

SAP – Leading the Digital Transformation

Commerzbank Sector Conference
Frankfurt, September 1, 2016



Agenda

Focus – SAP Digital Business Services

An introduction to SAP

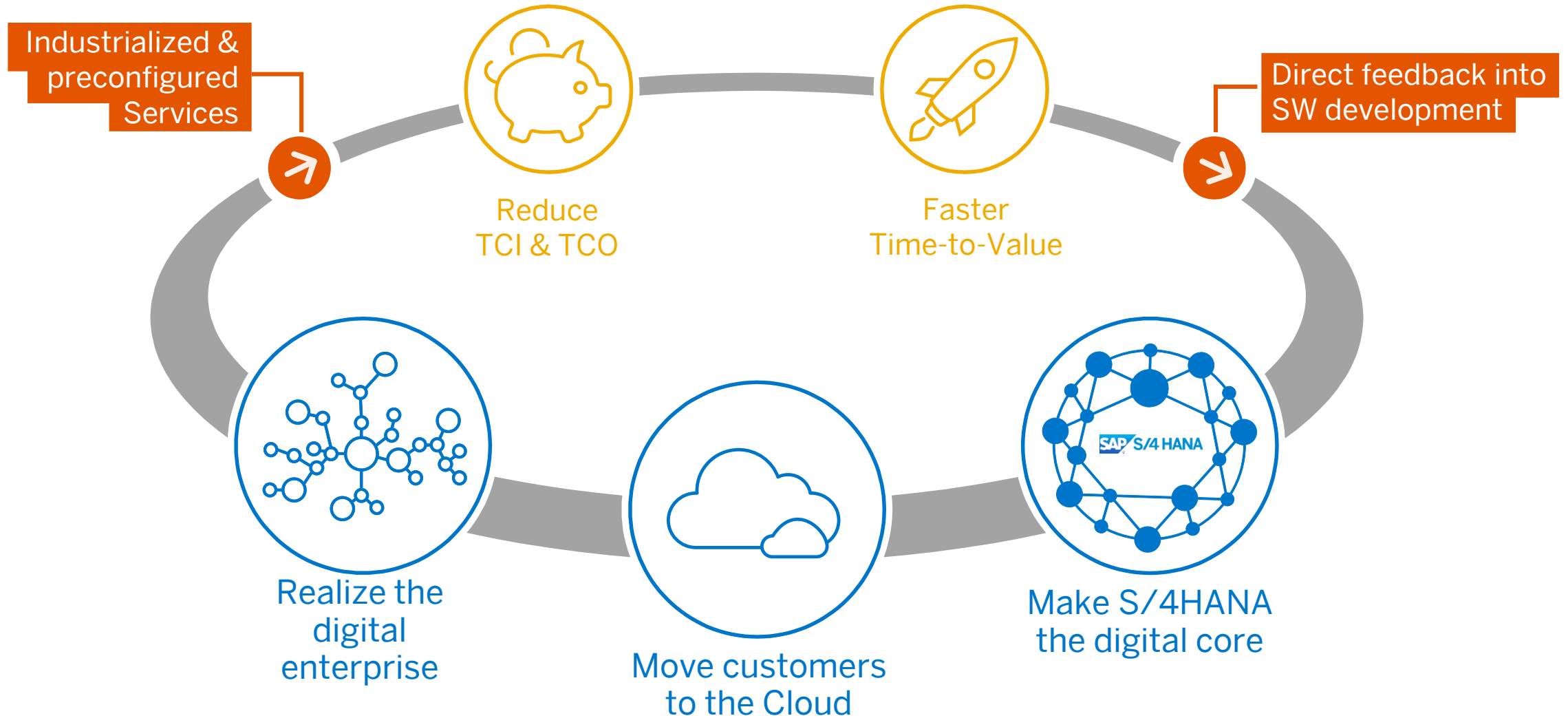
Helping customers win in the new digital economy

SAP's long-term financial ambition

Why invest in SAP

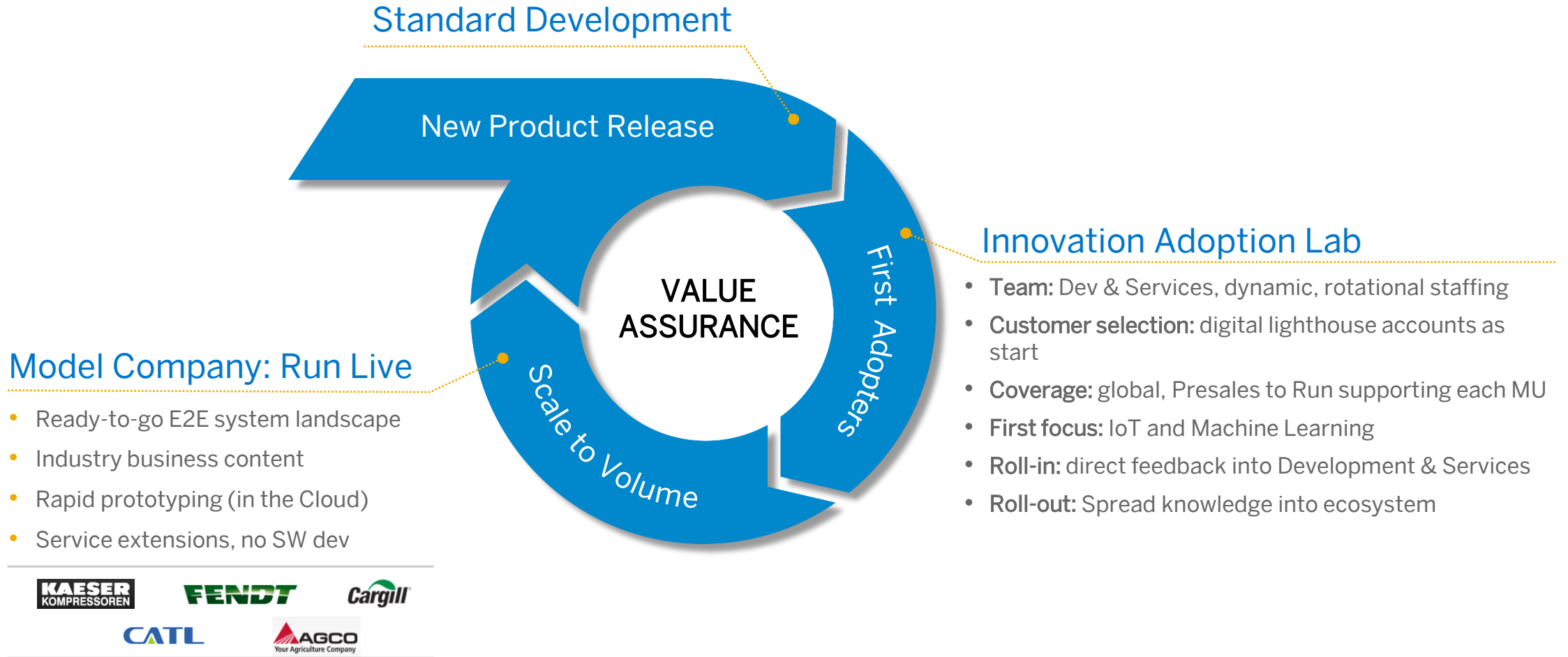
Appendix

SAP Digital Business Services is the trusted partner



Next Generation Services

New Products to High Adoption Fast, Standard, Safe



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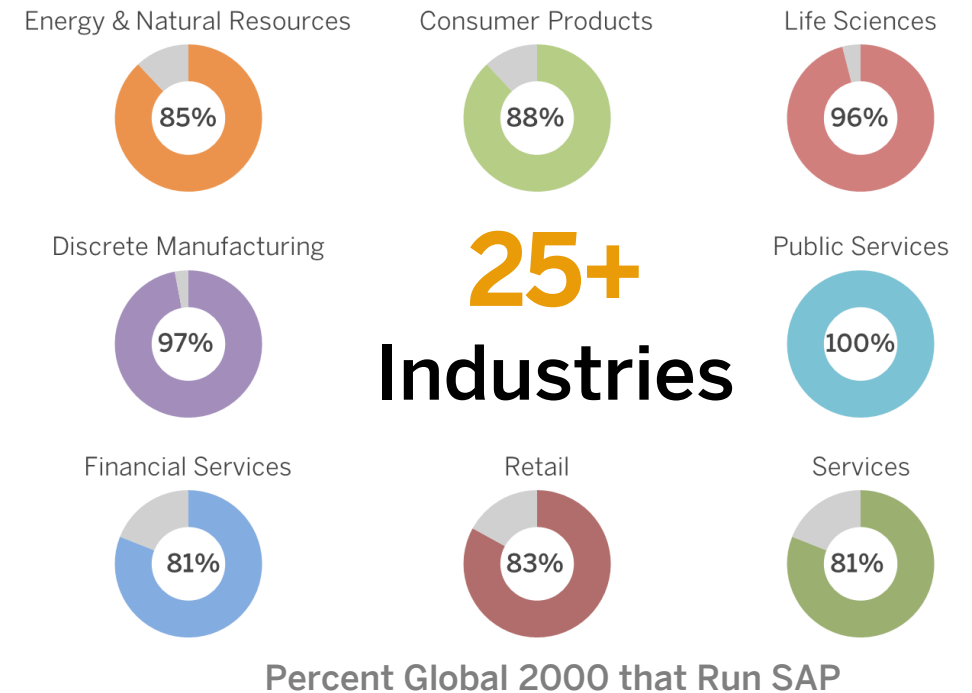
Appendix

SAP is the world's leading business software company

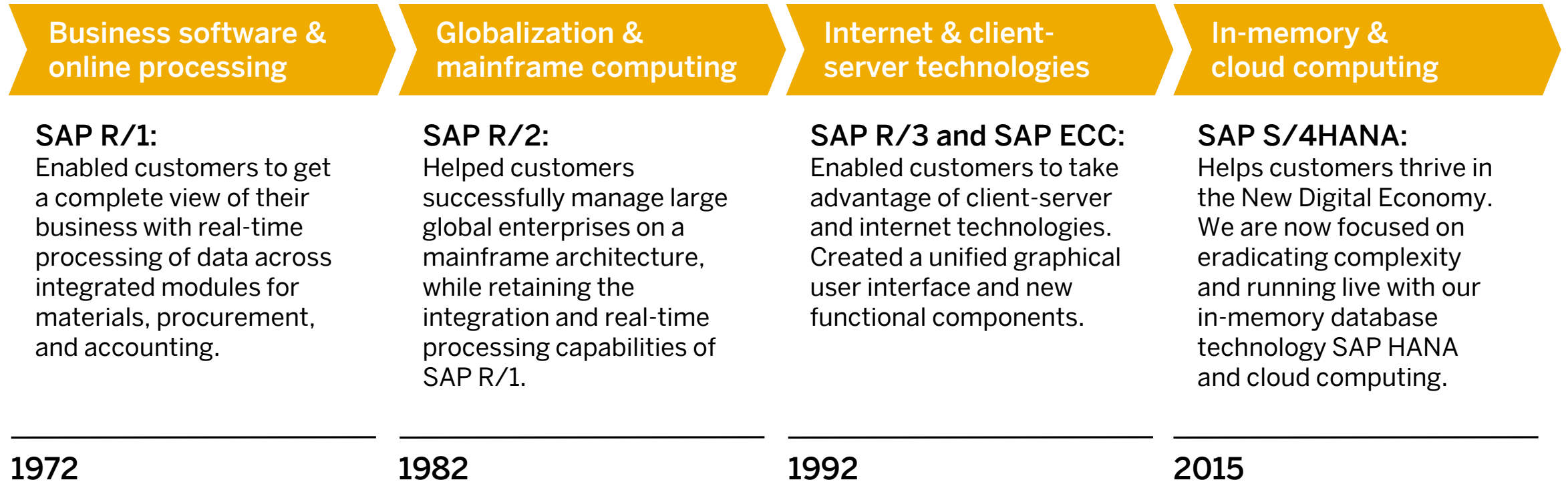
A compelling customer base



Unmatched vertical expertise



For over 40 years, SAP has turned technological change into customer value



Today, SAP is running the world's mission-critical business processes

76% of the world's transaction revenue touches an SAP system

SAP touches **\$16 trillion** of consumer purchases around the world

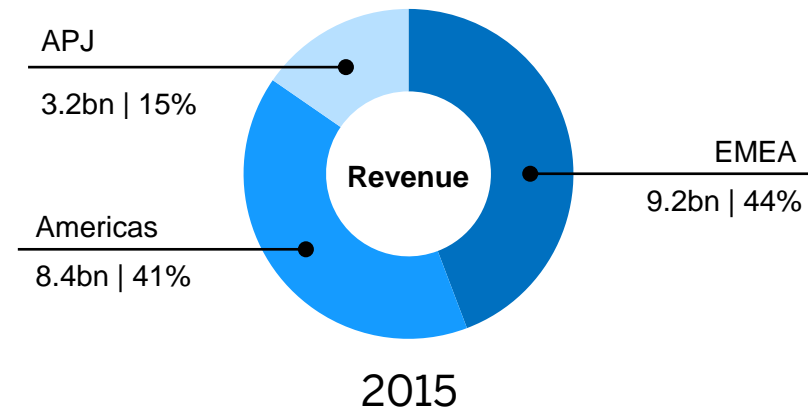
SAP customers distribute more than **78%** of the world's food

SAP customers produce more than **82%** of the world's medical devices

SAP's **brand value ranked #22 of Top 100** worldwide¹⁾

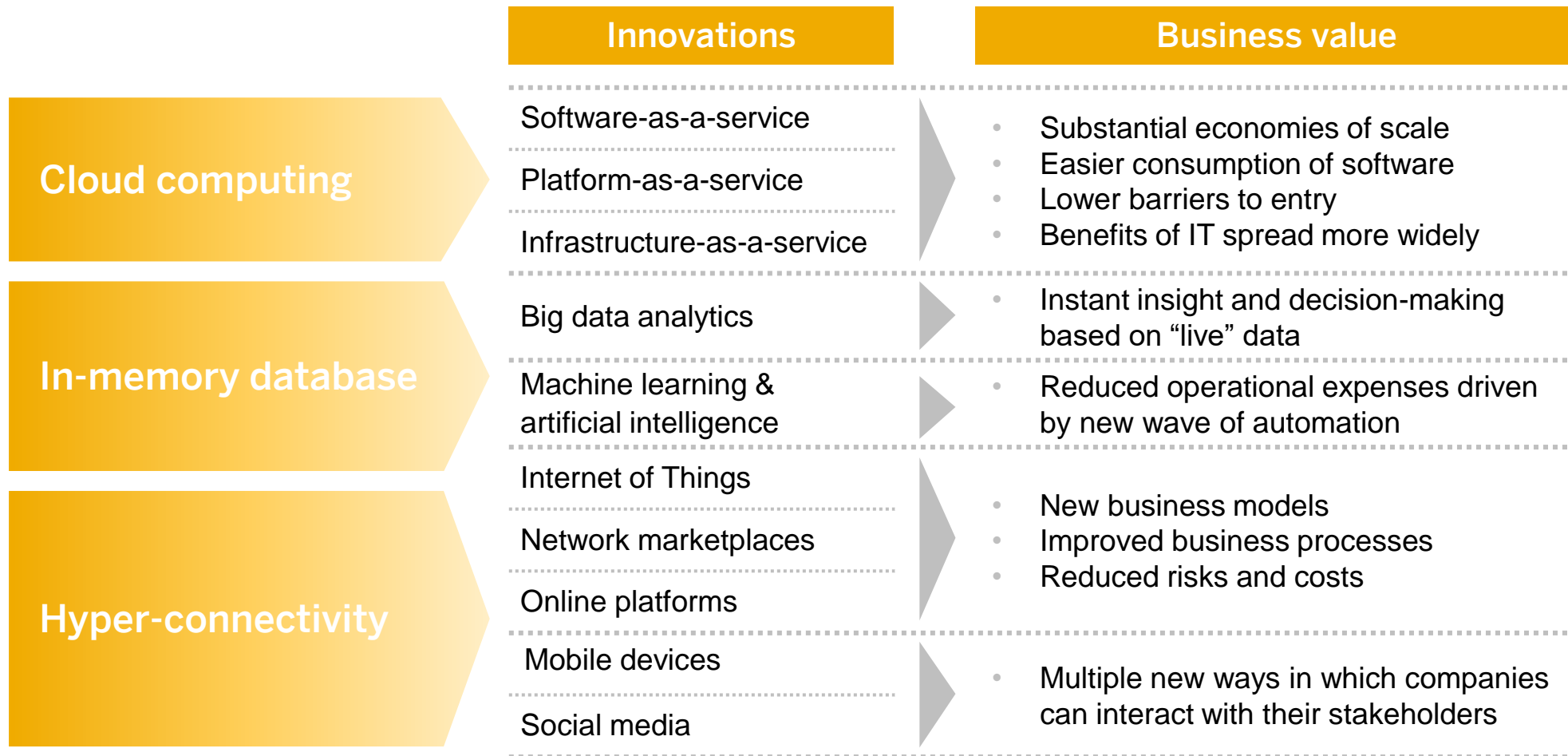
Among the **Top 100 companies worldwide by market capitalization**

Broadest global footprint



¹⁾ Source: MillwardBrown 2016 BrandZ Top 100 Global Brands

SAP will continue to drive business value – fueled by three powerful trends affecting all businesses in all industries



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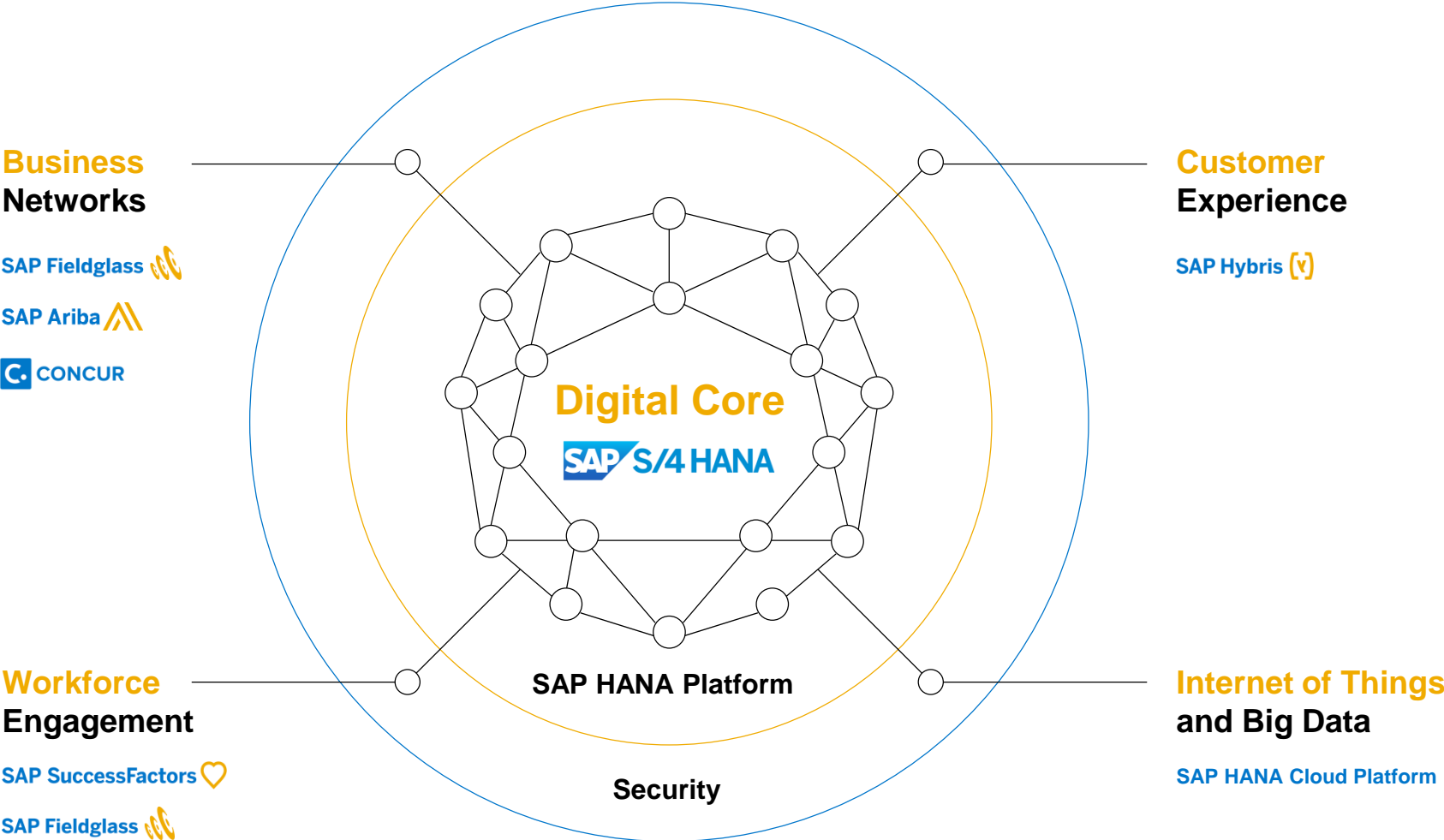
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Only SAP can help businesses implement their digital strategy



In the digital core, SAP's next-generation business suite SAP S/4HANA helps companies harness “live” data for immediate action

- Groundbreaking new architecture: SAP S/4HANA has changed ERP from a system of record to a system of innovation
- It provides immediate insight, intelligence beyond automation, integration between departments, and connections to the world
- These technological advances were made possible by the most advanced in-memory platform available: SAP HANA
- SAP S/4HANA provides an enhanced user experience with SAP Fiori
- SAP offers on-premise and cloud editions to provide customers with real choice
- SAP S/4HANA is catalyzing broad customer adoption of our entire innovation portfolio

>3,700

SAP S/4HANA customers – fastest upgrade cycle in SAP's history, four times the adoption rate of SAP R/3 in the 1990's

>7,000

trained partners

3,750

startups developing on SAP HANA platform

SAP helps companies, ISVs, and partners create value in networked economies

SAP's unique business network assets

- SAP is leading the charge in connecting businesses and building new ecosystems across all spend categories – materials and services with SAP Ariba, contingent labor with SAP Fieldglass, and travel with Concur
- These network solutions are highly synergistic to SAP's other offerings

SAP is a forerunner in the Internet of Things (IoT) revolution

- Drawing on deep insights into companies' business processes and leveraging a broad range of products and technologies
- IoT use cases include:
 - Monitoring the status, location, and movement of physical assets
 - Providing contextualized experiences based on information from sensors
 - Delivering new services based on IoT-enabled products
- SAP HANA Cloud Platform plays a key role in consolidating all the data generated by IoT – and enable advanced analytics on top of it

~2.2 million

connected companies trade over \$820bn of commerce on the SAP Ariba Network

~42 million

end users process travel and expenses effortlessly with Concur

>2.6 million

flexible workers were managed in about 130 countries over the past 12 months on the SAP Fieldglass platform

~75 billion

connected devices in the Internet of Things by 2020

Companies can now run real time – based on a holistic view of the organization, instant insights, and predictive analytics



Total transparency

- Get a 360° view in real time
- Visualize insights in context
- Align on one source of truth

Instant insights

- Answer ad-hoc questions on-the-fly
- Analyze root causes
- Simulate impact of decisions

Simplified boardroom processes

- Reduce preparation time and effort

For a demo, visit
<https://www.youtube.com/watch?v=ofq7ygnWpbw>



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2016 outlook and long-term ambitions



| | | | | |
|-----------------------------------|----------|-----------------|-----------------|---------------|
| Cloud subscriptions | €2.30bn | €2.95 – €3.05bn | €3.8 – €4.0bn | €7.5 – €8bn |
| Cloud & Software | €17.23bn | +6% to +8% | | |
| Total revenue | €20.81bn | | €23bn – €23.5bn | €26bn – €28bn |
| Share of more predictable revenue | 60% | | 63% to 65% | 70% to 75% |
| Operating profit | €6.35bn | €6.4 – €6.7bn | €6.7 – €7.0bn | €8 – €9bn |

* All numbers non-IFRS

** All numbers non-IFRS and at constant currency

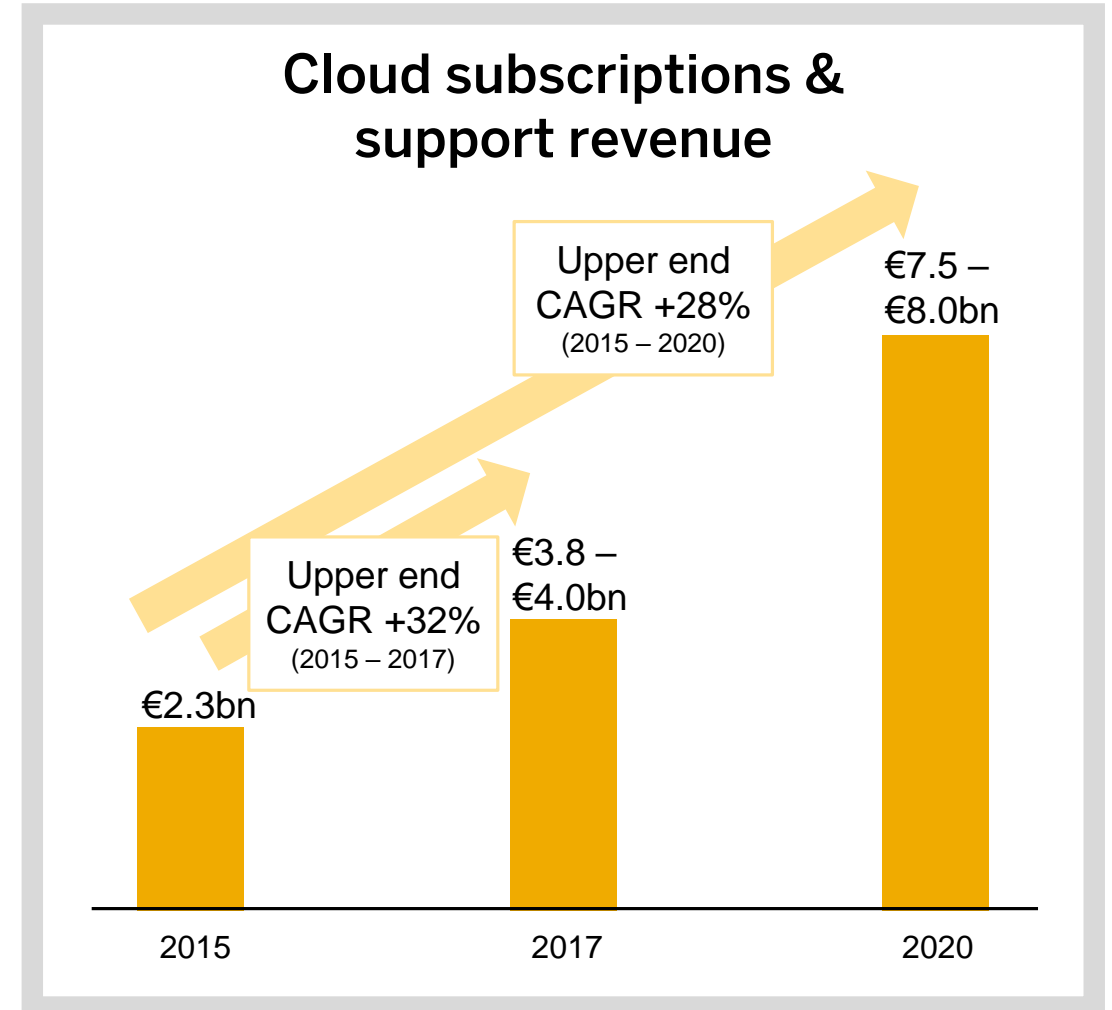
SAP continues to grow its cloud business rapidly

Well-positioned for strong growth in the cloud

- Broadest portfolio of best-in-class cloud offerings (SaaS offerings for LoB, CEC, and HCM solutions, business network solutions, early HEC traction)
- Extremely synergistic to SAP S/4HANA, providing tremendous cross and upsell opportunities
- Continued solid growth in New Cloud Bookings in Q2 2016
- Combination of backlog and deferred revenue indicates continued strength in contractually committed future cloud subscriptions and support revenue

High growth sustained through additional drivers

- Upscaling of SaaS offerings
- Expanding Concur internationally
- Expanding HEC and fostering a strong ecosystem (IaaS)
- Enhancing S/4HANA cloud editions (public & private)
- Refining the Digital Enterprise Platform (BusinessObjects Cloud, SAP HANA Cloud Platform, IoT Platform) (PaaS)



Our core business remains rock solid

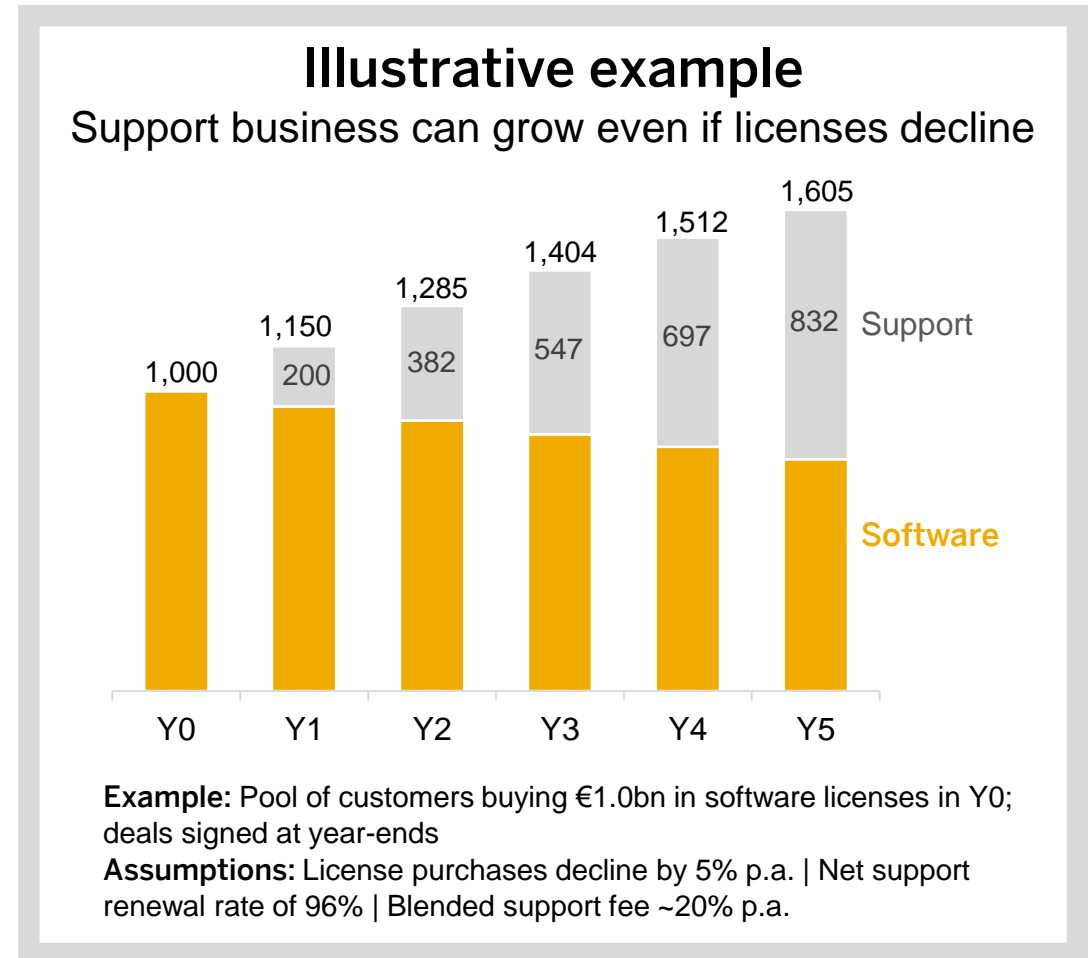
Software licenses revenue

- SAP S/4HANA innovation cycle catalyzes growth across SAP's innovation portfolio and strategic industries
- Certain solution areas – e.g. HCM, Procurement, CEC, T&E¹⁾ – are rapidly shifting to the cloud
- SAP S/4HANA now available as cloud subscription option
- 2016 outlook implies flattish license performance

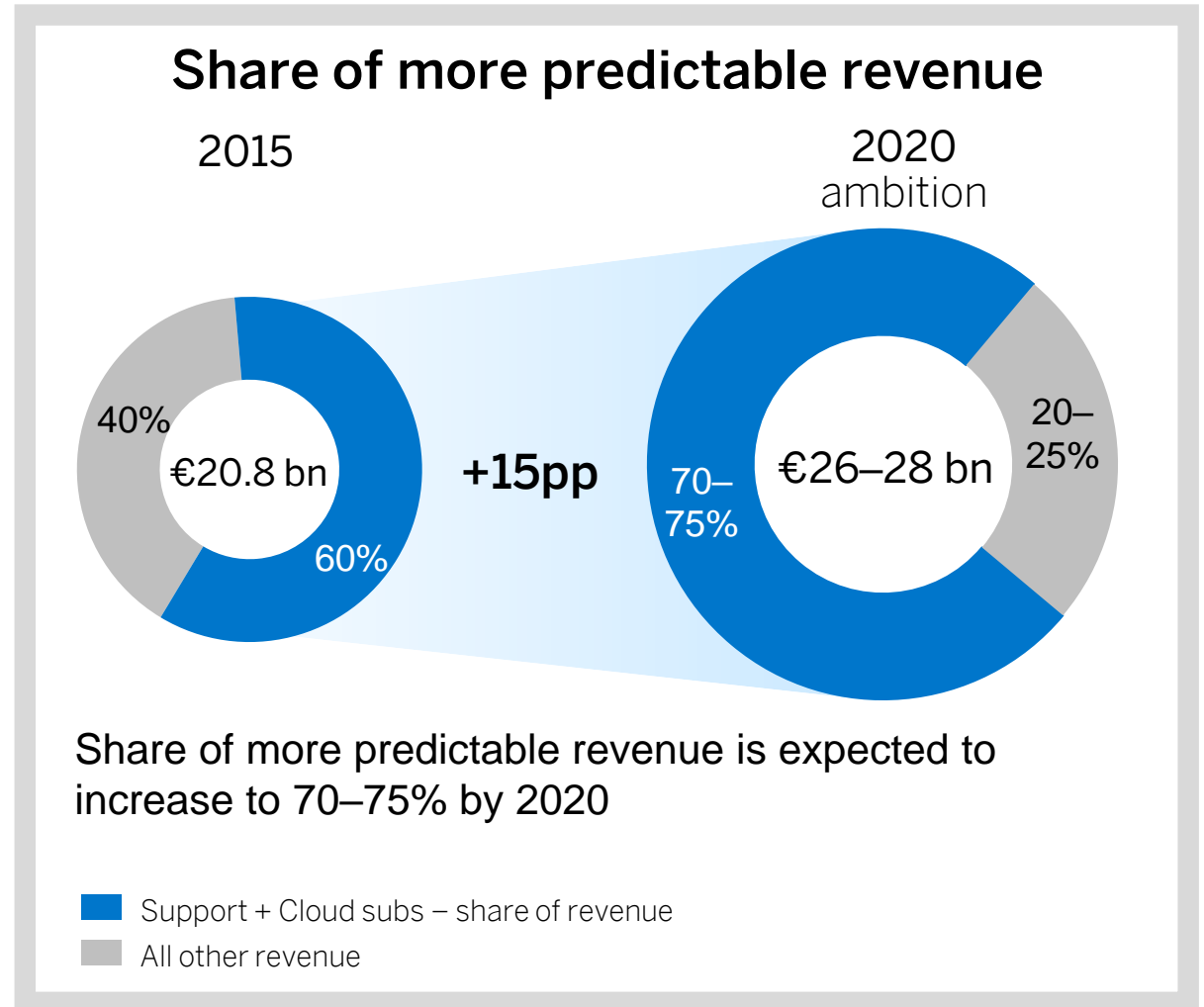
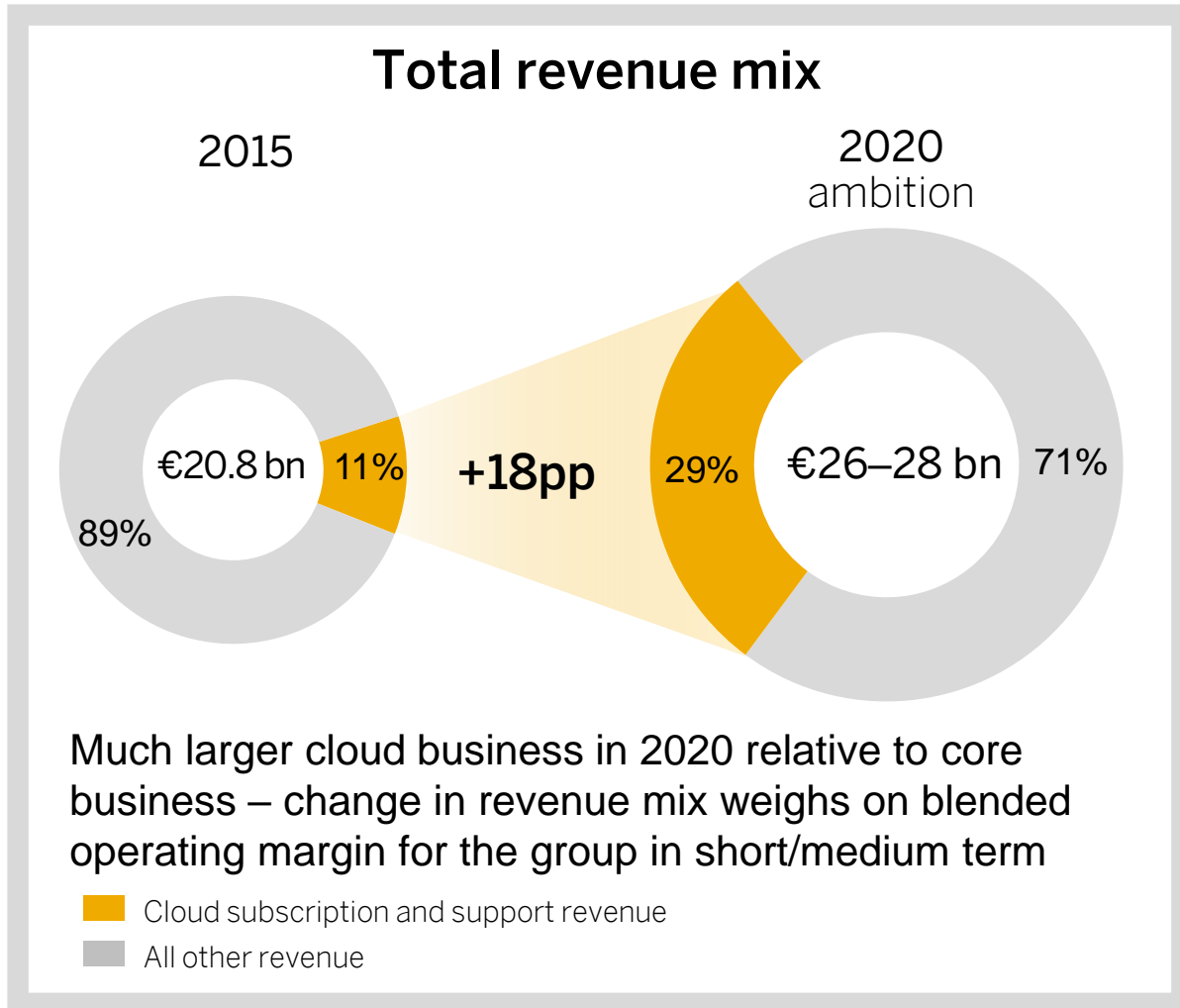
€10 billion+ support revenue base – and growing

- Very high renewal rates (~97%)
- Net support renewal rate is ~96%, reflecting well-received cloud conversion options and very large customers qualifying for PSLE (Product Support for Large Enterprises)
- The blended support fee across the entire support customer base is ~20%

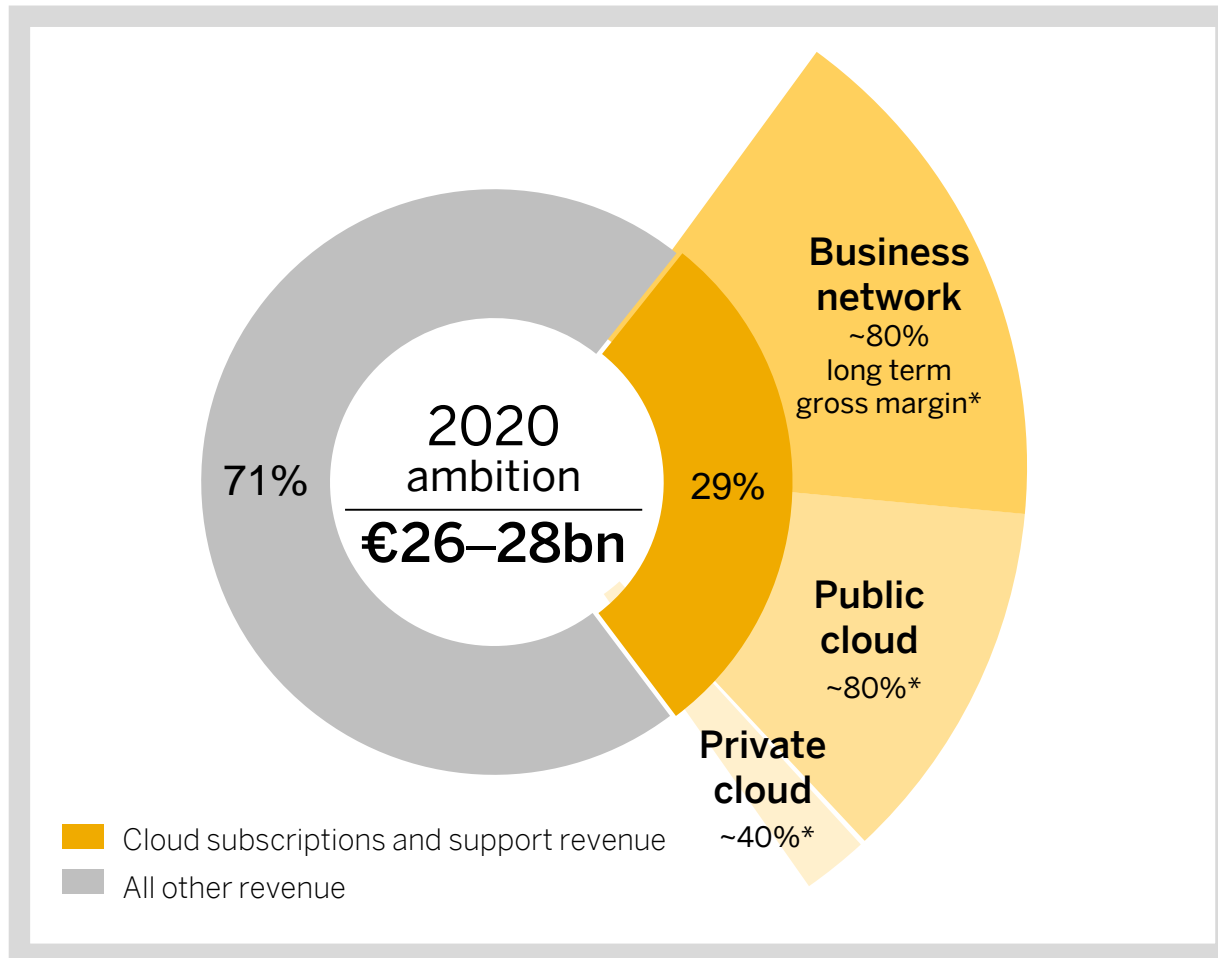
¹⁾ HCM – Human Capital Management, CEC - Customer Engagement & Commerce, T&E – Travel & Expense



SAP is pushing towards a larger, stickier, more predictable business



The cloud gross margins are on track towards SAP's long term ambition



- Business network gross margin** increased to 75.9% in H1 2016
- Private cloud gross margins still negative but expected to break even by year-end
- Overall H1 2016 cloud gross margin improved to 65.7%, up 30 basis points year-over-year
- Expect stable cloud gross margin in 2016
- Speeding up investments in cloud infrastructure to deliver on the massive cloud bookings and backlog
- Migrating acquired cloud offerings onto HANA – massive benefits for customers – significant long term savings

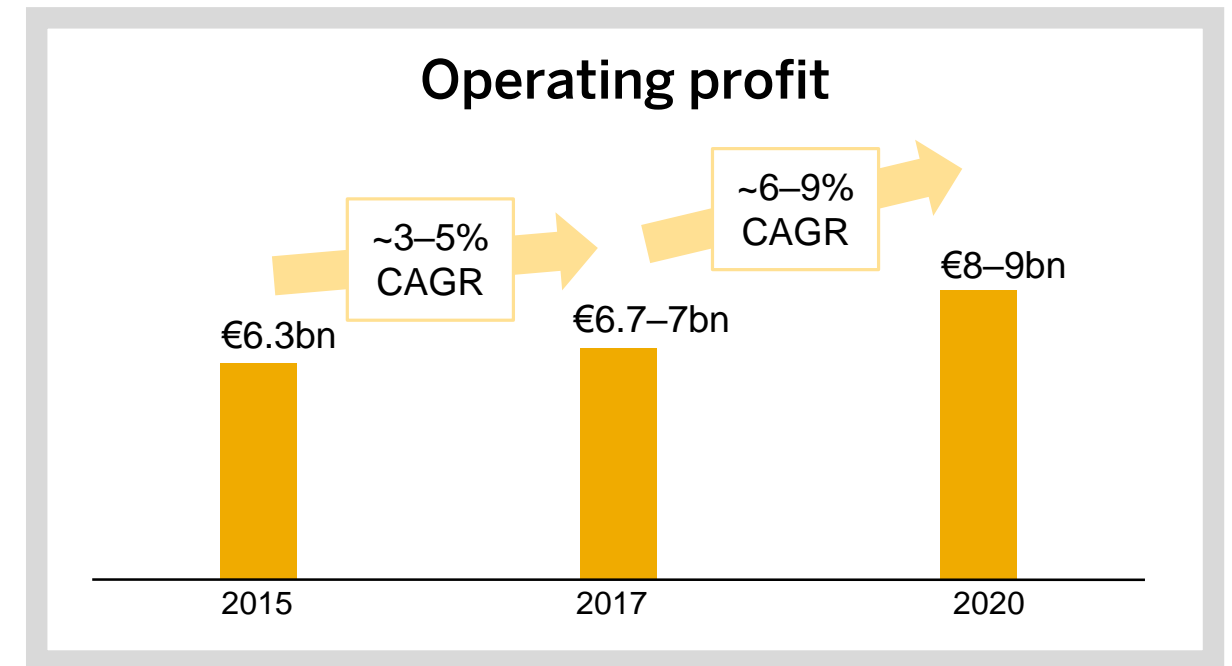
* Long term cloud subscriptions and support gross margin potential in mature state (excluding cloud-related professional services)

** Cloud gross margin of business network segment

Expanding absolute operating profit which drives operating cash flow

- Revenue mix shift means that managing to a blended group margin would discriminate against our fast growth businesses
- SAP is improving effectiveness and efficiency in each and every business, which all contribute to absolute operating profit growth
- Continued transformation of our services business – shift towards a stronger focus on customer outcome which drives higher adoption and renewals
- Expected 2016 hiring similar to 2015 to fuel our innovation engine

- Operating cash flow expected to show a positive trend in 2016 – following operating profit evolution and helped by lower restructuring related cash outflows



➔ **Targeting accelerated operating profit expansion in 2018 and beyond**

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Summary – Why invest in SAP

SAP's innovation leadership is helping customers win in the digital economy

- SAP runs the world's mission-critical business processes and is perfectly positioned at the top of the IT stack – close to the end user where the business value is generated
- In addition, SAP has developed the most advanced in-memory platform available today: SAP HANA
- Based on SAP's groundbreaking new architecture, SAP is in the early stages of a powerful multi-year innovation cycle with SAP S/4HANA as the digital core coupled with the most comprehensive, best-in-class cloud & network portfolio
- Only SAP offers customers choice of deployment model (cloud, on premise or hybrid) and seamless integration

SAP is outpacing the market in topline and bottom-line growth

- SAP's broad global footprint provides resilience in an uncertain world
- Powerful combination of a rapidly expanding cloud business and a growing core
- Successful business transformation – improve efficiency and effectiveness in each and every business
- Growing overall operating profit even as we continue to hire in fast growth areas such as S/4HANA, HCM, CEC, HCP (PaaS), Networks

SAP is pushing relentlessly towards a much more predictable business in the long term

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Q2 2016: Record-setting revenue and profit

| € millions, unless otherwise stated | IFRS | | | Non-IFRS | | | |
|-------------------------------------|--------------|--------------|-----------|--------------|--------------|----------|-----------|
| Revenue Numbers | Q2/16 | Q2/15 | Δ% | Q2/16 | Q2/15 | Δ% | Δ% at cc |
| Cloud subscriptions and support | 720 | 552 | 30 | 721 | 555 | 30 | 33 |
| Software licenses | 1,040 | 979 | 6 | 1,042 | 979 | 6 | 10 |
| Software support | 2,598 | 2,531 | 3 | 2,598 | 2,531 | 3 | 6 |
| Software licenses and support | 3,639 | 3,510 | 4 | 3,640 | 3,510 | 4 | 7 |
| Cloud and software | 4,359 | 4,062 | 7 | 4,361 | 4,065 | 7 | 11 |
| Services revenue | 878 | 908 | -3 | 878 | 908 | -3 | 0 |
| Total revenue | 5,237 | 4,970 | 5 | 5,239 | 4,972 | 5 | 9 |
| Operating Expense Numbers | | | | | | | |
| Total operating expenses | -3,968 | -4,269 | -7 | -3,724 | -3,578 | 4 | 8 |
| Profit Numbers | | | | | | | |
| Operating profit | 1,269 | 701 | 81 | 1,516 | 1,394 | 9 | 11 |
| Finance income, net | -23 | -11 | >100 | -23 | -11 | >100 | |
| Profit before tax | 1,144 | 637 | 80 | 1,391 | 1,330 | 5 | |
| Income tax expense | -331 | -168 | 97 | -412 | -369 | 11 | |
| Profit after tax | 813 | 469 | 73 | 979 | 960 | 2 | |
| Operating margin in % | 24.2 | 14.1 | +10.1pp | 28.9 | 28.0 | +0.9pp | +0.5pp |
| Basic earnings per share, in € | 0.68 | 0.39 | 73 | 0.82 | 0.80 | 2 | |

Balance sheet, condensed

June 30, 2016, IFRS

| Assets € millions | 06/30/16 | 12/31/15 |
|---|-----------------|-----------------|
| Cash, cash equivalents and other financial assets | 4,591 | 3,762 |
| Trade and other receivables | 5,025 | 5,275 |
| Other non-financial assets and tax assets | 932 | 703 |
| Total current assets | 10,549 | 9,739 |
| Goodwill | 22,354 | 22,689 |
| Intangible assets | 3,884 | 4,280 |
| Property, plant, and equipment | 2,284 | 2,192 |
| Other non-current assets | 2,718 | 2,490 |
| Total non-current assets | 31,239 | 31,651 |
| Total assets | 41,788 | 41,390 |

| Equity and liabilities € millions | 06/30/16 | 12/31/15 |
|---|-----------------|-----------------|
| Trade and other payables | 1,047 | 1,088 |
| Provisions | 191 | 299 |
| Other liabilities | 2,865 | 4,478 |
| Deferred income, current | 4,470 | 2,001 |
| Total current liabilities | 8,574 | 7,867 |
| Financial liabilities | 8,705 | 8,681 |
| Provisions | 201 | 180 |
| Deferred income, non-current | 106 | 106 |
| Other non-current liabilities | 1,238 | 1,262 |
| Total non-current liabilities | 10,250 | 10,228 |
| Total liabilities | 18,824 | 18,095 |
| Total equity | 22,963 | 23,295 |
| Total equity and liabilities | 41,788 | 41,390 |

Operating cash flow increased by 5% to €2.9 billion in H1 2016 and by 7% to €0.4 billion in Q2 2016

| € millions, unless otherwise stated | 01/01/16 – 06/30/16 | 01/01/15 – 06/30/15 | Δ |
|---|------------------------|------------------------|------------|
| Operating cash flow | 2,921 | 2,775 | +5% |
| - Capital expenditure | -406 | -276 | +47% |
| Free cash flow | 2,516 | 2,500 | +1% |
| Free cash flow as a percentage of total revenue | 25% | 26% | -1pp |
| Cash conversion rate | 2.11 | 3.15 | -33% |
| Days sales outstanding (DSO in days) | 73 | 68 | +5 |

Additional outlook information and non-IFRS adjustments

The company now expects a full-year 2016 effective tax rate (IFRS) between 27.0% to 28.0% (2015: 23.4%) and an effective tax rate (non-IFRS) between 28.0% to 29.0% (2015: 26.1%).

| Non-IFRS adjustments | Actual Amounts H1/15 | Actual Amounts H1/16 | Est. Amounts for FY 2016 |
|-------------------------------|---------------------------------|---------------------------------|-------------------------------------|
| Revenue adjustments | €8m | €4m | <€20m |
| Share-based payment expenses | €314m | €177m | €560m to €610m |
| Acquisition-related charges | €371m | €336m | €680m to €730m |
| Restructuring charges | €418m | €22m | €30m to €50m |
| Sum of all adjustments | €1,112m | €538m | €1,290m to €1,410m |

Gross margin development

Q2 2016

| Non-IFRS | FY/14 | Q1/15 | Q2/15 | Q3/15 | Q4/15 | FY/15 | Q1/16 | Q2/16 |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Cloud* | 64.3 | 65.1 | 65.7 | 68.8 | 63.0 | 65.6 | 66.3 | 65.2 |
| Business Network* | 75.2 | 75.1 | 74.8 | 77.3 | 72.3 | 74.9 | 75.3 | 76.3 |
| Software & Support | 86.3 | 85.1 | 86.1 | 86.7 | 87.7 | 86.6 | 85.9 | 87.4 |
| Cloud & Software | 84.6 | 82.3 | 83.3 | 84.1 | 84.8 | 83.8 | 82.4 | 83.7 |
| Services | 29.0 | 19.6 | 23.4 | 23.4 | 24.3 | 22.7 | 13.9 | 17.9 |
| Total gross margin | 74.3 | 70.6 | 72.4 | 73.6 | 75.6 | 73.3 | 69.7 | 72.7 |

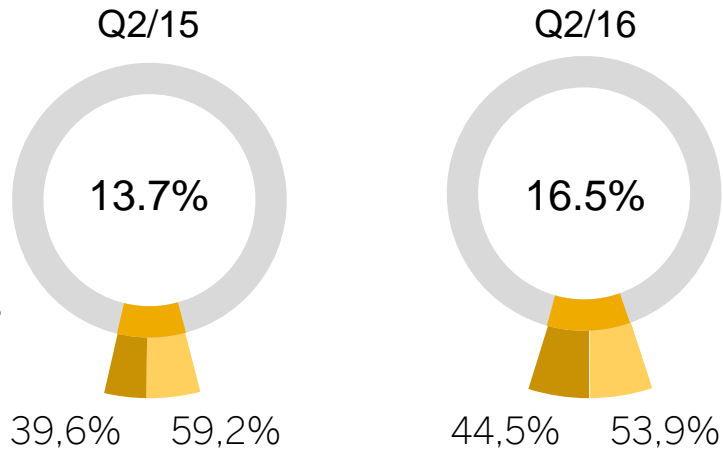
* subscriptions and support

Revenue mix shift weighs on ATS and cloud gross margins

Non-IFRS

Share of Cloud subscriptions revenue*

- App., Tech. & Services
- Business Network



| | | | |
|--------------------------------|------|---|------|
| ATS margin | 51.5 | — | 51.5 |
| Business Network margin | 74.8 | — | 76.3 |
| Cloud margin | 65.7 | — | 65.2 |

- Continued fast growth in cloud while investing in personnel and moving our acquired cloud applications onto SAP HANA – cloud margin decreased to 65.2%
- Cloud margin – business network cloud margin increased to 76.3% and ATS cloud margin was stable at 51.5%
- Revenue mix shift effect within ATS – accelerated growth in private cloud business weighs on ATS margin since private cloud margin is still negative; expected to be break even by year end
- Revenue mix shift effect within cloud business – higher share of ATS segment of total cloud business weighs on cloud margin, which is expected to be stable for FY
- Revenue mix shift effect within cloud and software – cloud and software margin increased to 83.7%; Strong performance in core business overcompensated the mix shift effect usually seen from our cloud business on the cloud and software margin

* Cloud subscriptions revenue share of cloud and software revenue

SAP's non-financial KPIs

SAP also publishes the financial impact of four non-financial KPIs*

| | 2013 | 2014 | 2015 | |
|--|------|------|------|---|
| Employee Engagement Index (%) | 77 | 79 | 81 | ↗ |
| Business Health Culture Index (%) | 67 | 72 | 75 | ↗ |
| Employee Retention (%) | 93.5 | 93.5 | 91.8 | ↘ |
| Greenhouse Gas Emissions (kt) | 545 | 500 | 455 | ↘ |

* For more information about social performance KPIs, see the [Employees and Social Investment](#) and [Notes to Social Performance Reporting](#) sections of the SAP Integrated Report 2015.

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