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SAP AKTIENGESELLSCHAFT SYSTEMS APPLICATIONS PRODUCTS IN DATA

Form 20-F

March 22, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2004
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 1-14251

SAP AKTIENGESELLSCHAFT

SYSTEME, ANWENDUNGEN, PRODUKTE IN DER DATENVERARBEITUNG

(Exact name of registrant as specified in its charter)

SAP CORPORATION

SYSTEMS, APPLICATIONS AND PRODUCTS IN DATA PROCESSING

(Translation of Registrant's name into English)

Federal Republic of Germany

(Jurisdiction of incorporation or organization)

Neurottstrasse 16

69190 Walldorf

Federal Republic of Germany

(Address of principal executive offices)

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

Title of each class

Name of each exchange on which registered

American Depositary Shares, each representing one-fourth
of one Ordinary Share, without nominal value
Ordinary Shares, without nominal value

New York Stock Exchange
Frankfurt Stock Exchange
New York Stock Exchange*

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

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

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

Ordinary Shares, without nominal value (as of December 31, 2004)**	316,003,600
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Item 17 Item 18

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

** Including 5,363,000 treasury shares.

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

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

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INTRODUCTION

SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung, is a German stock corporation (*Aktiengesellschaft*) and is referred to in this Annual Report on Form 20-F as SAP AG and, together with its subsidiaries, as SAP, or as the Company, we, our, or us. Our consolidated financial statements included in Item 1. Financial Statements in this Annual Report on Form 20-F have been prepared in accordance with generally accepted accounting principles in the United States of America, referred to as U.S. GAAP.

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

Unless otherwise specified herein, all euro financial data that have been converted into dollars have been converted at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on December 31, 2004, which was 1.00 per \$1.3538. No representation is made that such euro amounts actually represent such dollar amounts or that such euro amounts could have been or could be converted into dollars at that or any other exchange rate on such date or on any other dates. The rate used for the convenience translations also differs from the currency exchange rates used for the preparation of the Consolidated Financial Statements. For information regarding recent rates of exchange between euro and dollars, see Item 3. Key Information Exchange Rates. At March 8, 2005, the Noon Buying Rate for converting euro to dollars was U.S.\$ 1.3342 per 1.00.

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

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

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

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

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FORWARD-LOOKING INFORMATION

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

- general economic and business conditions;
- attracting and retaining personnel;
- competition in the software industry;
- implementing our business strategy;
- developing and introducing new services and products;
- regulatory and political conditions;
- obtaining and expanding market acceptance of our services and products;
- terrorist attacks or other acts of violence or war;
- integrating newly acquired businesses;
- meeting our requirements with customers; and

other risks and uncertainties, some of which we describe under Item 3. Key Information Risk Factors.

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

The following table represents selected consolidated financial information of SAP. The table should be read together with Item 5. Operating and Financial Review and Prospects. The selected consolidated financial data of SAP is a summary of, is derived from and is qualified by reference to, our consolidated financial statements and notes thereto audited for the years ended December 31, 2004, 2003 and 2002 by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), independent auditors and for the years ended December 31, 2001 and 2000 by ARTHUR ANDERSEN Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft mbH (Arthur Andersen), independent auditors.

The audited consolidated income statements, consolidated statements of cash flows and consolidated statements of changes in shareholders' equity for the years ended December 31, 2004, 2003 and 2002, and the consolidated balance sheets at December 31, 2004 and 2003 are included in Item 18. Financial Statements. Certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

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SELECTED FINANCIAL DATA

	Year Ended December 31,					
	2004	2004	2003	2002	2001	2000 ⁽²⁾
	U.S.\$ ⁽¹⁾					
	(in thousands, except per share and exchange rate data)					
Income Statement Data:						
Total revenue	10,173,121	7,514,493	7,024,606	7,412,838	7,340,804	6,264,595
Operating income	2,732,484	2,018,381	1,724,019	1,625,678	1,312,374	802,658
Income before income taxes, minority interest, and extraordinary gain	2,805,943	2,072,642	1,776,615	1,107,698	1,068,757	1,012,869
Net income	1,774,183	1,310,521	1,077,063	508,614	581,136	615,732
Earnings per share ⁽³⁾						
Basic	5.71	4.22	3.47	1.62	1.85	1.96
Diluted	5.69	4.20	3.46	1.62	1.85	1.95
Other Data:						
Weighted average number of shares outstanding ⁽³⁾⁽⁴⁾						
Basic	310,802	310,802	310,781	313,016	314,309	314,423
Diluted	312,156	312,156	311,409	313,980	314,412	315,737
Balance Sheet Data:						
Total assets	10,269,212	7,585,472	6,325,865	5,608,463	6,195,604	5,618,971
Shareholders equity	6,219,700	4,594,253	3,709,445	2,872,091	3,109,513	2,517,081
Subscribed capital	427,806	316,004	315,414	314,963	314,826	314,715
Short-term bank loans and overdrafts	34,997	25,851	19,043	22,657	458,266	146,877
Long-term financial debt ⁽⁵⁾	12,470	9,211	11,948	11,318	7,375	6,543

(1) Amounts in the column are unaudited and translated for the convenience of the reader at 1.00 to U.S.\$1.3538, the Noon Buying Rate for converting 1.00 into dollars on December 31, 2004. See Exchange Rates for recent exchange rates between the euro and the dollar. Our auditors have not audited these converted dollar amounts.

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

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

(4)

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

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

EXCHANGE RATES

The prices for ordinary shares traded on German stock exchanges are denominated in euro. Fluctuations in the exchange rate between the euro and the dollar will affect the dollar equivalent of the euro price of the ordinary shares traded on the German stock exchanges and, as a result, may affect the price

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of the ADSs in the United States. In addition, SAP AG pays cash dividends, if any, in euro, so that such exchange rate fluctuations will also affect the dollar amounts received by the holders of ADSs on the conversion into dollars of cash dividends paid in euro on the ordinary shares represented by the ADSs. The deposit agreement with respect to the ADSs requires the depository to convert any dividend payments from euro into dollars as promptly as practicable upon receipt.

A significant portion of our revenue and expenses is denominated in currencies other than the euro. Therefore, movements in the exchange rate between the euro and the respective currencies to which we are exposed may materially affect our consolidated financial position, results of operations and cash flows. See Item 5. Operating and Financial Review and Prospects Foreign Currency Exchange Rate Exposure and for our foreign currency risk and hedging strategy see Item 11. Quantitative and Qualitative Disclosure About Market Risk Foreign Currency Risk.

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

Year	Average ⁽¹⁾	High	Low	Period-End
2000	0.9207	1.0335	0.8270	0.9388
2001	0.8909	0.9535	0.8370	0.8901
2002	0.9495	1.0485	0.8594	1.0485
2003	1.1411	1.2597	1.0361	1.2597
2004	1.2478	1.3625	1.1801	1.3538

Month	High	Low	Period-End
2004			
July	1.2437	1.2032	1.2032
August	1.2368	1.2025	1.2183
September	1.2417	1.2052	1.2417
October	1.2783	1.2271	1.2746
November	1.3288	1.2703	1.3259
December	1.3625	1.3224	1.3538
2005			
January	1.3476	1.2954	1.3049
February	1.3274	1.2773	1.3274
March (through March 8, 2005)	1.3342	1.3127	1.3342

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

On March 8, 2005, the Noon Buying Rate for converting euro to dollars was U.S.\$1.3342 per 1.00.

DIVIDENDS

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

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

Year Ended December 31,	Dividend Paid per Ordinary Share		Dividend Paid per Preference Share	
		U.S.\$		U.S.\$
2000	0.57	0.52 ⁽¹⁾⁽⁴⁾	0.58	0.53 ⁽¹⁾
2001	0.58	0.53 ⁽¹⁾⁽⁴⁾	N/A	N/A
2002	0.60	0.69 ⁽¹⁾⁽⁴⁾	N/A	N/A
2003	0.80	0.95 ⁽¹⁾⁽⁴⁾	N/A	N/A
2004 (proposed)	1.10 ⁽²⁾	1.47 ⁽²⁾⁽³⁾⁽⁴⁾	N/A	N/A

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

(2) Subject to approval of the Annual General Shareholders Meeting of SAP AG to be held on May 12, 2005.

(3) Translated for the convenience of the reader from euro into dollars at the Noon Buying Rate for converting euro into dollars on March 8, 2005 of U.S.\$1.3342 per 1.00. The depositary is required to convert any dividend payments received from SAP as promptly as practicable upon receipt. The dividend paid can actually differ due to changes in the exchange rate.

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

The amount of dividends paid on the ordinary shares depends on the amount of SAP AG profits to be distributed by SAP AG, which depends in part upon our performance. For years prior to 2001, a holder of preference shares was entitled to a cumulative annual preferred dividend which exceeded the annual dividend paid to holders of ordinary shares by an amount equal to 0.01 per preference share, but in no event less than a minimum dividend equal to 0.01 per preference share. The timing and amount of future dividend payments will depend upon our future earnings, capital needs and other relevant factors in each case as proposed by the Executive Board and the Supervisory Board of SAP AG and approved at the Annual General Shareholders Meeting.

RISK FACTORS**Financial Risks****Our sales are subject to quarterly fluctuations.**

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

the relatively long sales cycles for our products;

the size and timing of individual license transactions;

the timing of the introduction of new products or product enhancements by us or our competitors;

the potential for delay of customer implementations of SAP software products;

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changes in customer budgets;

seasonality of a customer's technology purchases; and

other general economic and market conditions.

As is common in the software industry, our business has historically experienced its highest revenue in the fourth quarter of each year, due primarily to year-end capital purchases by customers. Such factors have resulted in 2004, 2003 and 2002 first quarter revenue being lower than revenue in the respective prior year's fourth quarter. We expect to experience a similar trend of seasonality in the future and expect that our revenue will peak in the fourth quarter of each year and decline from that level in the first quarter of the following year.

Because our operating expenses are based upon anticipated revenue levels and because a high percentage of our expenses are relatively fixed in the near term, any shortfall in anticipated revenue or delay in recognition of revenue could result in significant variations in our results of operations from quarter to quarter or year to year. We significantly increased in each year from 2002 through 2004, and plan to continue to increase throughout 2005, the following expenditures depending on our results and outlook during 2005:

expansion of our operations;

research and development directed towards new products and product enhancements; and

development of new distribution and resale channels, particularly for small and midsize businesses.

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

Our sales forecasts may not be accurate.

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

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

Although the euro has been our financial and reporting currency since January 1, 1999, a significant portion of our business is conducted in currencies other than the euro. Approximately 59.7% of our consolidated revenue in 2004 was attributable to operations in non-EMU member states and translated into euro. As a consequence, period-to-period changes in the average exchange rate in a particular currency can significantly affect reported revenue and operating results. In general, appreciation of the euro relative to another currency has a negative effect on reported results of operations, while depreciation of the euro has a positive effect, although such effects may be short term in nature.

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Fluctuations in the value of the U.S. dollar, the Japanese yen, the British pound, the Swiss franc, the Canadian dollar, and the Australian dollar provide the greatest exposure to risk of currency fluctuations. We continually monitor our exposure to currency risk and pursue a company-wide foreign exchange risk management policy. We have in the past and expect to continue in the future to at least partly hedge such risks with certain financial instruments. There can be no assurance that our hedging activities, if any, will be effective. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk.

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

From 2002 to 2003, our software revenue decreased both in terms of absolute euro value and as a percentage of total revenue while our maintenance revenue increased during the same period. The trend with decreasing software revenues was reversed in 2004, while the trend with increasing maintenance revenues continued in 2004. Our service revenue decreased from 2002 to 2003 but increased slightly from 2003 to 2004. Variances or slowdowns in our licensing activity may negatively impact our current and future revenue from services and maintenance since such services and maintenance revenues typically lag behind and are dependent upon license fee revenue. In addition, growth in service revenue will depend on our ability to compete effectively in obtaining customer commitments for services related to SAP software products. Any decrease in the percentage of our total revenue derived from software licensing could have a material adverse effect on our business, financial position, results of operations or cash flows.

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

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

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

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

Recently effected changes in financial accounting standards regarding the accounting for stock based compensation will have an adverse effect on our reported results of operations.

As part of its convergence project, the Financial Accounting Standards Board (FASB) has revised the U.S. GAAP rules for stock-based compen