reservations. In our opinion on the whole, the amended Business Review Report of SAP SI Group and SAP SI AG's operations provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the amended consolidated financial statements and the amended Business Review Report of SAP SI Group's operations for the business year from January 1 to December 31, 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and a group management report in accordance with German law.

Mannheim, January 30/March 25, 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Walter
Wirtschaftsprüfer

Kern
Wirtschaftsprüfer

REPORT OF THE SUPERVISORY BOARD

Dear Stockholders,

Contrary to the general expectations that the beginning of 2003 would bring a slight economic recovery, fiscal 2003 was another difficult year for the economy as a whole. The recovery that was anticipated in the IT services market in early 2003 did not materialise either. SAP Systems Integration AG (SAP SI AG) performed very successfully in this difficult market environment, however, and bucked the general market trends encouragingly as a result. This is particularly true of our Company's profitability. Earnings before interest and tax (EBIT) were 77% higher and the EBIT margin was almost doubled to 14.4%, putting our Company in a leading position in Europe.

There was a slight decrease in full-year revenues of 4.4%, which was only 2.5% in constant currency terms. Revenues in 2003 increased from quarter to quarter, so that our Company recorded growth over the previous year for the first time again in the 4th quarter, when the highest quarterly revenues in our history were generated at the same time.

The Executive Board of SAP SI AG concentrated otherwise in fiscal 2003 on the systematic expansion of the market position held among the leading integration services providers in the SAP environment. The aim in integrating processes and systems is to increase corporate value for our customers on a sustained basis. Application management, hosting and outsourcing are issues of particular importance in this context alongside IT strategy consulting, IT architecture consulting and systems integration.

Two acquisitions were completed successfully in 2003 as part of the strategic optimisation of the Company. One of them was the acquisition of SPM Technologies Deutschland GmbH (SPM), which is based in Berlin and added a new element to the IT strategy consulting operations. SPM is an innovative consulting company that focusses on complex projects, primarily in the IT architecture and systems integration fields. The second one was the acquisition of SLI Consulting AG (SLI), which is based in Regensdorf, Switzerland, and is improving SAP SI AG's international presence as well as the Company's access to the Swiss IT consulting market considerably. SLI is a consulting company that has won the SAP Quality Award on several occasions in the past. The take-over of the remaining shares in COPA GmbH and its merger with SAP SI AG with backdated effect from January 1, 2003 were concluded successfully too.

The Supervisory Board carried out its control and monitoring function comprehensively in fiscal 2003 and completed the assignments required of it by law and the Company's articles of association. It made sure it was kept informed by the Executive Board at regular intervals about the situation of the Company, the equity holdings and the development of the business at meetings of the Supervisory Board and by means of additional written and oral reports provided above and

beyond the normal meetings. The Chairman of the Supervisory Board also conferred regularly with the Executive Board about the implemented and planned acquisitions as well as about all the major issues affecting business development. The Supervisory Board was able to satisfy itself that the Executive Board has succeeded in creating the right basis for continuing to expand SAP SI AG's competitive position by making further progress in development of the corporate strategy.

Corporate governance and conformity statement

Corporate governance – the transparent management and control of a company – is playing an increasingly significant role in the business community. Following the introduction of the Company's own corporate governance code in 2002, which stresses the implementation of responsible management and control in the SAP SI Group with the emphasis on value creation, the Supervisory Board of SAP SI AG devoted several meetings to this issue in the period under review. The corporate governance officer appointed by SAP SI AG presented reports about the adjustments to and implementation of the corporate governance principles at these meetings. The Supervisory Board also discussed the question whether the compensation paid to the members of the Executive Board should be shown in the notes to the consolidated financial statements with a breakdown into the fixed components, the performance-based components and the components designed to act as a long-term incentive, in accordance with the recommendation made in the German Corporate Governance Code. The Supervisory Board has only followed this recommendation to the extent that information about the breakdown of fixed and variable components in the total compensation paid to the SAP SI Executive Board is indicated in the notes to the consolidated financial statements.

The SAP SI AG corporate governance principles require that members of the Supervisory Board attend at least half of the ordinary meetings of the Supervisory Board. Taking the changes in the membership of the Supervisory Board into account (three members resigned and three new members joined – see the section entitled “Changes to the Supervisory Board”), the recommendation was implemented for all the members of the Supervisory Board who were in office on December 31, 2003.

The Executive Board and the Supervisory Board issued updated conformity statements in accordance with § 161 of the German Companies Act (AktG) on December 16, 2003 and on March 24, 2004 and made them available to the stockholders and the public on a permanent basis in the Internet. With a few exceptions, SAP SI AG complies with the recommendations made by the version of the German Corporate Governance Code issued by the government commission on May 21, 2003.

Changes to the Supervisory Board

Mr Léo Apotheker and Professor Dr Kagermann resigned as members of the SAP SI AG Supervisory Board with effect from April 30, 2003. Mr Erwin Gunst, management consultant, and Mr Michael Kleinemeier, director of SAP Deutschland AG & Co. KG, were elected to be new members of the SAP SI AG Supervisory Board as their successors by the Annual Stockholders' Meeting that was held on May 22, 2003. One of the two employees' representatives on the Supervisory Board, Mr Frank Ficker, resigned from the Supervisory Board with effect from June 01, 2003; Dr Jürgen Fuchs joined the Supervisory Board as Mr Ficker's successor as employees' representative with effect from the same date. The SAP SI AG Supervisory Board would like to express its thanks to all the members who left for their constructive contributions to the work of the Supervisory Board.

Committee activities

The Supervisory Board has formed two committees, the audit committee and the personnel committee, which discuss and decide relevant issues and/or prepare them for decisions that are taken by the Supervisory Board as a whole.

The audit committee met three times in the year under review. The results of the previous year's audit were the subject of intensive discussion at the meetings. The audit committee also liaised with the auditor to specify the focal points for the audit of the 2003 financial statements.

The personnel committee, which held two meetings in the year under review, dealt in particular with personnel matters relating to the Executive Board of SAP SI AG.

The meetings of the Supervisory Board in the period under review

The Supervisory Board held five ordinary meetings and three special meetings in the period under review. The Executive Board informed the Supervisory Board about the situation of the Group, the acquisitions, risk management and the financial, investment and personnel planning for the following fiscal year both promptly and comprehensively in the course of the meetings. Planned acquisitions were discussed and approved at the special meetings of the Supervisory Board.

Changes to the Executive Board

The Supervisory Board appointed Ronald Geiger to be a new member of the Executive Board for three years with effect from April 1, 2003. He was responsible for manufacturing and service industries, sales and IT strategy consulting in the fiscal year.

Audit of the SAP SI AG financial statements and consolidated financial statements

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main/Berlin, was chosen to be the Company's auditor at the Annual Stockholders' Meeting held on May 22, 2003 and was immediately commissioned to carry out the audit by the Supervisory Board. The consolidated financial statements as of December 31, 2003 prepared by SAP SI AG in accordance with the US Generally Accepted Accounting Principles (US GAAP),

the SAP SI AG financial statements as of December 31, 2003 prepared in accordance with the rules of the German Commercial Code (HGB) and the combined consolidated management report and management report were audited by the auditor and provided with unqualified certificates. The report about relationships to affiliated companies that the Executive Board of SAP SI AG is required to prepare in accordance with § 312 of the AktG also received an unqualified certificate. The risk early-warning system maintained by SAP SI AG in accordance with the relevant German legislation (KonTraG) was investigated by the auditor. It complies with the legal requirements.

The audit committee of the Supervisory Board and the entire Supervisory Board discussed the financial statements, the combined consolidated management report and management report, the report about relationships to affiliated companies and the audit reports by the auditor in detail at their meetings on March 25, 2004. The necessary documents had been submitted to all the members of the Supervisory Board for review in good time before the meetings. The auditor attended both meetings, explained the results of the audits and answered the questions asked by the participants in the meetings. At its meeting, the Supervisory Board approved not only the results of the audit but also the consolidated financial statements, the financial statements, the combined consolidated management report and management report and the report about relationships to affiliated companies. The financial statements have therefore been adopted.

The Supervisory Board agrees with the proposal made by the Executive Board to carry the retained earnings reported as of December 31, 2003 forward to new account.

Foundations laid for organic growth

Fiscal 2003 was a successful year for SAP SI AG in spite of the difficult market environment. The substantial increase in profitability in the year as a whole and the growth over the previous year in the 4th quarter demonstrate that our Company is still developing strategically in the right direction and has laid the foundations for continuing the successful development of the business.

The Supervisory Board would like to thank the Executive Board and all the employees of SAP SI AG for their strong motivation and great personal commitment, which led to a business performance that is an encouragement to all the stockholders.

Note

SAP AG announced on March 23, 2004 that it is making an offer to the outside shareholders of SAP Systems Integration AG, Dresden, to buy their shares at a price of €20.40 per share.

Walldorf, March 25, 2004

The Supervisory Board

Dr Werner Brandt, Chairman

CORPORATE GOVERNANCE

The term corporate governance stands for responsible company management and control, efficient co-operation between the Executive Board and the Supervisory Board and consideration of stockholders' interests. Openness and transparency in corporate communications are further essential aspects of good corporate governance.

SAP SI took the publication of the German Corporate Governance Code as an opportunity to review the internal rules for the Supervisory Board, the Executive Board and the Annual Stockholders' Meeting and to investigate further elements of corporate governance such as controlling and risk management as well as financial communication. The outcome of this exercise was that only a few changes needed to be made.

In December 2003, the Executive Board and the Supervisory Board issued the second conformity statement in accordance with § 161 of the German Companies Act (AktG), which confirms that SAP SI follows the recommendations made in the extended version of the Code that was published on May 21, 2003 with a few exceptions. A summary of the deviations can be found on page 84 of this Report.

The bodies

A characteristic feature of the German corporate governance system and thus of the corporate governance structure of SAP SI is the fact that the management and monitoring functions are separated by assigning them to two separate bodies, the Executive Board and the Supervisory Board. The third body that is provided by the German Companies Act is the Annual Stockholders' Meeting. This is where the stockholders exercise their rights.

The Executive Board

The Executive Board is responsible for managing the Company. It is committed to the Company's interests and aims in this context to achieve a sustained increase in corporate value. The assignments of the Executive Board include strategic alignment of the Company, planning and specification of the corporate budget and control of the Company's divisions and business units.

The Executive Board is responsible for preparing the quarterly, annual and consolidated financial statements and for filling key positions at the Company. It co-operates closely with the Supervisory Board and informs it regularly, promptly and comprehensively about all the issues of relevance to the Company. Information about the members of the Executive Board can be found in the notes to the consolidated financial statements on page 75 of this Annual Report. Rules of procedure agreed by the Supervisory Board and corresponding to the principles of corporate governance form the basis for Executive Board co-operation.

The Supervisory Board

The central assignment of the Supervisory Board is to advise and monitor the Executive Board. Both the number of members and the composition of the Board depend in Germany on the size of the company. The Supervisory Board of SAP SI consists at the present time of six members, four of whom are chosen by the stockholders and two by the Company's employees. The period of office of the Supervisory Board ends in 2006.

The Supervisory Board of SAP SI has formed two committees from its members (reference is made to the details given about the members of the Supervisory Board and the committees starting on page 75 of this Annual Report). The personnel committee consists of three members and is responsible in particular for concluding, changing and terminating the employment contracts and for deciding the compensation paid to the members of the Executive Board. The audit committee also consists of three members, deals with accounting issues and is responsible for specifying focal points for the audits of the financial statements and consolidated financial statements. Reference is made to further information given about this in the report by the Supervisory Board on page xx of this Annual Report.

Compensation paid to the Supervisory Board and the Executive Board

The compensation paid to the Executive Board has fixed and variable components. They are determined on the basis of a planned annual income, the fixed components of which are paid out in fixed monthly amounts. The variable components are paid in the form of performance-based *tantièmes*. The Supervisory Board also receives fixed and variable compensation. Information about the size of the compensation paid to the Executive Board and the Supervisory Board is provided in the notes to the consolidated financial statements from page 73 of this Annual Report onwards.

Settlement of conflicts of interest

While they are in office, the members of the Executive Board are not allowed to work for competitors. Acceptance of positions on Supervisory Boards outside the SAP SI Group and major business transactions that a member of the Executive Board or a party affiliated with him concludes with a company in the SAP SI Group require the prior approval of the Supervisory Board. The members of the Executive Board inform the Supervisory Board about conflicts of interest.

Members of the Supervisory Board are required to inform the Supervisory Board immediately about conflicts of interest which may result from consulting or directorship functions with business partners. Consulting, service or other work contracts concluded by a member of the Supervisory Board of the company require the approval of the Supervisory Board.

The Annual Stockholders' Meeting

The stockholders of SAP SI exercise their rights at the Annual Stockholders' Meeting. This meeting passes resolutions about all the matters it is required to cover by law, e.g. appropriation of profits, approval of the conduct of the business by the Executive Board and the Supervisory Board, selection of the auditor and changes to the articles of association. The Annual Stockholders' Meeting takes place in the first six months of the fiscal year (calendar year). The stockholders are informed at least one month in advance about the location and time of the Annual Stockholders' Meeting, the agenda and the resolutions that are to be proposed there. Every stockholder has the opportunity to exercise his voting right himself or to have it exercised by someone he has authorised to do so or by a representative of SAP SI who votes as instructed. Every share has one vote.

The date of the Annual Stockholders' Meeting is published regularly in the financial calendar on the SAP SI Web site, in the Annual Report and in the quarterly reports.

Protection of stockholders' rights

SAP SI respects the rights of the stockholders. By appointing voting right representatives, it makes sure that stockholders are able to exercise their voting right even if they do not attend the Annual Stockholders' Meeting. In order to take account of the increasing importance of the Internet, not only the documents for the Annual Stockholders' Meeting but also the voting results and the latest version of the articles of association of the Company are made available in the Internet.

SAP SI observes the principles of transparency, promptness, openness, clarity and non-discrimination when it passes information on to recipients outside the Company. This includes the prompt publication of the relevant financial information.

Accounting and auditing of the annual financial statements

The SAP SI Group prepares its accounts in accordance with the United States Generally Accepted Accounting Principles (US GAAP). For the purposes of company law, the annual financial statements of SAP Systems Integration AG are also prepared in accordance with the rules of the German Commercial Code (HGB), which is the basis for taxation too. In accordance with the specifications of the German Commercial Code, the annual financial statements of SAP Systems Integration AG comply with the principles of proper bookkeeping and provide an accurate and true picture of the asset situation, financial position and profitability of the Company. The consolidated financial statements of SAP SI are prepared by the Executive Board, audited by the auditor, reviewed and approved by the Supervisory Board and adopted by the Annual Stockholders' Meeting.

Further information about the accounting principles can be found in this Annual Report, starting on page 45 of the consolidated financial statements and starting on page 34 of the management report.

Controlling and risk management

The Executive Board is responsible for establishing, reviewing and evaluating the SAP SI risk management system. The SAP SI risk management system consists of the following elements:

- the rules of procedure issued for the Executive Board by the Supervisory Board
- the approval guidelines issued by the Executive Board for the Company divisions and business units
- the annual budget approved by the Supervisory Board, supplemented by the strategic planning of the monthly reporting about the operational situation of the Company divisions and business units for the identification and efficient control of major risks.

The most important objectives of risk management are the avoidance of risks that endanger corporate survival and the systematic, steady increase of corporate value. The areas covered by risk management include guidelines, responsibilities and business processes that are structured in such a way that they guarantee correct and prompt accounting of all business transactions, identify risks and opportunities at an early date and provide regular information about the financial situation of the Company.

It is not possible to avoid all risks. Details about the main current risks faced by SAP SI are outlined starting on page 42 of the consolidated management report and management report in this Annual Report.

Disclosure of financial information

SAP SI communicates with institutional and private investors, analysts as well as the business and financial press both promptly and openly. Information about results is provided at regular intervals in the form of quarterly reports, press releases and the Annual Report. Reports and presentations, the development of the SAP SI share price, all the financial dates and further important information about the Company can be found on the SAP SI Web site (<http://www.sap-si.com/investor>).

Code of conduct

SAP SI always conducts its business transactions responsibly, complying with legal regulations. The Executive Board has compiled a set of rules for this purpose. The code of conduct includes rules that are binding on all employees and the Executive Board about law-abiding conduct and how to deal with conflicts of interest. It also provides advice about the avoidance of insider transactions. The code of conduct has been published at: http://www.sap-si.com/company/corp_gov/statutes/codeofconduct/.

Relationships to related parties

The relationships between SAP SI and related parties are outlined in the notes to the consolidated financial statements.

Suggestions made in the German Corporate Governance Code

SAP SI implements the non-mandatory suggestions made in the Code with the exception that the introduction of different periods of office for the stockholders' representatives on the Supervisory Board is not planned at the present time.

Conformity statement in accordance with the German Corporate Governance Code

SAP SI implements most of the recommendations made in the German Corporate Governance Code, with the following exceptions (excerpt from the conformity statement):

“SAP SI considers the specification of age limits for Supervisory Board members to be an inappropriate restriction of the right of the stockholders to elect the members of the Supervisory Board. SAP SI's corporate governance principles do not therefore include such an age limit. Contrary to the relevant recommendation in the Code, the SAP SI principles do not specify an age limit for Executive Board members either, because this would be a general restriction on the choice of suitable Executive Board members by the SAP SI Supervisory Board.

The German Corporate Governance Code recommends that membership of Supervisory Board committees is taken into consideration in the compensation paid to Supervisory Board members. SAP SI does not think that such a provision has the potential to make a further improvement in the involvement of the Supervisory Board members in committee activities. Neither the SAP SI articles of association nor the SAP SI corporate governance principles stipulate consideration of this factor.

The German Corporate Governance Code recommends that no more than two former members of the Executive Board should belong to the Supervisory Board. At the present time, no former members of the Executive Board of SAP SI or the companies that preceded it belong to the Supervisory Board of SAP SI. SAP SI considers such a provision to be an inappropriate restriction on the right of the stockholders to elect Supervisory Board members, however. The SAP SI corporate governance principles do not therefore include such a provision.

The liability insurance policy concluded by SAP SI for the members of the Executive Board and the Supervisory Board does not include a deductible. SAP SI does not think that the motivation and responsibility that the members of the SAP SI Executive Board and the SAP SI Supervisory Board demonstrate in carrying out their assignments can be improved by arranging such a deductible.

The German Corporate Governance Code recommends the inclusion of a breakdown of the compensation paid to the members of the Executive Board into fixed components, performance-based components and components designed to act as a long-term incentive in the notes to the consolidated financial statements. The information is supposed to be provided on an individualised basis. Since the Executive Board of SAP SI works as a team and the business targets can only be reached together, SAP SI will only be dividing the compensation paid to the complete Executive Board up into variable and fixed components. The total compensation paid to each member of the SAP SI Executive Board is also being indicated, except for such extraordinary situations where any publication of such figures is not opportune.

The arrangements for the current stock option programmes do not comply with the recommendations of the Code. SAP SI intends to continue using these options, but plans to structure future compensation components of a comparable kind in accordance with the recommendation.”

SAP SI has issued the statement stipulated by § 161 of the German Companies Act (AktG) and has made this statement available to the stockholders on a permanent basis. The conformity statement has been published in the Internet at http://www.sap-si.com/company/corp_gov/statutes. SAP SI introduced a code of conduct for staff in 2003 as well.

FINANCIAL STATEMENTS OF SAP SYSTEMS INTEGRATION AG FOR FISCAL 2003

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

€ thousands	2003	2002
Revenues	242,562	238,150
Change in balance of work in progress	3,703	-366
Other income from operations	4,384	3,543
Costs of material	-22,434	-30,048
Payroll and other costs	-127,314	-135,759
Depreciation of fixed assets and long-term investments	-4,748	-4,229
Other operating expenses	-57,349	-59,265
Income/expense from affiliates	0	987
Income from loans	47	39
Amortization of financial assets	-251	-756
Interest income/expense, net	3,456	4,523
Earnings before tax	42,056	16,819
Extraordinary expenses	-11,802	0
Taxes	-17,004	-6,418
Net income	13,250	10,401

BALANCE SHEET

ASSETS	Dec 31, 2003	Dec 31, 2002
€ thousands		
Intangible assets	2,879	2,854
Property and equipment	7,962	6,584
Financial assets	41,516	13,075
Fixed assets	52,357	22,513
Inventories	8,825	5,321
Receivables and other current assets	49,993	73,205
Cash and cash equivalents	156,988	128,753
Non-Fixed assets	215,806	207,279
Deferred taxes	2,710	3,573
Prepaid expenses	1,433	1,205
Total assets	272,306	234,570

LIABILITIES AND STOCKHOLDERS' EQUITY

€ thousands		
Stockholders' equity	182,793	169,543
Untaxed reserves	52	127
Accrued liabilities	46,550	35,909
Liabilities	42,908	28,977
Deferred income	3	14
Total liabilities and stockholders' equity	272,306	234,570

GLOSSARY

Application management

Application management is a form of outsourcing that involves the administration, optimisation and further development of productive IT solutions as well as the provision of handling support and problem management services to end-users – irrespective of whether the solution that is being administered is operated at the customer's site or an SAP SI computer centre.

Business Information Warehouse technology

Support for strategic and operational corporate decision-making processes. The Business Information Warehouse application gives a comprehensive overview of internal and relevant external data.

Business intelligence (BI)

An integration solution that pools data from all company sources. The aims are to enable an all-round assessment to be made of the company, to determine the potential for creating value and to make it possible to exploit this potential.

Conversion services

Development of optimum system environments. Standardisation, restructuring and migration exercises in the SAP environment as a result of structural changes or in the context of system integration projects.

Customer relationship management (CRM)

CRM consists of the systematic, continuous and concerted collection of customer information. Managing this data makes customer relationships more transparent and is a way to strengthen customer loyalty.

Data warehouses

Software for data and information management that makes large volumes of data from different sources available to different users with different views and different summarisation levels (cf. business intelligence).

E-business

E-business is the processing of business transactions with the help of the Internet. A comprehensive approach is involved here that relates to all levels of value creation inside the company and between different companies and that improves their co-operation by making use of the Internet.

Enterprise application integration (EAI)

This involves the conversion of data and commands from the format of one application to the format of another application, in order to make it possible for data to be exchanged between incompatible applications.

Enterprise resource planning (ERP)

ERP systems enable resource planning to be carried out throughout a company with the help of concerted workflow management. ERP links such back-office systems as production, finance, human resources, sales & distribution and materials management systems. The most well-known example is the standard ERP software SAP R/3.

Hosting

A form of outsourcing. The external service provider operates the customer's software solution at his server centre. The service provider makes the necessary infrastructure (hardware, facility) and know-how (staff and tools) available. The customer is responsible for providing the software licence.

IT architecture

A conceptual framework to describe a logical or organisational structure or a set of guidelines intended to provide a cohesive whole. It can be applied to such areas as infrastructure or information.

KORDOBA

Interactive customer-oriented system for banking transactions: modular standard banking software from Kordoba AG, which features flexible parameterisation and takes differences in banks' strategic approach into account.

Portals

Employees, business partners, suppliers and customers can access information, applications and services from different sources via a company portal. The portal provides content that is customised according to the role of the user. Access is via a Web browser. The users have access to the portal at all times and wherever they are – via mobile equipment as well.

Product life cycle management (PLM)

Management of the entire life cycle of a product, from its development to procurement, production and customer service.

Radio frequency identification (RFID)

RFID is a technology for the automatic, non-contact identification of physical objects with the help of computer chips (RFID tags). A distinction can be made between passive RFID tags, which do not have power supply facilities of their own, and active RFID tags, which are equipped with a battery.

SAP Beverage

A comprehensive, fully integrated solution that reflects the entire logistic chain of the beverages industry and links the procurement and sales market to internal operations and external partners. The results are better cost control, higher product quality and excellent customer service.

SAP Enterprise Portal

SAP Enterprise Portal makes it possible to link heterogeneous system environments on a uniform platform based on open standards. It is a mySAP Enterprise Portal module. This solution is in turn based on SAP NetWeaver. mySAP Enterprise Portal also pools corporate information, including information from SAP and non-SAP applications, data warehouses and desktop documents, as well as internal and external Web contents and Web services centrally.

SAP NetWeaver technology

SAP NetWeaver, the next generation of mySAP technology, integrates information and business processes across a wide range of different technologies and organisational structures. The technology combines structured and unstructured information. Comprehensive, service-oriented business solutions are created as a result.

SAP R/3 system

Standard enterprise resource planning software. The focal points in the service range are software applications for accounting and controlling, production and materials management, quality management and plant maintenance, sales & distribution, personnel management and project management. SAP R/3 automatically summarises operating data to provide information for management decision-making processes.

mySAP ERP

mySAP ERP gives companies a comprehensive solution to reproduce financial accounting, personnel management, logistic business processes and corporate services and is therefore the most extensive ERP solution that is available on the market at the present time. mySAP ERP makes it possible to exercise active control over the administrative and operative business processes and thus guarantees substantial efficiency and profitability improvements. mySAP ERP supports the portal technology, business intelligence and knowledge management as well as mobile technologies with SAP NetWeaver as the technological basis.

Service-oriented architectures (SOA)

Service-oriented architectures are IT architectures that encapsulate the implementation of business functions in the form of services which make externally standardised, defined descriptions available. The services act as structuring interfaces between business processes and applications and therefore solve integration problems on the basis of open standards. The encapsulation of business functions in services permits flexible combination and reuse in business processes.

Solution innovation

Part of the SAP SI service portfolio: structuring of open, flexible IT environments, development of customer-specific solutions or productive integration of new technologies.

Solution integration

Part of the SAP SI service portfolio: development and optimisation of business processes from the enterprise resource planning point of view.

Solution management

Management concept which makes sure that SAP solutions perform efficiently and are operated as inexpensively as possible by the provision of services, support, know-how and an appropriate structure.

Strategic enterprise management (SEM)

Strategic enterprise management comprises a group of tools and processes by means of which senior staff and executives can implement value-driven management processes throughout the company. SAP SEM provides an integrated real-time view of a company's key performance indicators across all organisational structures, so that managers can both assess and increase the value of the company.

Supply chain management (SCM)

SCM is a multi-dimensional approach that aims to connect logistic chains between companies more efficiently at all process levels. The goals are not only to accelerate processes but also to increase supply chain productivity.

Systems integration

Part of the SAP SI service portfolio: technical integration of SAP and other software solutions.

Web services

Web services are software components that are able to exchange data and information with other software components by using non-proprietary standards. In contrast to most classic integration approaches, not just 1:1 system links can now be implemented with their help; automated system-to-system communication concepts in n:n format can be realised too – platform-independent and even across company and national borders. They are therefore a great help in the flexibilisation of system and process environments. Web services form the basis for service-oriented architectures (SOA), for example. SAP NetWeaver forms the technological basis for our company's Web services strategy.

SUMMARY OF FINANCIAL STATISTICS OF THE SAP SI GROUP

€ thousands	2003	2002	2001
Revenues	280,250	293,239	268,839
of which foreign	56,919	64,820	57,769
Revenues per employee	169	161	175

Earnings figures			
Restructuring costs	0	9,769	0
Operating profit ^{1) 2)}	40,553	33,206	40,306
Operating profit as a % of revenues ^{1) 2)}	14.5 %	11.3 %	15.0 %
EBITDA ¹⁾	45,571	28,187	45,801
EBITDA as a % of revenues ¹⁾	16.3 %	9.6 %	17.0 %
EBIT ¹⁾	40,435	22,901	40,827
EBIT as a % of revenues ¹⁾	14.4 %	7.8 %	15.2 %
EBT ¹⁾	43,506	26,230	45,570
EBT as a % of revenues ¹⁾	15.5 %	8.9 %	17.0 %
Earnings per share (undiluted) ¹⁾ in €	0.74	0.41	0.77
Earnings per share (diluted) ¹⁾ in €	0.74	0.41	0.77

Net financial income	3,071	3,329	4,743
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Balance sheet total	353,555	306,469	295,496
Fixed assets	124,850	90,830	91,543
Intangible assets	113,928	82,056	77,638
Property and equipment	10,189	7,668	9,052
Financial assets	733	1,106	4,853

Current assets incl. prepaid expenses and deferred taxes	228,705	215,639	203,953
Inventories	367	883	56
Receivables	63,762	75,984	75,563
Cash and cash equivalents	160,569	135,719	126,445
Other current assets incl. prepaid expenses and deferred taxes	4,007	3,053	1,889

¹⁾ Figures for 2001: before scheduled goodwill amortization.

²⁾ Figures for 2002: before restructuring costs.

€ thousands	2003	2002	2001
Stockholders' equity	265,522	240,029	226,933
as a % of fixed assets	212.7 %	264.3 %	247.9 %
of which subscribed capital	35,800	35,800	35,800
of which other stockholders' equity	229,722	204,229	191,133

Loan capital incl. deferred income and minority interest	88,033	65,154	68,563
of which accrued liabilities	49,601	37,601	41,067
of which liabilities incl. deferred income and minority interest	38,432	27,553	27,496

Proportion of the balance sheet total			
Fixed assets	35.3 %	29.6 %	31.0 %
Current assets	64.7 %	70.4 %	69.0 %
Stockholders' equity	75.1 %	78.3 %	76.8 %
Loan capital	24.9 %	21.7 %	23.2 %

Capital investment/depreciation			
Capital investment (excluding the additions of assets due to acquisitions)	5,990	3,552	6,415
Depreciation of fixed assets and intangible assets (without amortization of goodwill)	4,885	4,530	4,254
Financing quota (depreciation as a % of capital investment)	81.6 %	127.5 %	66.3 %

Consolidated statements of cash flows			
Net cash from operating activities	64,906	15,130	31,641
Net cash used in investing activities	-40,611	-5,747	-14,656
Net cash from financing activities	408	-1,071	70
Cash flow ¹⁾	32,867	20,777	32,960
Free cash flow	24,850	9,274	17,055

Financial calendar 2004*	
Interim report on the 1st quarter of 2004	April 29, 2004
Annual Stockholders' Meeting, Dresden	June 8, 2004
Interim report on the 1st half of 2004	July 29, 2004
Interim report on the 1st 3 quarters of 2004	November 2, 2004
Publication of preliminary results for 2004	February 3, 2005
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We would like to thank everyone
involved for their help in producing
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This annual report is as well
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of discrepancies the German
version shall prevail.

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