

# Fourth-Quarter and Full-Year 2009 Preliminary Results Release

SAP AG

Frankfurt, Germany  
January 27, 2010

THE BEST-RUN BUSINESSES RUN SAP™



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SAP AG

Frankfurt, Germany  
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# Safe Harbor Statement



Any statements contained in this document that are not historical facts are forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Words such as “anticipate,” “believe,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “project,” “predict,” “should” and “will” and similar expressions as they relate to SAP are intended to identify such forward-looking statements. SAP undertakes no obligation to publicly update or revise any forward-looking statements. 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 SAP’s future financial results are discussed more fully in SAP’s filings with the U.S. Securities and Exchange Commission (“SEC”), including SAP’s most recent Annual Report on Form 20-F filed with the Securities and Exchange Commission. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates.

# Agenda



- 1. Income Statement Overview**
2. Balance Sheet and Cash Flow Analysis
3. U.S. GAAP – IFRS Reconciliation
4. Outlook
5. Additional Information

# Financial Performance at a Glance

## FY 2009, based on Non-GAAP



SAP delivered better-than-expected 2009 financial results

- Total Revenue: €10.7bn
- Operating income: €2.9bn
- Operating margin: 27.3% (including a negative effect of 1.8pp from restructuring charges)
- EPS: €1.71
- Free Cash Flow: €2.8bn
- Headcount : 47,578 FTEs

# Income Statement Overview

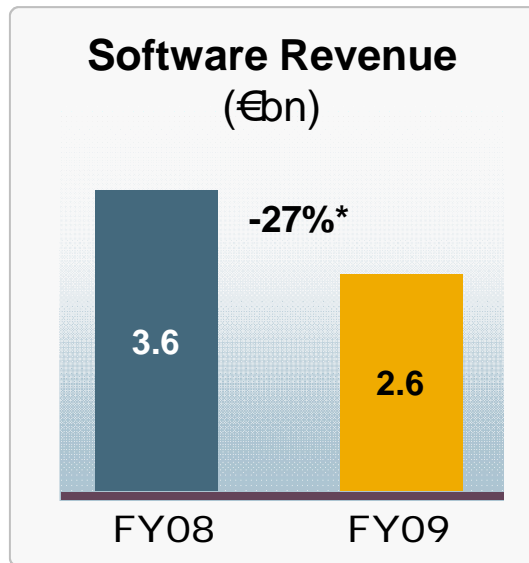
## Full Year 2009 (U.S. GAAP and Non-GAAP)



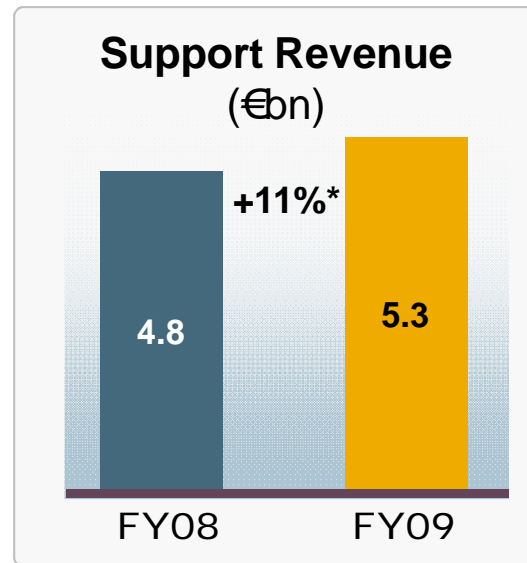
	U.S. GAAP			Non-GAAP			Δ% constant currencies
	FY 2009	FY 2008	Δ%	FY 2009	FY 2008	Δ%	
€ millions, unless otherwise stated							
<b>SSRS revenue</b>	<b>8,197</b>	<b>8,457</b>	<b>-3</b>	<b>8,208</b>	<b>8,623</b>	<b>-5</b>	<b>-5</b>
<b>Professional services revenue</b>	<b>2,432</b>	<b>3,039</b>	<b>-20</b>	<b>2,432</b>	<b>3,039</b>	<b>-20</b>	<b>-20</b>
<b>Total revenue</b>	<b>10,671</b>	<b>11,565</b>	<b>-8</b>	<b>10,682</b>	<b>11,731</b>	<b>-9</b>	<b>-9</b>
<b>Total operating expenses</b>	<b>-8,031</b>	<b>-8,725</b>	<b>-8</b>	<b>-7,766</b>	<b>-8,428</b>	<b>-8</b>	<b>-8</b>
<b>Operating income</b>	<b>2,640</b>	<b>2,840</b>	<b>-7</b>	<b>2,916</b>	<b>3,303</b>	<b>-12</b>	<b>-11</b>
<b>Operating margin (in %)</b>	<b>24.7</b>	<b>24.6</b>	<b>0.1pp</b>	<b>27.3</b>	<b>28.2</b>	<b>-0.9pp</b>	<b>-0.6pp</b>
Financial income/expense, net	-71	-62	15	-71	-62	15	N/A
<b>Income from cont. ops. before taxes</b>	<b>2,489</b>	<b>2,753</b>	<b>-10</b>	<b>2,764</b>	<b>3,216</b>	<b>-14</b>	<b>N/A</b>
Income taxes	-664	-825	-20	-728	-947	-23	N/A
Effective tax rate (in %)	26.7	30.0	-3.3pp	26.3	29.4	-3.1pp	N/A
<b>Net Income</b>	<b>1,789</b>	<b>1,869</b>	<b>-4</b>	<b>2,000</b>	<b>2,210</b>	<b>-10</b>	<b>N/A</b>
<b>Net Income margin (in %)</b>	<b>16.8</b>	<b>16.2</b>	<b>0.6pp</b>	<b>18.7</b>	<b>18.8</b>	<b>-0.1pp</b>	<b>N/A</b>
<b>Basic EPS from continuing op. (€)</b>	<b>1.54</b>	<b>1.62</b>	<b>-5</b>	<b>1.71</b>	<b>1.91</b>	<b>-10</b>	<b>N/A</b>

# SSRS Revenue Breakdown

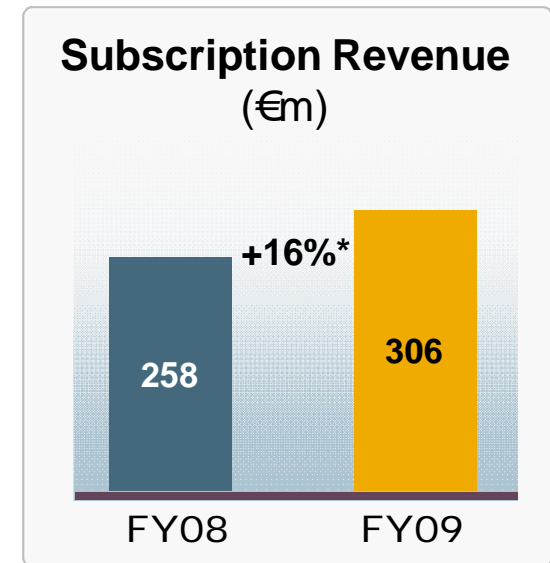
## FY 2009 Income Statement Overview, based on Non-GAAP



- Software revenue impacted the most from the challenging environment
- However, software revenue rebounded in Q4 with more than €1.1bn sold (-14%\*)



- Support revenue increased in-line with expectations



- Subscription revenue continued to increase as planned
- New contractual agreements within SAP's traditional on-premise business

# Regional Performance

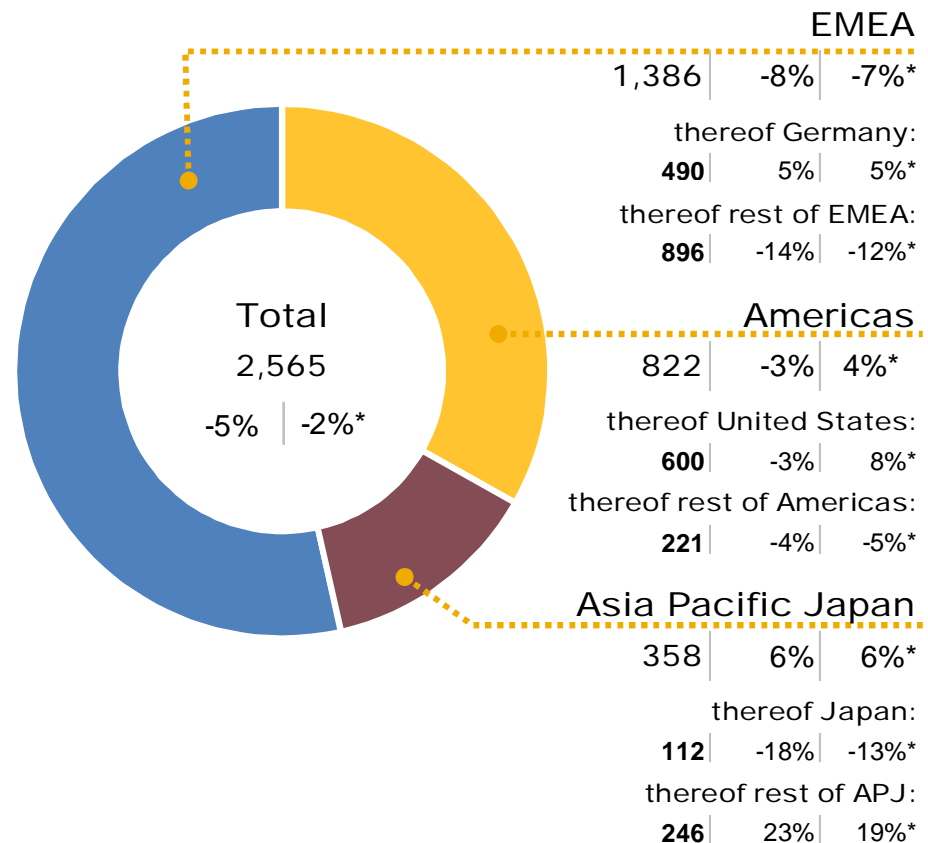
## Q4 2009, SSRS Revenue, based on Non-GAAP



### Strong Regional Execution\*

- **Americas: +4%**
- **APJ: +6%**
  - ex-Japan +19%
- **EMEA: -7%**
  - Germany: +5%
- **BRIC: +46%**
  
- Rebound in the U.S. (+8%)
- SAP BusinessObjects strong in all regions

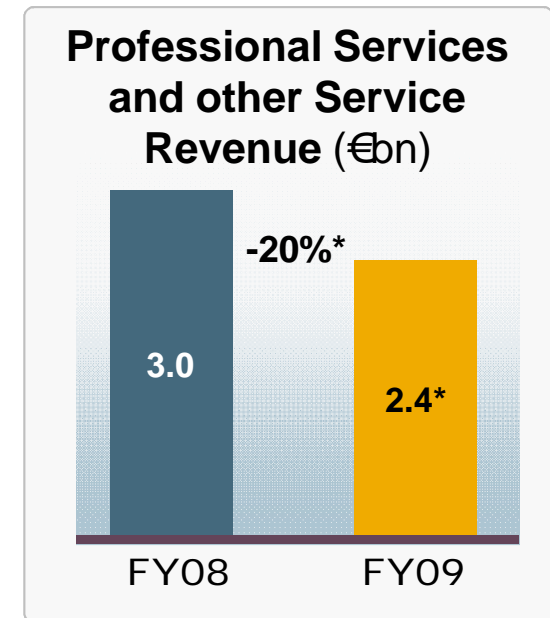
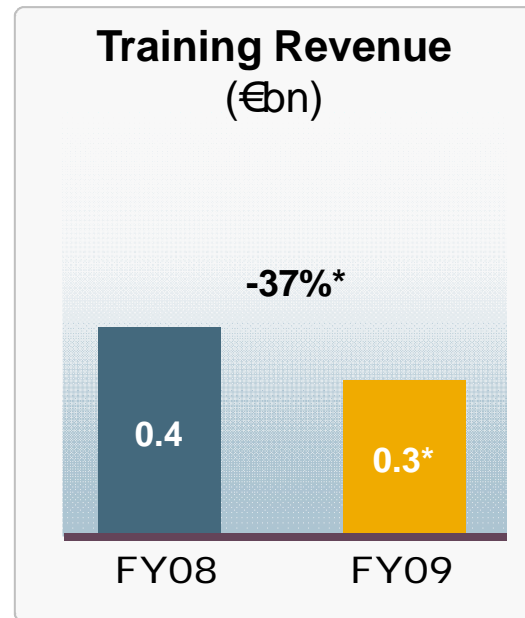
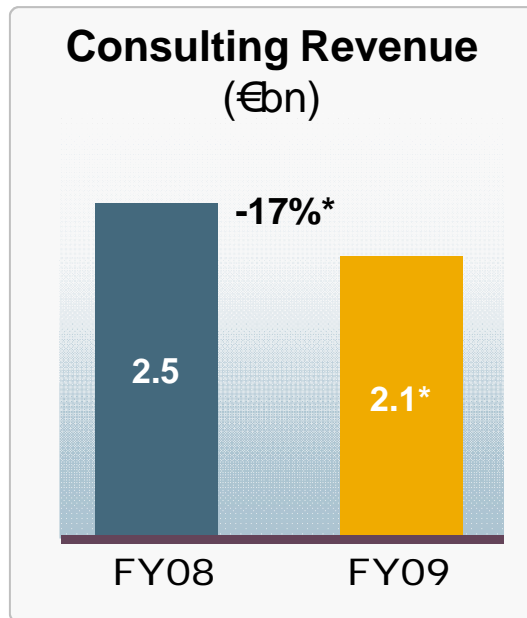
### Software and software-related service revenue by region



\* Year-over-year growth in % at constant currencies

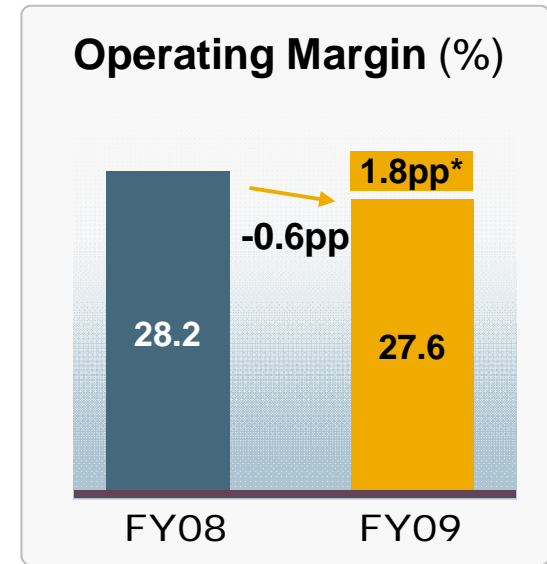
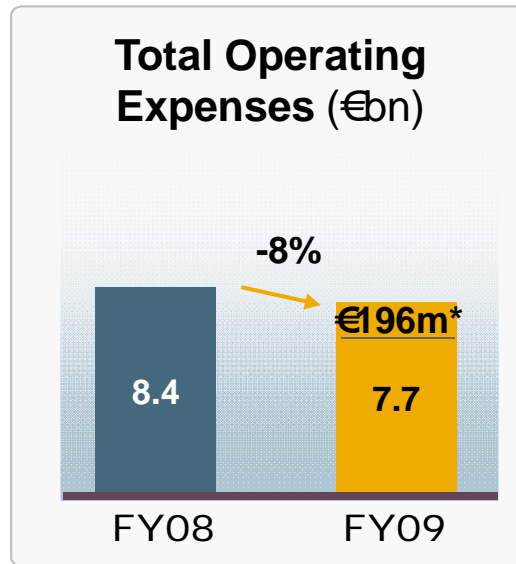
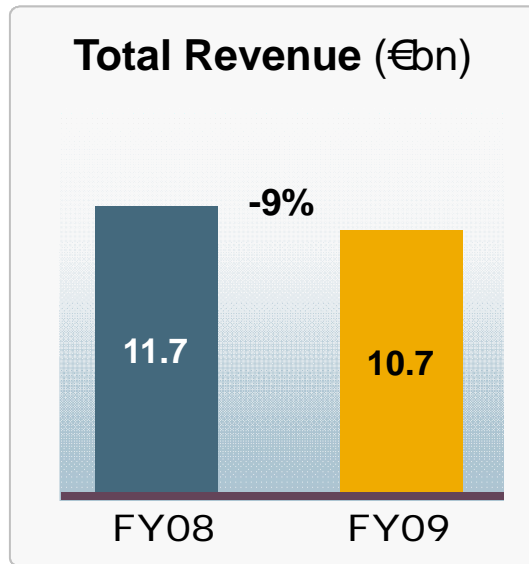
# Professional Services Revenue Breakdown

## FY 2009 Income Statement Overview, based on Non-GAAP



- Professional services revenue declined as expected, following the decrease in software revenue – in response
  - SAP reduced headcount by 12% in the professional services area
  - SAP continued to reduce 3<sup>rd</sup> party expenses

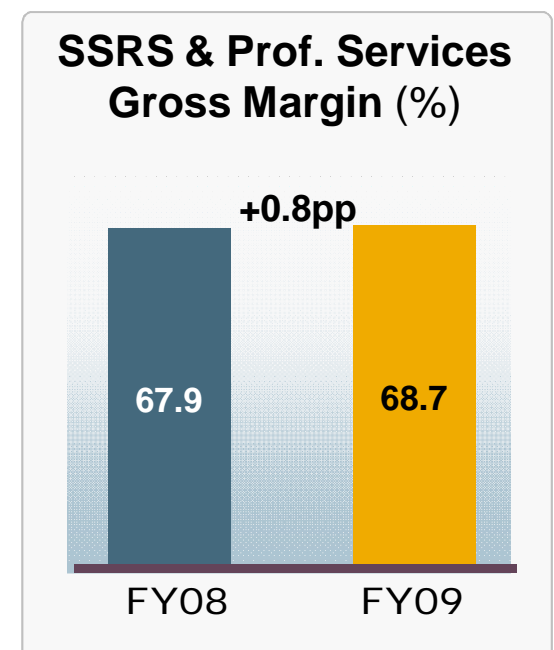
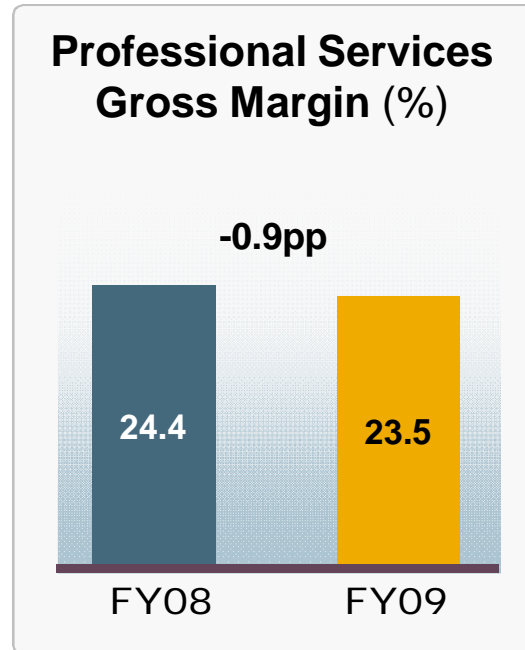
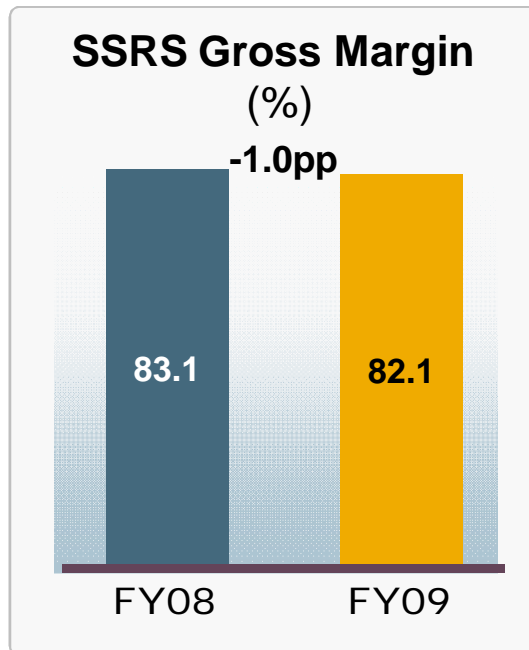
# Total Revenue, Total Op. Expenses & Op. Margin Performance (FY 2009, Non-GAAP at const. currency)



- Well executed cost management and SAP's transformation into a lean company resulted in:
  - A reduction of €662m in operating expenses – despite €196m restructuring charges
  - A Non-GAAP operating margin that exceeded guidance

# Gross Margin Analysis

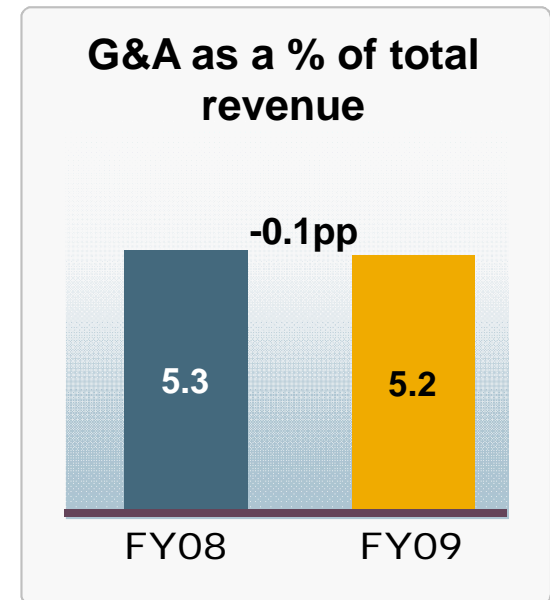
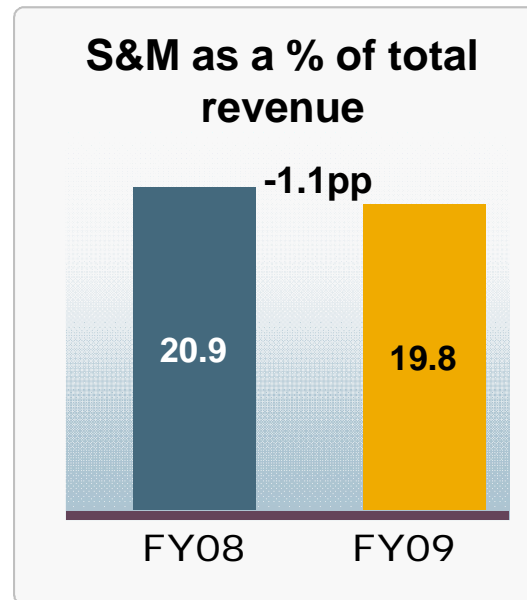
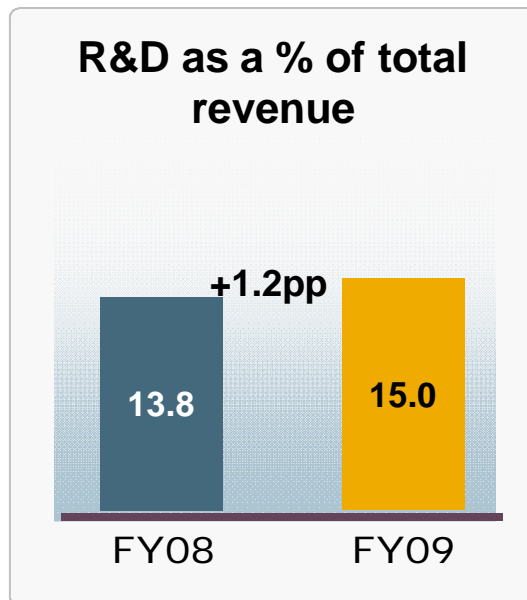
## FY 2009 Income Statement Overview, based on Non-GAAP



- The SSRS and professional services gross margin increased 0.8 percentage points because of a shift in the business mix

# Cost Ratios

## FY 2009 Income Statement Overview, based on Non-GAAP



- R&D ratio increased due to decline in total revenue
  - 5% reduction in R&D headcount vs. 8% overall
- S&M ratio and G&A ratio decreased due to effective cost management

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# Balance Sheet

## As of December 31, 2009



### Assets

€ millions	12/31/09	12/31/08
Cash and cash equivalents, short-term investments*	2,284	1,662
Accounts receivables, net	2,447	3,128
Other current assets	811	992
<b>Current assets</b>	<b>5,542</b>	<b>5,782</b>
Goodwill	5,034	5,009
Intangible assets, net	884	1,127
Property, plant and equipment, net	1,371	1,405
Other noncurrent assets	1,032	874
<b>Noncurrent assets</b>	<b>8,321</b>	<b>8,415</b>
<b>Total assets</b>	<b>13,863</b>	<b>14,197</b>

### Shareholders' Equity & Liabilities

€ millions	12/31/09	12/31/08
Financial liabilities	148	2,574
Deferred income	585	611
Other liabilities	2,787	2,649
<b>Current liabilities</b>	<b>3,520</b>	<b>5,834</b>
Financial Liabilities	739	36
Provisions	510	497
Other noncurr. liabilities	499	595
<b>Noncurrent liabilities</b>	<b>1,748</b>	<b>1,128</b>
<b>Total liabilities</b>	<b>5,268</b>	<b>6,962</b>
<b>Shareholders' equity</b>	<b>8,595</b>	<b>7,235</b>
<b>Total shareholders' equity &amp; liabilities</b>	<b>13,863</b>	<b>14,197</b>

\* incl. restricted cash

# Strong Cash Position – Highlights

## As of December 31, 2009



	12/31/09	12/31/08	Δ
Net liquidity (€ millions) <sup>1)</sup>	1,581	-659	N/A
Days sales outstanding (DSO)	79 days	71 days	8 days
Equity ratio	62%	51%	11pp

€ millions, unless otherwise stated	FY 2009	FY 2008	Δ%
Operating cash flow from continuing operations	3,036	2,183	39%
- Capital expenditure	-225	-339	-34%
Free cash flow	2,811	1,844	52%
Free cash flow as a percentage of total revenue	26%	16%	10pp
Cash conversion rate <sup>2)</sup>	166%	113%	53pp

1) Defined as cash and cash equivalents + restricted cash + short-term investments less bank loans and overdrafts

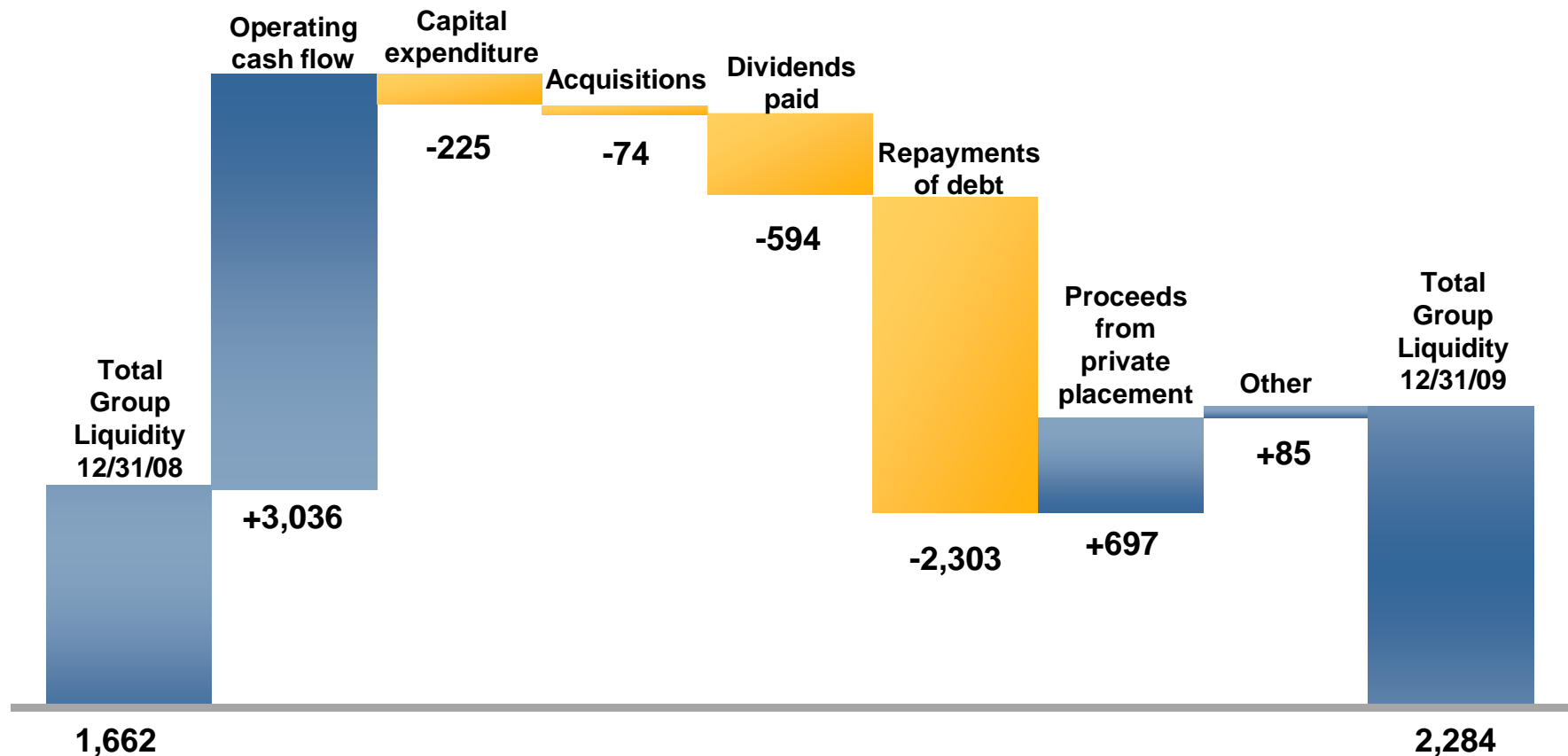
2) Defined as operating cash flow from cont. ops. as a % of income from cont. ops.

# Total Group Liquidity Development\*

## FY 2009



€ millions

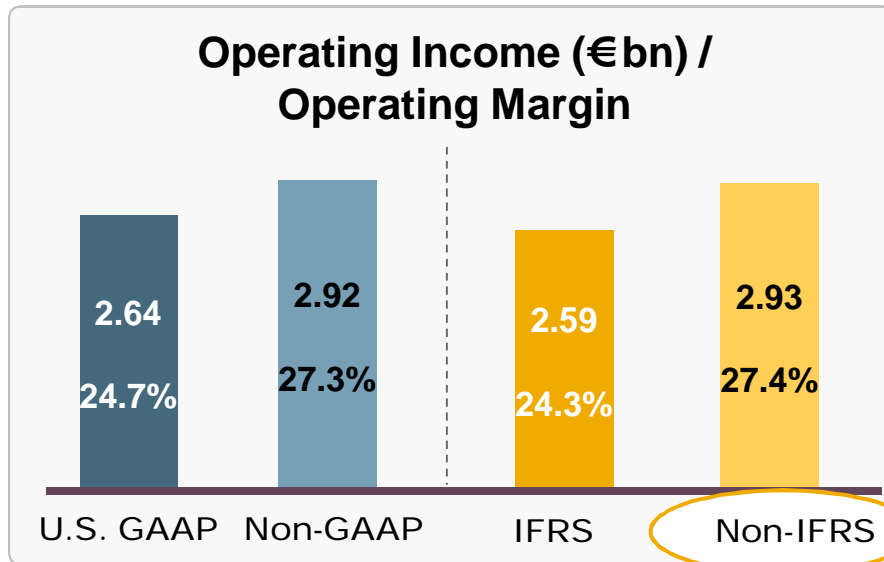
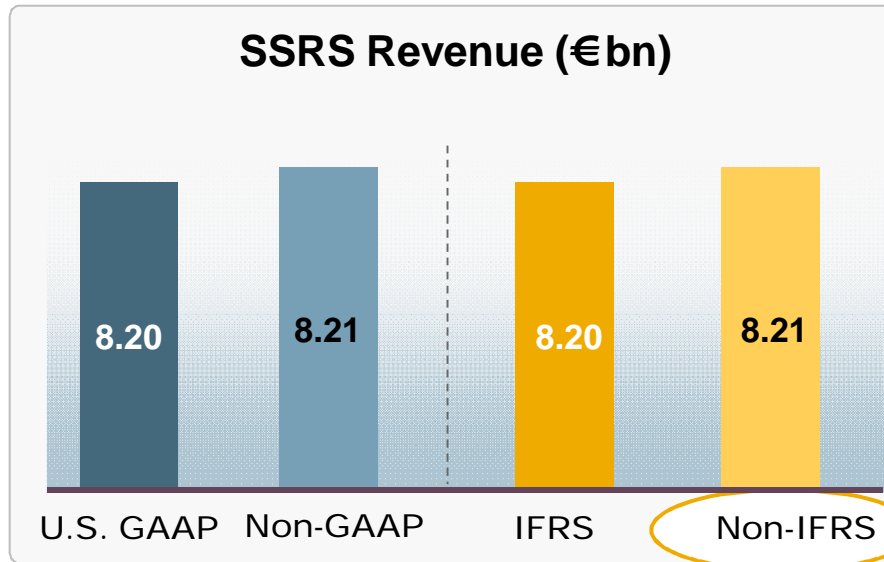


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# U.S. GAAP/Non-GAAP vs. IFRS/Non-IFRS FY 2009



## Revenues

- There are no differences between U.S. GAAP and IFRS resp. Non-GAAP / Non-IFRS in FY 2009

## Operating Income

- Differences between U.S. GAAP and IFRS, including
  - Discontinued Operations
  - Differences in accounting for certain acquisition related charges
  - Recognition and valuation of provisions
- Non-IFRS operating income is adjusted for discontinued operations and (like Non-GAAP) for deferred revenue write-down and acquisition related charges.**

After these adjustments the difference between Non-GAAP and Non-IFRS operating income results mainly from the recognition and valuation of provisions

## Note:

There may be more significant U.S. GAAP / IFRS resp. Non-GAAP / Non-IFRS differences in future periods but such differences are not expected to be material

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SAP is providing the following outlook for the full-year 2010

- The Company expects full-year 2010 Non-IFRS software and software related service revenue to increase in a range of 4% to 8% at constant currencies (2009: €8.2 billion)
- The Company expects its full-year 2010 Non-IFRS operating margin to be in a range of 30% – 31% at constant currencies (2009: 27.4%)
- The Company projects an effective tax rate of 27.5% - 28.5% (based on IFRS) for 2010 (2009: 26.7%)

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# Evolution of SAP's Customer Engagement Model



## Expansion of SAP's customer engagement model

- SAP has introduced additional subscription licensing options for a **well-defined group** of its **largest customers**
  - **Global Enterprise Agreements (GEA's)**
    - Introduced in 2006
    - Customized contracts aimed at SAP's largest customers
    - Strategic partnerships with a special focus on co-innovation
  - **Flexible License Agreements (FLA's)**
    - Introduced in 2009
    - Standardized contracts aimed at customers committed to a strategic SAP deployment roadmap
- In 2010, subscription revenue growth will be driven by a **targeted number of FLA / GEA customers**

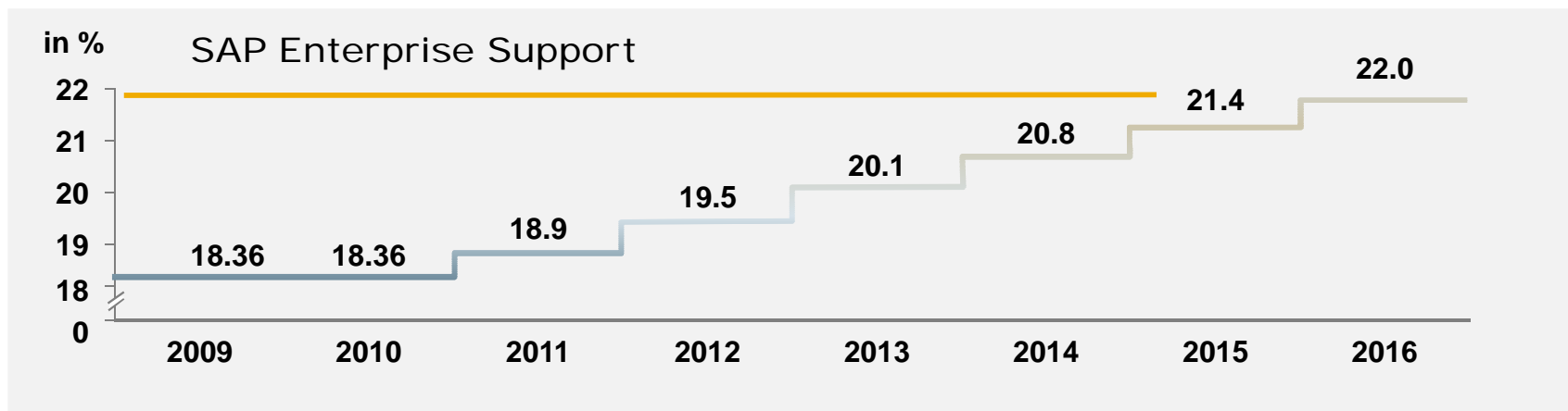
## Expansion of SAP's business model

- In 2011 and beyond, SAP expects subscription revenue growth to be further enhanced by on-demand solutions
  - SAP Business ByDesign for small and mid-sized enterprises
  - SAP On-Demand extensions for large enterprises

# Information on SAP's Main Support Offerings



- Based on customer feedback, SAP introduced a new, comprehensive tiered support model
- Customers can choose between SAP Enterprise Support and SAP Standard Support
- Pricing for the support offerings:
  - SAP Standard Support will be priced at 18% and **will be adjusted to inflation on an annual basis**
  - SAP Enterprise Support will be priced at 22% for license purchases after July 2008 and follow a step-up schedule to 22% for prior purchases



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Léo Apotheker  
CEO  
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# Solid Performance In A Tough Environment

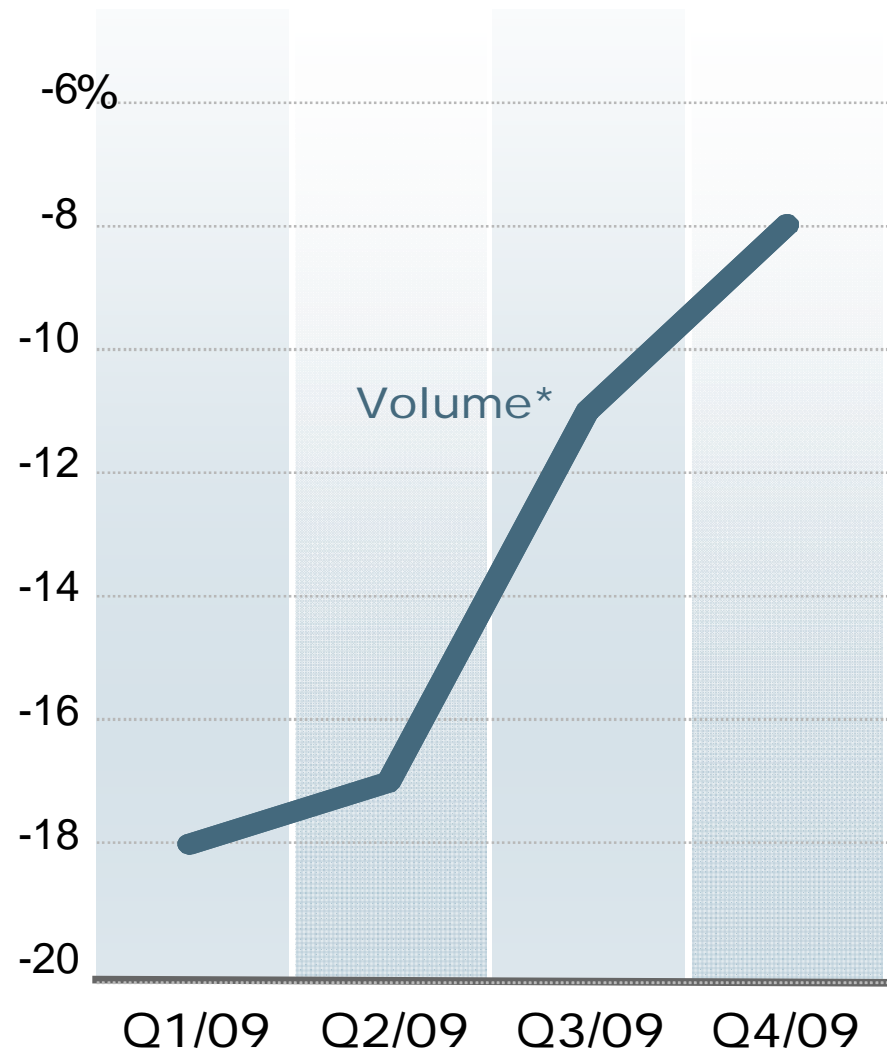


## A New Reality in 2009

- Global financial crisis - worst recession in decades
- Customer buying behavior changed – guarded and delayed investment decisions
- Software consumption and implementation models changed

## Fast Response To Changed Environment

- Expanded product footprint with solutions that delivered immediate value and fast return on investment
- Expanded customer engagement model to provide customers more choice
- Steady increase in year-over-year volume growth to compensate for a lower number of large deals
- Embarked on lean transformation and implemented efficient cost-cutting measures



\* Year-over-year growth in number of contracts signed

# Positive Fourth Quarter Momentum

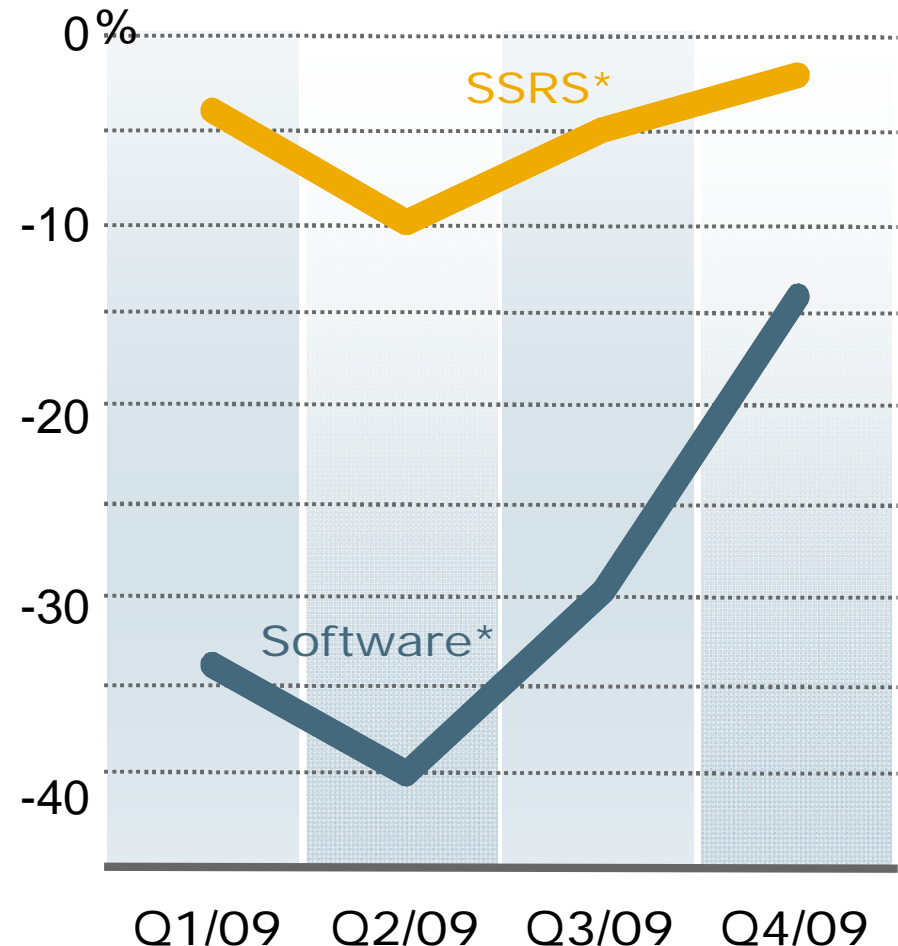


## Strong Regional Execution

- Overall climate improved
- Increased confidence and optimism among customers in Q4: SAP captured opportunities with solutions that met market demand
- SSRS\* growth in two out of three regions: strength in Germany demonstrates sound customer relationships

## Positive Industry Dynamics\*\*

- Strong performance Financial Services +37%:  
Banking +46%, Insurance +24%
  - Deutsche Bank, Talanx, Achmea/Rabobank, Credit Agricole, National Australia Bank
- Public Services +14% (Public Sector +18%), Telco +21%



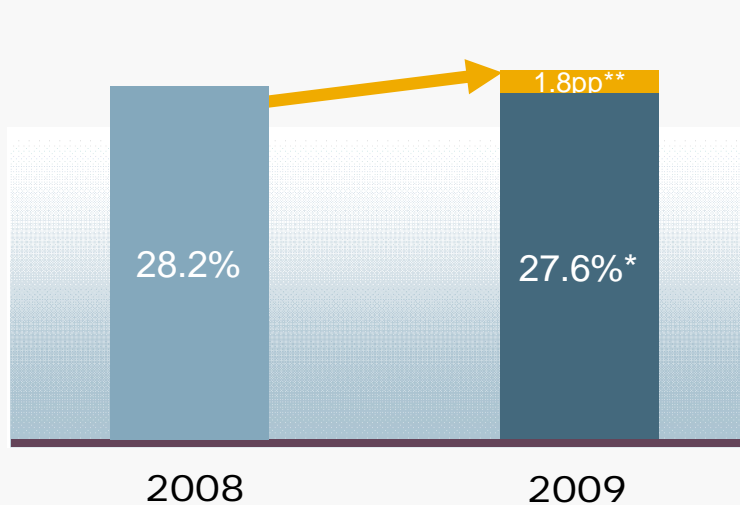
\* Year-over-year growth in % at constant currencies

\*\* All percentages based on software and software related service revenue

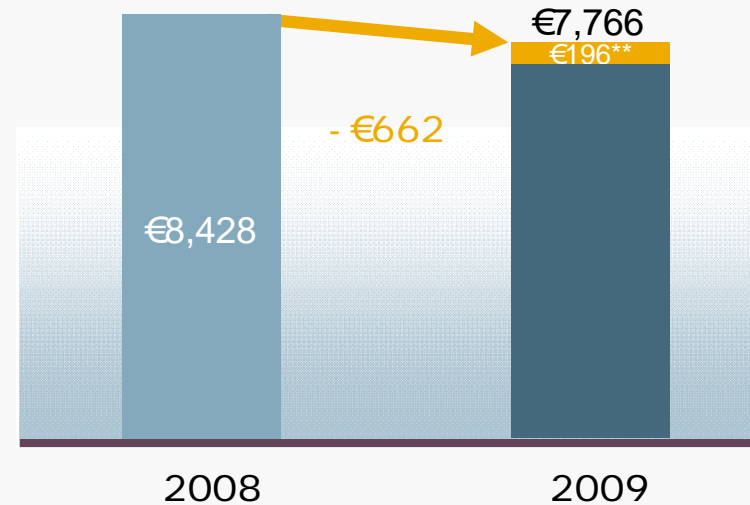
# Better-Than-Expected Results



## YOY Margin Performance



## YOY Operating Costs (millions)



- Lean transformation program and successful cost-cutting delivered strong margin performance
  - Removed €662 million in operating expenses, including restructuring charge
  - Non-GAAP operating margin at constant currencies exceeded 2009 guidance

\*At constant currencies \*\*one-time restructuring charge

All figures in charts are Non-GAAP

## SAP is the clear market leader

- Twice the size of number two
- SAP's last quarter **alone** is equal to the last three quarters **combined** of number two
- Significant competitive replacements in Q4  
Pfizer, 3M, Verizon Services, Furniture Brands International, British Gas/Centrica
- Continued competitive replacements of business intelligence solutions:  
500 in 2009 alone
- Other key wins
  - **EMEA:** Hilti AG, Aeroflot Russian Airlines, Yves Rocher
  - **Americas:** W.W. Grainger, Inc., Dairy Farmers of America, Sybase, Inc.
  - **APJ:** Australia Department of Defence, Daiwa House Industry Co., Ltd., Singapore Power Ltd

**Furniture Brands**  
INTERNATIONAL

**3M**

**Pfizer**

**verizon**

**HILTI**

## Environment

- Expect gradual recovery in capital spending and customer outlook
- Customers remain cautious, seeking value and fast ROI

## Returning to SSRS growth

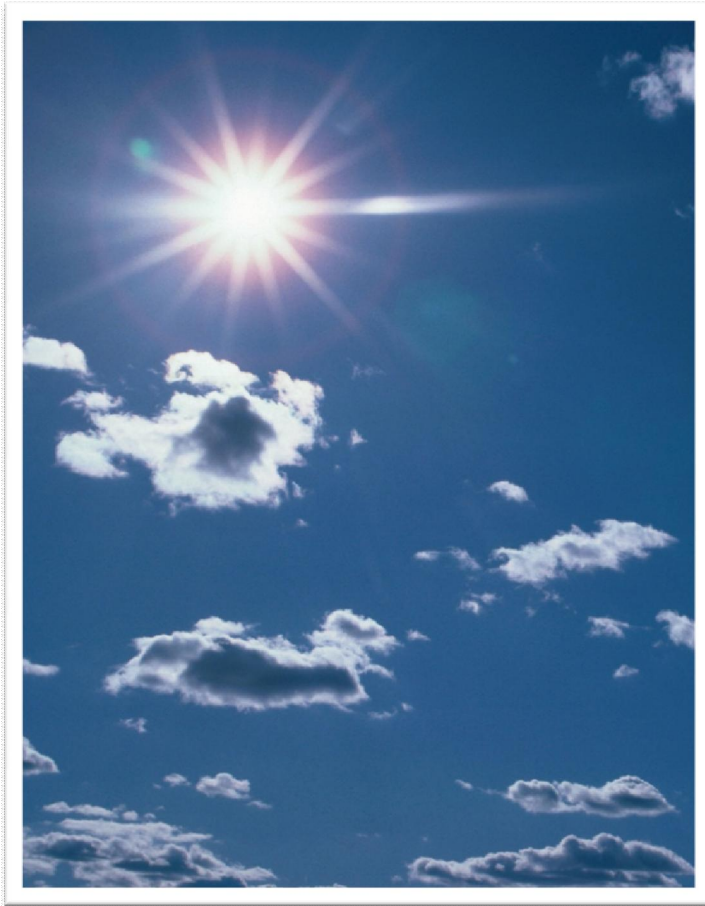
- Focus on fast-growth markets (BRIC countries, Middle East, Africa)
- Drive growth in established markets
- Volume growth
- Expand customer engagement model through targeted GEAs, targeted FLAs, and phased deals

## Margin growth remains in focus

- Clear cost controls
- Continue lean transformation



# New Reality Means New Opportunities



- IT is key to sustainable growth
- SAP is well positioned to seize opportunities
  - Build on strong foundation
  - Leverage powerful and reenergized innovation capabilities
  - Expand close customer relationships
  - Drive growth by strengthening core business and expanding beyond core
  - Draw on strong ecosystem

# Strengthen Our Core Business



## Packaged, Easy-To-Consume, Out-of-the-Box Solutions

- SAP Business Suite 7: Most Advanced Suite of Solutions
  - Only services oriented architecture based platform in the industry
  - Fully integrated: run entire business, more than 25 industry-specific solutions
  - Innovation without disruption, easily extend SAP landscape:  
Enhancement package technology, modularity, industry value scenarios
- Business User: Industry Leader
  - Broadest platform
  - Accelerate market share, focus on fast-growth markets
  - Continued competitive wins and replacements
  - Continued Innovation: flexible delivery models (hybrid), BI on-demand, tight integration across entire portfolio of BI solutions
- SME: Market Leader
  - 73,000 customers
  - SAP Business All-in-One: New subscription-based, hosted delivery model
  - SAP Business One: New version 8.8 in ramp-up
    - Web 2.0 integration
    - Real-time embedded analytics and seamless mobile integration

# Accelerate SAP's Innovation Cycle



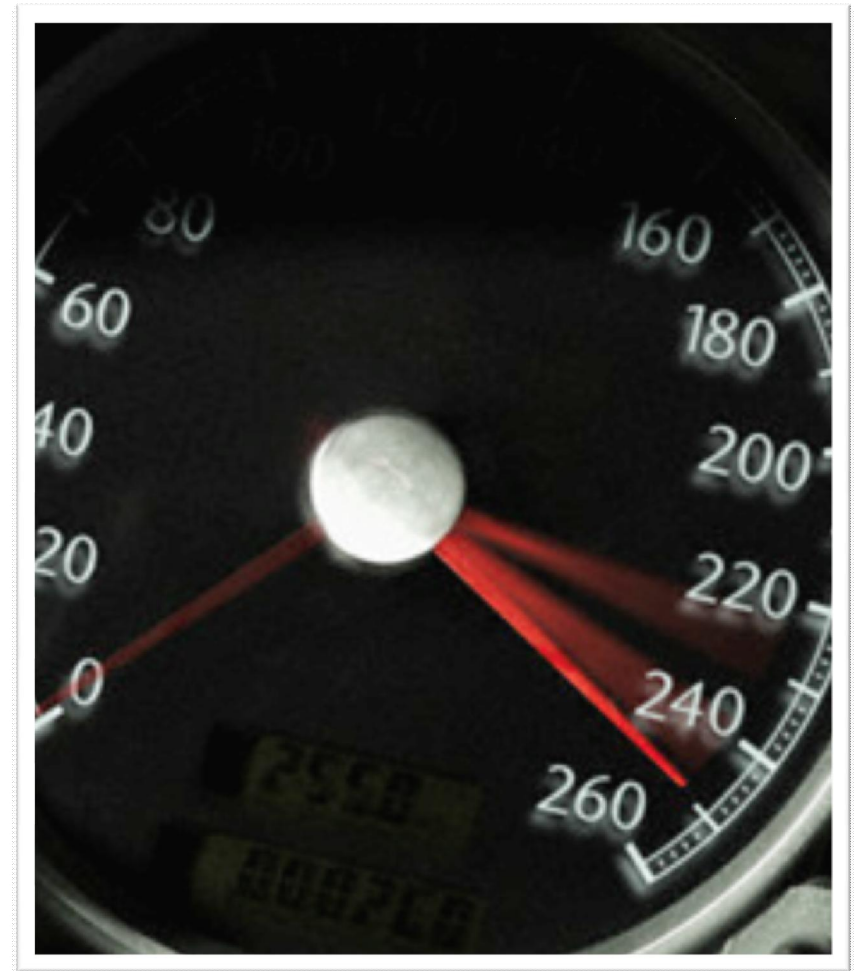
## New Organizational Structure

- Improve how we incorporate customer requirements into solutions
- Accelerate how we develop innovative, best-in-class high quality products.

## Product Vision

### SAP solutions going forward

- Fast implementation
- Instant consumption and value
- Easy accessibility from anywhere, anytime, and from a broad range of devices



# SAP Business ByDesign Ready For Volume Mid-2010



## Most complete on-demand business suite

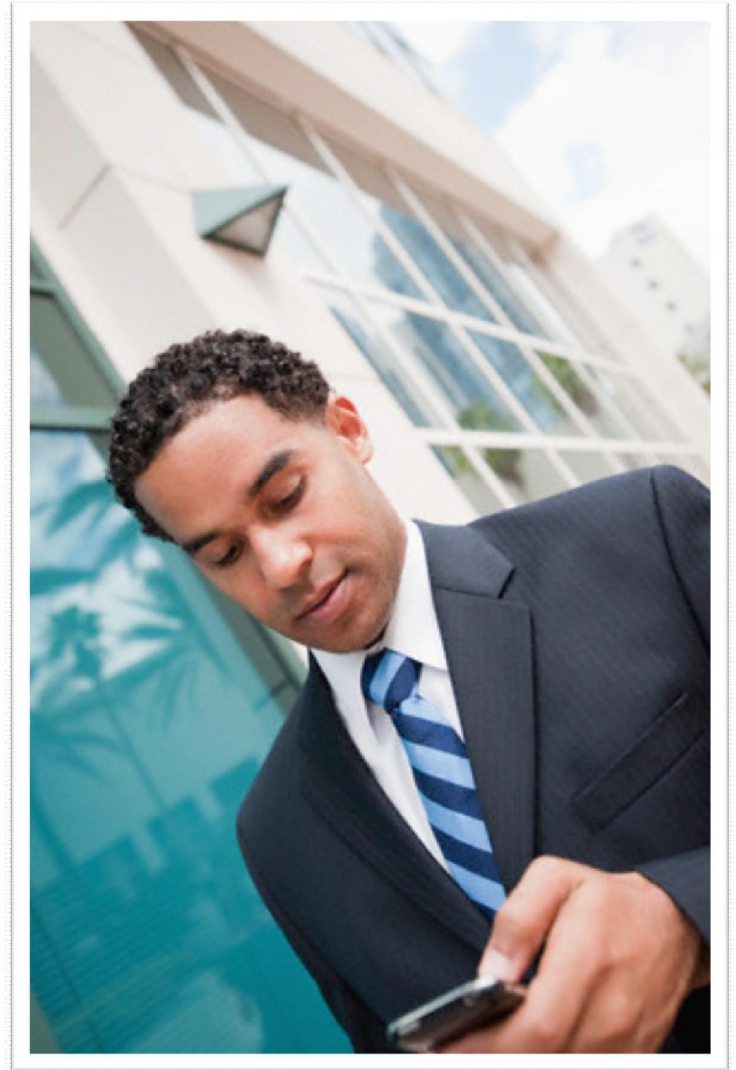
- Volume readiness in mid-2010
  - Germany, U.S., U.K., France , China and India
  - Fully multi-tenancy enabled
  - Enable partners to extend: additional scale and reach
  - New, rich client user interface
  - Real-time analytics
  - Mobile support



# Expand Beyond Our Core Business



- **In-Memory Technology: Instant Analytics**
  - Improved decision making
  - 100x+ faster performance than traditional database
  - First product already on market: SAP BusinessObjects Explorer, available on iPhone
  - Customer wins: International Rectifier Group, Pfizer, AOK
- **On Demand and On Premise: Best of Both Worlds**
  - Enrich SAP Business Suite and SAP BusinessObjects with on-demand extensions
  - Fully integrated with on-premise solutions
  - Customer choice: on-premise, on-demand, and hybrid
- **Pervasive Mobile**
  - Solutions available on a broad range of devices: huge growth potential
  - Users can access when and where they want





## Solutions For Customers

- Companies looking for reliable provider
- SAP has clear roadmap
- SAP BusinessObjects Sustainability Performance Management: Co-innovation with Lexmark
- Customers choose SAP Carbon Impact on-demand solution: Autodesk, Hitachi, Freeport McMoran, Jabil Circuits
- New Sustainability Analytics

## SAP As Exemplar

- SAP runs SAP: leveraged SAP Carbon Impact on-demand solution
- Reduced 2009 carbon emissions 15% YOY, well ahead of our target
- Bottom-line savings: ~€90m

# SAP: Leader in Enterprise Applications Well-Positioned for the Future



## New Support Options

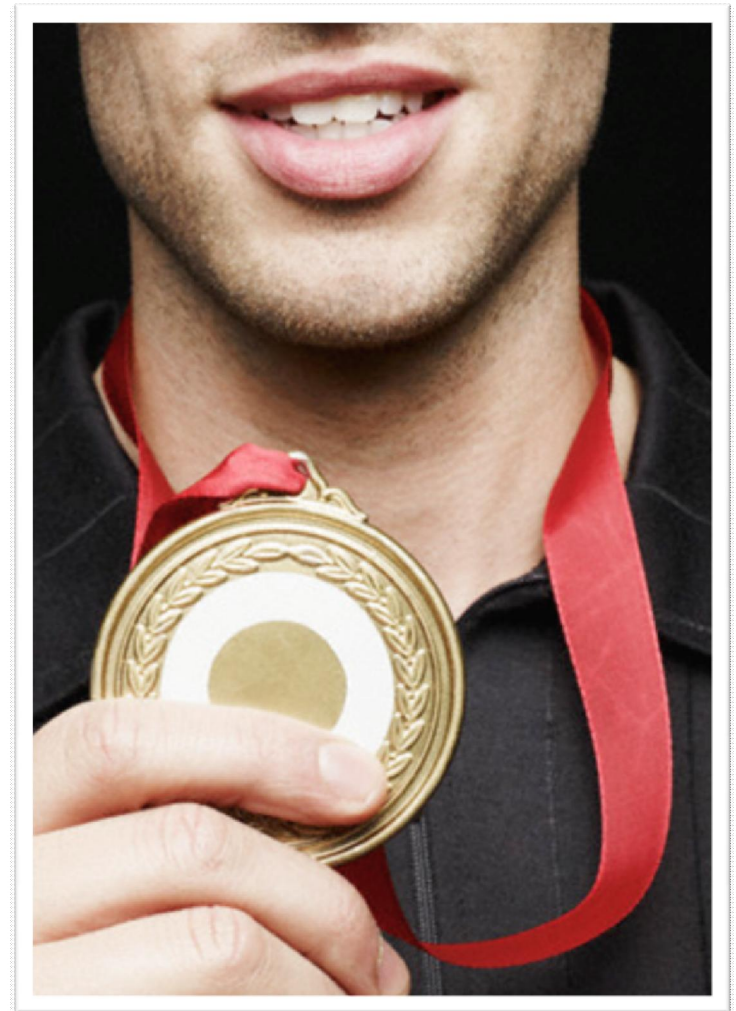
- Customer choice gives SAP distinct competitive advantage
- Enterprise Support: most comprehensive support solution in the industry
- Standard Support: provides standard support features

## Expand SAP's Leadership

- Broadest product/industry portfolio for companies of all sizes
- Continued innovation, driving and leveraging the latest breakthrough innovations
- Broadest geographical coverage

## New Environment: Endless Opportunities

- New innovative products
- Expanded customer prospects
- Growth to reach 1 billion people by 2014



# APPENDIX

## Explanations of Non-GAAP Measures

This document discloses certain financial measures, such as non-GAAP revenues, non-GAAP expenses, non-GAAP operating income, non-GAAP operating margin, non-GAAP net income, non-GAAP earnings per share, free cash flow, constant currency revenue and operating income measures as well as U.S. dollar-based non-GAAP revenue numbers that are not prepared in accordance with U.S. GAAP and are therefore considered non-GAAP financial measures. Our non-GAAP financial measures may not correspond to non-GAAP financial measures that other companies report. The non-GAAP financial measures that we report should be considered as additional to, and not as substitutes for or superior to, revenue, operating income, cash flows, or other measures of financial performance prepared in accordance with U.S. GAAP. Our non-GAAP financial measures included in this document are reconciled to the nearest U.S. GAAP measure in the tables on the pages F5 to F11 above.

We believe that the supplemental historical and prospective non-GAAP financial information presented here provides useful supplemental information to investors because it is the same information used by our management in running our business and making financial, strategic and operational decisions – in addition to financial data prepared in accordance with U.S. GAAP – to attain a more transparent understanding of our past performance and our future results. Beginning in 2008, we used these non-GAAP measures as defined below consistently in our planning and forecasting, reporting, compensation and external communication. Specifically,

- Our management primarily uses these non-GAAP numbers rather than U.S. GAAP numbers as the basis for making financial, strategic and operating decisions.
- The variable remuneration components of our board members and employees that are compensated with regard to our group targeted measures were based in 2009 on SAP's achievement of its targets for non-GAAP operating income, non-GAAP operating margin at constant currencies and cash flow conversion ratio. These targets are monitored on a yearly basis and are adjusted if necessary.
- The annual budgeting process involving all management units, which includes costs such as stock based compensation and restructuring, is based on non-GAAP revenues and non-GAAP operating income numbers rather than U.S. GAAP numbers.
- All monthly forecast and performance reviews with all senior managers globally are based on these non-GAAP measures, which are derived from U.S. GAAP measures, rather than U.S. GAAP numbers.
- Both, company-internal target setting and guidance provided to the capital markets are based on non-GAAP revenues and non-GAAP income measures rather than U.S. GAAP numbers.

We believe that our non-GAAP measures are useful to investors for the following reasons:

- The non-GAAP measures provide investors with insight into management's decision-making since management uses these non-GAAP measures to run our business and make financial, strategic and operating decisions.
- The non-GAAP measures provide investors with additional information that enables a comparison of year-over-year operating performance by eliminating certain direct effects resulting from acquisitions.

Our non-GAAP financial measures reflect adjustments based on the items below, as well as the related income tax effects:

### Non-GAAP revenue:

Revenues in this document identified as non-GAAP revenue have been adjusted from the respective U.S. GAAP numbers by including the full amount of support revenues that would have been recorded by the acquired entity had it remained a stand-alone entity but which we are not permitted to record as revenue under U.S. GAAP due to fair value accounting for the support contracts in effect at the time of the respective acquisition.

Under U.S. GAAP we record at fair value the support contracts in effect at the time an entity was acquired. Consequently, our U.S. GAAP support revenues, our U.S. GAAP software and software-related service revenues and our U.S. GAAP total revenues for periods subsequent to acquisitions do not reflect the full amount of support revenue that would have recorded for these support contracts absent the acquisition by SAP. Adjusting revenue numbers for this revenue impact provides additional insight into the comparability across periods of our ongoing performance.

Non-GAAP operating expense:

Operating expense figures in this report that are identified as non-GAAP operating expense have been adjusted by excluding the following acquisition-related charges:

- amortization expense/impairment charges of intangibles acquired in business combinations and certain standalone acquisitions of intellectual property;
- expense from purchased in-process research and development;
- restructuring expenses and settlements of pre-existing relationships incurred in connection with a business combination; and
- acquisition-related third-party costs (since our early adoption of SFAS 141R and the revision of IFRS 3) as of January 1, 2009, which requires expensing these costs: the previous version of SFAS 141 and IFRS 3 required capitalization.

Non-GAAP operating income, non-GAAP operating margin, non-GAAP net income and non-GAAP earnings per share:

Operating income, operating margin, net income and earnings per share in this document identified as non-GAAP operating income, non-GAAP operating margin, non-GAAP net income and non-GAAP earnings per share have been adjusted from the respective operating income, operating margin, net income and earnings per share numbers as recorded under U.S. GAAP by adjusting for the above mentioned non-GAAP revenues and non-GAAP expenses.

We include these non-GAAP revenues and exclude these non-GAAP expenses for the purpose of calculating non-GAAP operating income, non-GAAP operating margin, non-GAAP net income and non-GAAP earnings per share when evaluating the continuing operational performance of the Company because these expenses generally cannot be changed or influenced by management after the relevant acquisition other than by disposing of the acquired assets. As management at levels below the Executive Board has no influence on these expenses we generally do not consider these expenses for the purpose of evaluating the performance of management units. As we believe that our Company-wide performance measures need to be aligned with the measures generally applied by management at varying levels throughout the Company, we include these revenues and exclude these expenses when making decisions to allocate resources, both, on a Company level and at lower levels of the organization. In addition, we use these non-GAAP measures to gain a better understanding of the Company's comparative operating performance from period to period. We believe that our non-GAAP financial measures described above have limitations, which include but are not limited to the following:

- The eliminated amounts may be material to us.
- Without being analysed in conjunction with the corresponding U.S. GAAP measures the non-GAAP measures are not indicative of our present and future performance, foremost for the following reasons:
  - While our non-GAAP income numbers reflect the elimination of certain acquisition-related expenses, no eliminations are made for the additional revenues and other revenues that result from the acquisitions.
  - The acquisition-related charges that we eliminate in deriving our non-GAAP income numbers are likely to recur should SAP enter into material business combinations in the future.
  - The acquisition-related amortization expense that we eliminate in deriving our non-GAAP income numbers is a recurring expense that will impact our financial performance in future years.
  - The revenue adjustment for the fair value accounting of the acquired entities' support contracts and the expense adjustment for acquisition-related charges do not arise from a common conceptual basis. This is because the revenue adjustment aims to improve the comparability of the initial post-acquisition period with future post-acquisition periods while the expense adjustment aims to improve the comparability between post-acquisition periods and pre-acquisition periods. This should particularly be considered when evaluating our non-GAAP operating income and non-GAAP operating margin numbers as these combine our non-GAAP revenues and non-GAAP expenses despite the absence of a common conceptual basis.

We believe, however, that the presentation of the non-GAAP measures in conjunction with the corresponding U.S. GAAP measures provide useful information to management and investors regarding present and future business trends relating to our financial condition and results of operations. We therefore do not evaluate our growth and performance without considering both non-GAAP measures and U.S. GAAP measures. We caution the readers of this document to follow a similar approach by considering our non-GAAP measures only in addition to, and not as a substitute for or superior to, revenues or other measures of our financial performance prepared in accordance with U.S. GAAP.

## **Free Cash Flow**

We believe that free cash flow is a widely accepted supplemental measure of liquidity. Free cash flow measures a company's cash flow remaining after all expenditures required to maintain or expand the business have been paid off. We calculate free cash flow as our net cash provided by operating activities from continuing operations minus purchases of long-lived assets excluding additions from business combinations. Free cash flow should be considered in addition to, and not as a substitute for or superior to, cash flow or other measures of liquidity and financial performance prepared in accordance with U.S. GAAP.

## **Constant Currency Period-Over-Period Changes**

We believe it is important for investors to have information that provides insight into our sales. Revenue measures determined under U.S. GAAP provide information that is useful in this regard. However, both sales volume and currency effects impact period-over-period changes in sales revenue. We do not sell standardized units of products and services, so we cannot provide relevant information on sales volume by providing data on the changes in product and service units sold. To provide additional information that may be useful to investors in breaking down and evaluating changes in sales volume, we present information about our revenue and various values and components relating to operating income that are adjusted for foreign currency effects. We calculate constant currency year-over-year changes in revenue and operating income by translating foreign currencies using the average exchange rates from the previous year instead of the report year.

We believe that data on constant currency period-over-period changes has limitations, particularly as the currency effects that are eliminated constitute a significant element of our revenues and expenses and may severely impact our performance. We therefore limit our use of constant currency period-over-period changes to the analysis of changes in volume as one element of the full change in a financial measure. We do not evaluate our results and performance without considering both constant currency period-over-period changes on the one hand and changes in revenues, expenses, income, or other measures of financial performance prepared in accordance with U.S. GAAP on the other. We caution the readers of this document to follow a similar approach by considering data on constant currency period-over-period changes only in addition to, and not as a substitute for or superior to, changes in revenues, expenses, income, or other measures of financial performance prepared in accordance with U.S. GAAP.

## **U.S. Dollar-Based Non-GAAP Revenue Measures**

Substantially all of our major competitors report their financial performance in U.S. dollars. Thus changes in exchange rates, particularly in the U.S. dollar to euro rates, affect the financial statements of our competitors differently than our euro-based financial statements. We therefore believe that U.S. dollar-based revenues for SAP provide investors with useful additional information that enables them to better compare SAP's revenue growth with SAP's competitors' revenue growth irrespective of movements in exchange rates.

Our U.S. dollar non-GAAP revenues are determined as if SAP's reporting currency was the U.S. dollar. In fact, the reporting currency of our U.S. GAAP and IFRS consolidated financial statements as filed in Germany and in the United States with the U.S. Securities and Exchange Commission is the euro. Additionally, our U.S. dollar non-GAAP revenue numbers have been adjusted from the respective U.S. GAAP revenues by the same support revenue fair value adjustment as our non GAAP revenues explained above.

SAP's management uses our U.S. dollar non-GAAP revenues to gain a better understanding of SAP's operating results compared to SAP's major competitors.

We believe that our U.S. dollar non-GAAP revenues have limitations, particularly because the impact of currency exchange rate fluctuations and the eliminated amounts may be material to us. We therefore do not evaluate our growth and performance without considering both non-GAAP revenues and euro-based U.S. GAAP revenues. We caution the readers of this document to follow a similar approach by considering our U.S. dollar non-GAAP revenues only in addition to, and not as a substitute for or superior to, revenues or other measures of our financial performance prepared in accordance with U.S. GAAP and reported in euro.

## **Explanations of Non-IFRS Measures**

Since 2007, we have been required by German and European law to prepare consolidated financial statements in accordance with IFRS. We did not, however, discontinue preparing financial statements under U.S. GAAP but have prepared consolidated financial statements under both U.S. GAAP and IFRS through 2009.

We will fully migrate to IFRS and discontinue the preparation of U.S. GAAP financial information with effect from the end of 2009. This press release will be the last document in which we will provide U.S. GAAP financial information. In our annual report as well as our annual report on Form 20-F for fiscal year 2009 and all quarterly and annual reports thereafter, we will include only IFRS financial statements. Our business outlook for 2010 and years thereafter will be based on non-IFRS numbers derived from IFRS numbers. Concurrently with this change in our external financial communication, we will modify our internal management reporting, our planning and forecasting, and our variable compensation plans to align to the non-IFRS numbers we provide in our external communication.

To give our investors an insight into what our migration from U.S. GAAP/non-GAAP to IFRS/non-IFRS will mean for SAP's key performance measures, the table titled *Reconciliations from U.S. GAAP and Non-GAAP to IFRS and Non-IFRS Numbers* on page F17 of this press release shows a reconciliation from our U.S. GAAP and non-GAAP numbers to their most comparable IFRS and non-IFRS numbers. Note: Our non-GAAP and non-IFRS numbers are not prepared under a comprehensive set of accounting rules or principles. For more information on our non-GAAP measures, which also applies to our non-IFRS measures subject to the additional explanations below, see the section titled *Explanations of Non-GAAP Measures*.

We have adjusted both our non-GAAP measures and our non-IFRS measures from the respective U.S. GAAP and IFRS numbers by:

- Including the full amount of support revenue that the acquired entity would have recognized had it remained a stand-alone entity but that we are not permitted to recognize as revenue under U.S. GAAP and IFRS as a result of fair value accounting for the support contracts in effect at the time of the respective acquisition.
- Excluding acquisition-related charges.

However, the adjustment amounts for acquisition-related charges differ between our non-GAAP measures and our non-IFRS measures, due to differences between U.S. GAAP and IFRS. Specifically:

- For acquisitions taking place up to the end of 2008, U.S. GAAP required that certain acquisition-related restructuring expenses to be accounted for as liabilities assumed in a business combination; however, these expenses are required to be charged to expense under IFRS. Consequently, these acquisition-related restructuring expenses are eliminated only in our non-IFRS numbers.
- For acquisitions taking place up to the end of 2008, purchased in-process research and development was charged to expense immediately under U.S. GAAP, while being capitalized and amortized over the expected life under IFRS. Consequently, the immediate charge to expense is eliminated in our non-GAAP measures while only the amortization is eliminated in our non-IFRS measures.

Starting on January 1, 2009 our accounting for acquisitions has been aligned through the adoption of new accounting standards under both U.S. GAAP and IFRS. Therefore, we do not expect material differences for upcoming acquisitions with respect to acquisition-related restructuring expenses and purchased in-process research and development.

Additionally, our non-IFRS measures have been adjusted from the respective IFRS numbers for the results of the discontinued operations that qualify as such in all respects except that the fact that they do not represent a major line of business. We will refer to these activities as "discontinued activities." Under U.S. GAAP, we present the results of operations of the TomorrowNow entities as discontinued operations. Under IFRS, results of discontinued operations may only be presented as discontinued operations if a separate major line of business or geographical area of operations is discontinued. Our TomorrowNow operations were not a separate major line of business and thus did not qualify for separate presentation under IFRS. We believe that this additional adjustment to our IFRS numbers for the results of our discontinued TomorrowNow activities is useful to investors for the following reasons:

- Despite the migration from U.S. GAAP to IFRS, we will continue to internally view the ceased TomorrowNow activities as discontinued activities and thus will continue to exclude potential future TomorrowNow results, which are expected to mainly comprise of expenses in connection with the Oracle lawsuit, from our internal management reporting, planning, forecasting, and compensation plans. Therefore, adjusting our non-IFRS measures for the results of the discontinued TomorrowNow activities provides insight into the financial measures that SAP will use internally once SAP has fully migrated to IFRS.
- By adjusting the non-IFRS numbers for the results from our discontinued TomorrowNow operations, the non-IFRS numbers are more comparable to the non-GAAP measures that SAP used through the end of 2009, which makes SAP's performance measures before and after the full IFRS migration easier to compare.