

### Cash Earnings According to DVFA/SG

Cash earnings according to DVFA/SG is an adjusted cash-flow measure developed by the Society of Investment Professionals in Germany to improve comparability between companies.

Cash earnings according to DVFA/SG 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. The reconciliation from cash earnings according to DVFA/SG to net income is shown in the Investor Relations section.

### 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 operating cash flow from continuing operations minus additions to long-lived assets excluding additions from acquisitions.

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.

Free cash flow reconciles to net cash provided by operating activities as follows:

€ millions	2007	2006
Net cash provided by operating activities from continuing operations	1,950	1,855
Additions to long-lived assets excluding additions from acquisitions	- 400	- 367
<b>Free cash flow</b>	<b>1,550</b>	<b>1,488</b>

## Economic Conditions

### Global Economic Trends

The global economy continued to grow in 2007 despite turbulence on the financial markets, high prices for commodities, and falling real-estate prices. Both the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) reached this conclusion in the analyses they presented at the end of the year. The IMF reports global GDP – the total value of all goods and services – grew 5.2%, compared with 5.5% in 2006. The OECD believes the combined economies of the industrialized countries grew 2.7% in 2007 while, according to the IMF, economic activity in the countries with developing and emerging economies increased 8.1%.

Various shockwaves buffeted the economy during the year. The subprime lending crisis that flared up in the United States triggered significant pressure on prices for real estate in many countries and dealt the finance sector a hard blow. Some stock prices fell back steeply, while interest rates on the money markets and yields on investment vehicles collateralized with subprime loans spiked. At the same time, prices for important commodities – fuel, metals, and food – stayed high.

In the OECD's analysis, the economy was so strong in 2007 that it was able to withstand these pressures relatively unscathed. That was because levels of employment had increased in the industrialized countries, significantly boosting consumer spending and favoring economic growth, the OECD reports. Growth was also favored by companies' sound profitability and funding levels.

But although the global economy continued to grow, the knocks it took, described above, did exert a considerable drag on activity in the second half of 2007. For example, fourth-quarter growth slowed to 2.6% per year in the industrialized countries in 2007 from 3.2% in the previous year. In the IMF's eyes, the world economy entered a precarious, possibly difficult, phase in the second half of 2007. It reports that the turbulence on the money markets caused by the mortgage crisis in the United States were serious and the mood on markets generally had turned somber as a result.

Looking at the regions separately, the IMF believes that as a result of the reticence of investors on the money and real-estate markets, in 2007 the U.S. economy grew only 1.9%, compared with 2.9% the previous year. On the other hand, the IMF believes that in the European Union (EU) total output grew 3% in 2007 (2006: 3.2%). It estimates German economic growth was 2.4% (2006: 2.9%). For the industrialized countries in Asia, the IMF paints a cheerier picture of 4.9% growth (2006: 5.3%). But the emerging and developing countries were again the driving force: Their economies grew 8.1%, matching the previous year. The dip in economic growth also affected the volume of world trade, which, the IMF reports, grew 6.6% in 2007, compared with 9.2% the year before.

#### IT Market in 2007

Despite uncertainties surrounding the health of the economy, demand for IT (excluding telecommunications) grew even more in 2007 than in the year before. Continued price declines in hardware diverted a larger proportion of IT budgets toward software and IT services. That is the assessment of prominent U.S. market research firm IDC. It says worldwide IT spending rose 6.9% (2006: 6.3%). IDC reports especially strong growth in sales of packaged software: In 2007, this segment of the IT market grew 8.8%, compared with 8.0% in 2006, it says. According to IDC, industry and application software solutions as a segment of the software market grew 7.7% (2006: 7.3%). The services segment was again strong, with 6.2% expected growth (2006: 5.7%).

IDC reports that continuing cheer in Europe and especially in the emerging markets made up for sluggish IT sales growth in the United States. Sales of system infrastructure software were also strong. On the other hand, demand growth for high-end servers and traditional workstations was far less pronounced in 2007 than in 2006, IDC says.

Gartner, another major market research firm in the United States, believes that global spending on IT (excluding telecommunications) rose 9.0% in 2007 compared with 5.5% in 2006.

Looking at 2007 in the regions, IDC and Gartner note that North America accounts for some 40% of world IT sales (excluding software), and that North American demand growth for IT at 6.5% was weaker than the world average. The growth in demand for hardware (5.7%) and services (5.6%) also faltered. However, demand for software remained buoyant in North America, growing 8.9% in 2007. IDC also reports that applications sold well, especially solutions supporting information management and data analysis.

IDC also says that in 2007, demand for IT grew 4.8% in Western Europe, which accounted for 30.9% of world IT spending. It believes this reflected the state of the regional economy, which remained healthy. Sales accelerated even more strongly, 17.9% over the year, in Eastern Europe, says IDC, although the market there had only 10.4% of the volume of the Western European IT market. It reports that software sales grew 8.6% in Western Europe and 14.9% in Eastern Europe. IDC says that in 2007, total IT spending in Germany grew 3.8%. The German Association for Information Technology, Telecommunications, and New Media (BITKOM) is pleased with the advance of the IT business.

In IDC's analysis, the market remained strong in the Asia Pacific region. It represents almost 20% of the global IT market and grew 7.5% in 2007. As before, double-digit percentage increases in China and India made those two countries the engines of growth in the region, IDC reports. It says IT sales rose 2.6% in Japan. In Gartner's view, IT sales growth in Japan was even more modest in 2007, at 0.2%.