



# **SAP AG**

## **Q2 & H1 2004**

### **Preliminary Results**

### **Release**

New York, July 22, 2004

# 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.



# Werner Brandt

CFO & Member of the Executive Board  
SAP AG

## → **Second Quarter & First Half 2004 At a Glance**

### **Revenue Analysis**

### **Operating Expense Analysis**

### **Balance Sheet, Cash Flow & Headcount Analysis**

### **Outlook 2004**

# Key Figures – Second Quarter 2004

	<b>Q2 2004</b> € millions	<b>Q2 2003</b> € millions	$\Delta$ %
<b>Software revenues</b>	<b>497</b>	<b>431</b>	<b>15</b> <b>17**</b>
<b>Total revenues</b>	<b>1,781</b>	<b>1,638</b>	<b>9</b> <b>11**</b>
<b>Operating income</b>	<b>391</b>	<b>340</b>	<b>15</b>
- margin as a % of sales	22	21	1 *
<b>Income before income taxes</b>	<b>391</b>	<b>347</b>	<b>13</b>
- margin as a % of sales	22	21	1 *
<b>Net income</b>	<b>249</b>	<b>219</b>	<b>14</b>
- margin as a % of sales	14	13	1 *
<b>Earnings per share (in €)</b>	<b>0.80</b>	<b>0.71</b>	<b>14</b>

\* percentage points

\*\* % currency adjusted – actuals 2004 converted with the exchange rates of 2003



# Key Figures – Second Quarter 2004

	<b>Q2 2004</b> € millions	<b>Q2 2003</b> € millions	$\Delta$ %
<b>EBITDA<sup>2)</sup></b> - margin as a % of sales	<b>442</b> 25	<b>392</b> 24	<b>13</b> 1 *
<b>Pro forma operating income excl. stock-based comp. and acquisition-related charges<sup>1)</sup></b> - margin as a % of sales	<b>428</b> 24	<b>388</b> 24	<b>10</b> 0 *
<b>Effective tax rate</b>	<b>36%</b>	<b>37%</b>	<b>-1 *</b>
<b>Pro forma EPS excluding stock-based compensation, acquisition-related charges, and impairment-related charges<sup>1)</sup></b>	<b>0.87</b>	<b>0.81</b>	<b>8</b>

\* percentage points

# Key Figures – First Half Year 2004

	<b>H1 2004</b> € millions	<b>H1 2003</b> € millions	$\Delta$ %
<b>Software revenues</b>	<b>867</b>	<b>783</b>	<b>11</b> <b>14**</b>
<b>Total revenues</b>	<b>3,337</b>	<b>3,158</b>	<b>6</b> <b>9**</b>
<b>Operating income</b>	<b>724</b>	<b>638</b>	<b>13</b>
- margin as a % of sales	22	20	2*
<b>Income before income taxes</b>	<b>755</b>	<b>658</b>	<b>15</b>
- margin as a % of sales	23	21	2*
<b>Net income</b>	<b>478</b>	<b>405</b>	<b>18</b>
- margin as a % of sales	14	13	1*
<b>Earnings per share (in €)</b>	<b>1.54</b>	<b>1.31</b>	<b>18</b>

\* percentage points

\*\* % currency adjusted – actuals 2004 converted with the exchange rates of 2003



# Key Figures – First Half Year 2004

	<b>H1 2004</b> € millions	<b>H1 2003</b> € millions	$\Delta$ %
<b>EBITDA<sup>2)</sup></b> - margin as a % of sales	<b>824</b> 25	<b>740</b> 23	<b>11</b> 2 *
<b>Pro forma operating income excl. stock-based comp. and acquisition-related charges<sup>1)</sup></b> - margin as a % of sales	<b>760</b> 23	<b>692</b> 22	<b>10</b> 1 *
<b>Effective tax rate</b>	<b>36%</b>	<b>38%</b>	<b>-2 *</b>
<b>Pro forma EPS excluding stock-based compensation, acquisition-related charges, and impairment-related charges<sup>1)</sup></b>	<b>1.61</b>	<b>1.45</b>	<b>11</b>

\* percentage points

**Second Quarter & First Half 2004 At a Glance**

**→ Revenue Analysis**

**Operating Expense Analysis**

**Balance Sheet, Cash Flow & Headcount Analysis**

**Outlook 2004**

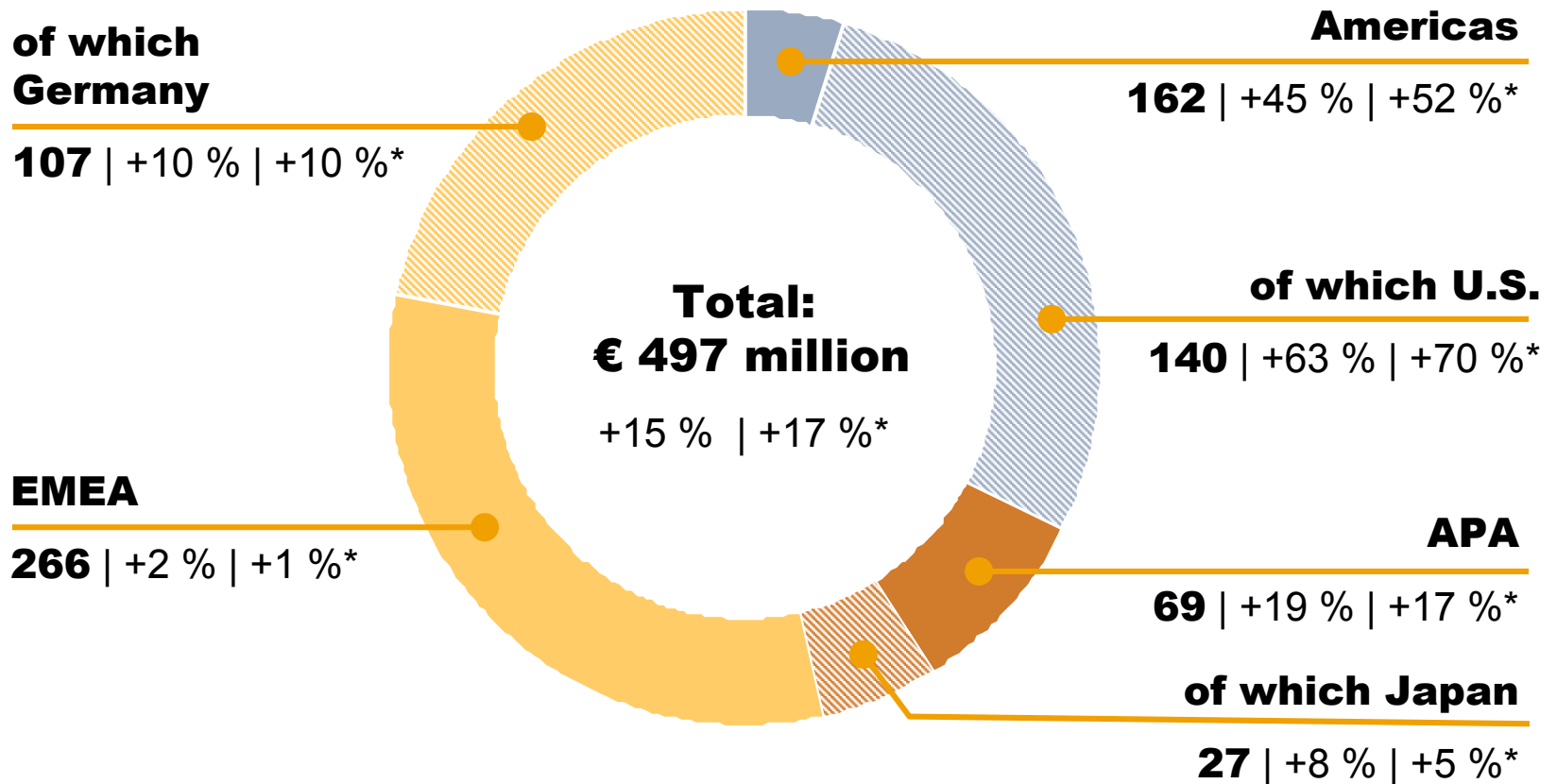
## Group Sales by Revenue Type – Second Quarter 2004

	<b>Q2 2004</b> € millions	<b>Q2 2003</b> € millions	$\Delta$ %	$\Delta$ % currency adjusted	<b>Q2 2004</b> % of revenue	<b>Q2 2003</b> % of revenue
<b>Product</b>	<b>1,195</b>	<b>1,064</b>	<b>12</b>	<b>14*</b>	<b>67</b>	<b>65</b>
- Software	497	431	15	17*	28	26
- Maintenance	698	633	10	12*	39	39
<b>Service</b>	<b>565</b>	<b>554</b>	<b>2</b>	<b>4*</b>	<b>32</b>	<b>34</b>
- Consulting	487	479	2	4*	27	29
- Training	78	75	4	6*	5	5
<b>Other revenue</b>	<b>21</b>	<b>20</b>	<b>5</b>	<b>6*</b>	<b>1</b>	<b>1</b>
<b>Total</b>	<b>1,781</b>	<b>1,638</b>	<b>9</b>	<b>11*</b>	<b>100</b>	<b>100</b>

\* % currency adjusted – actuals 2004 converted with the exchange rates of 2003

# Software Revenue by Region – Second Quarter 2004

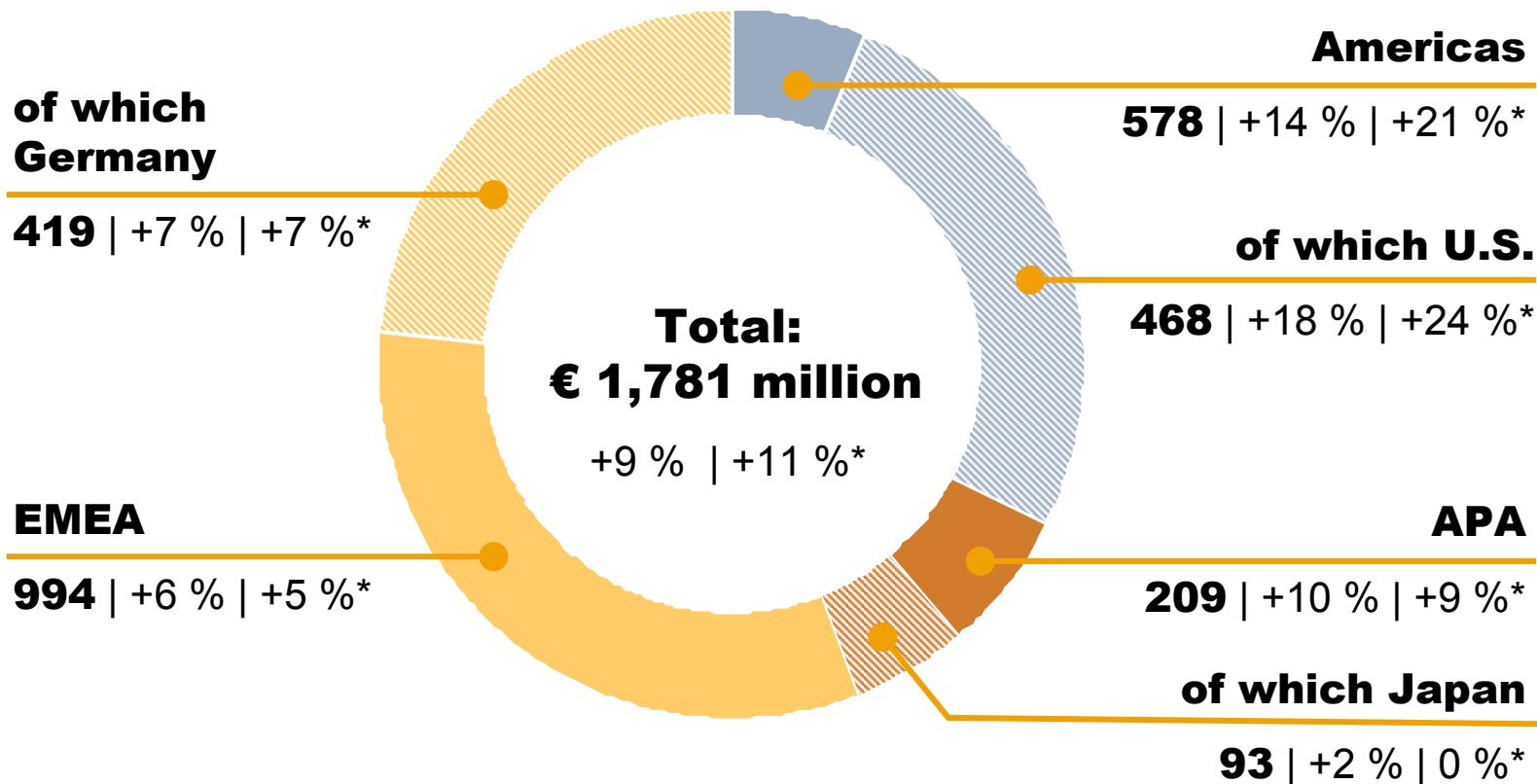
in € millions | percent change | percent constant currency change



\* % currency adjusted – actuals 2004 converted with the exchange rates of 2003

# Total Revenue by Region – Second Quarter 2004

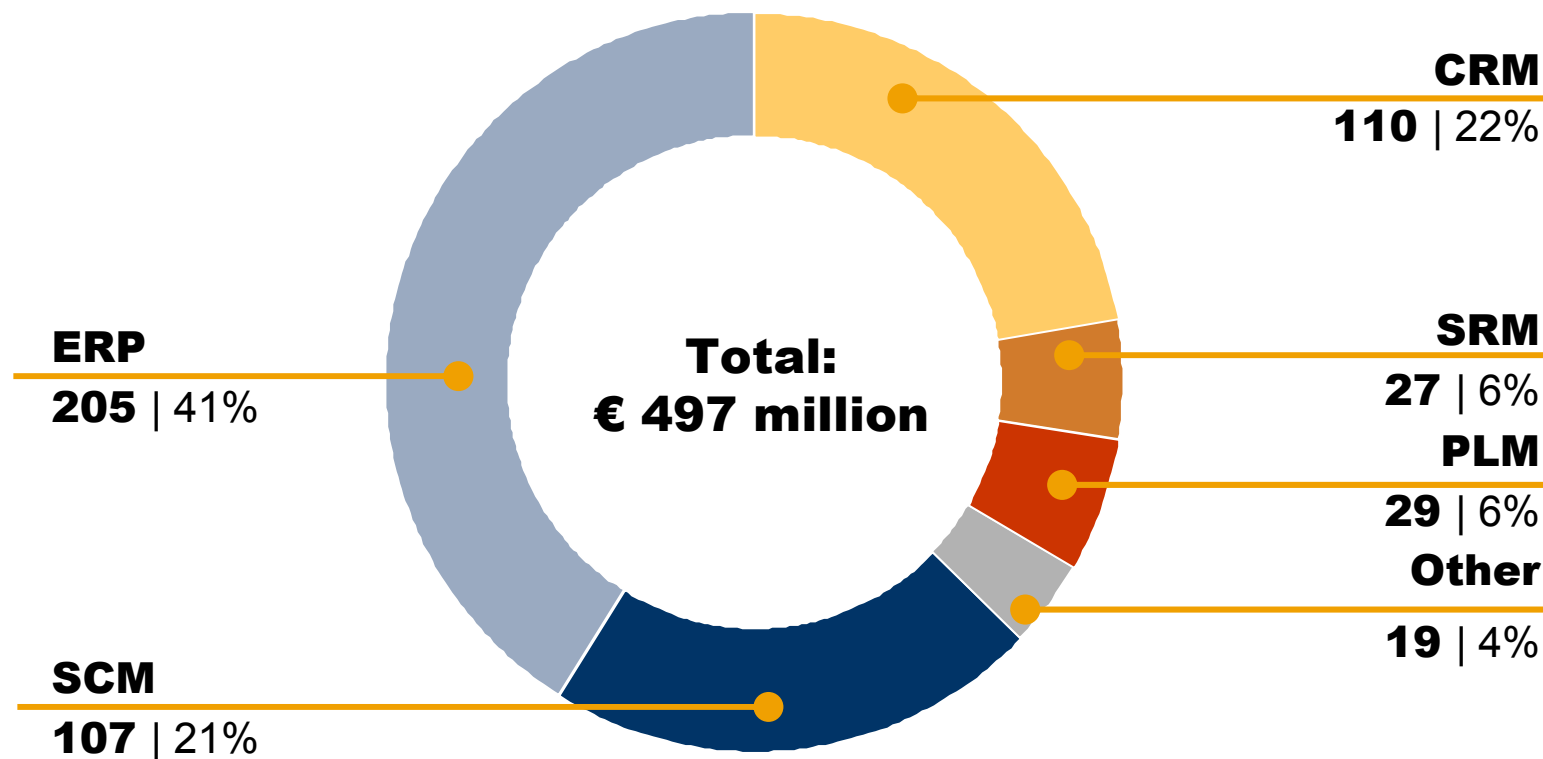
in € millions | percent change | percent constant currency change



\* % currency adjusted – actuals 2004 converted with the exchange rates of 2003

# Software Revenue by Solution\* – Second Quarter 2004

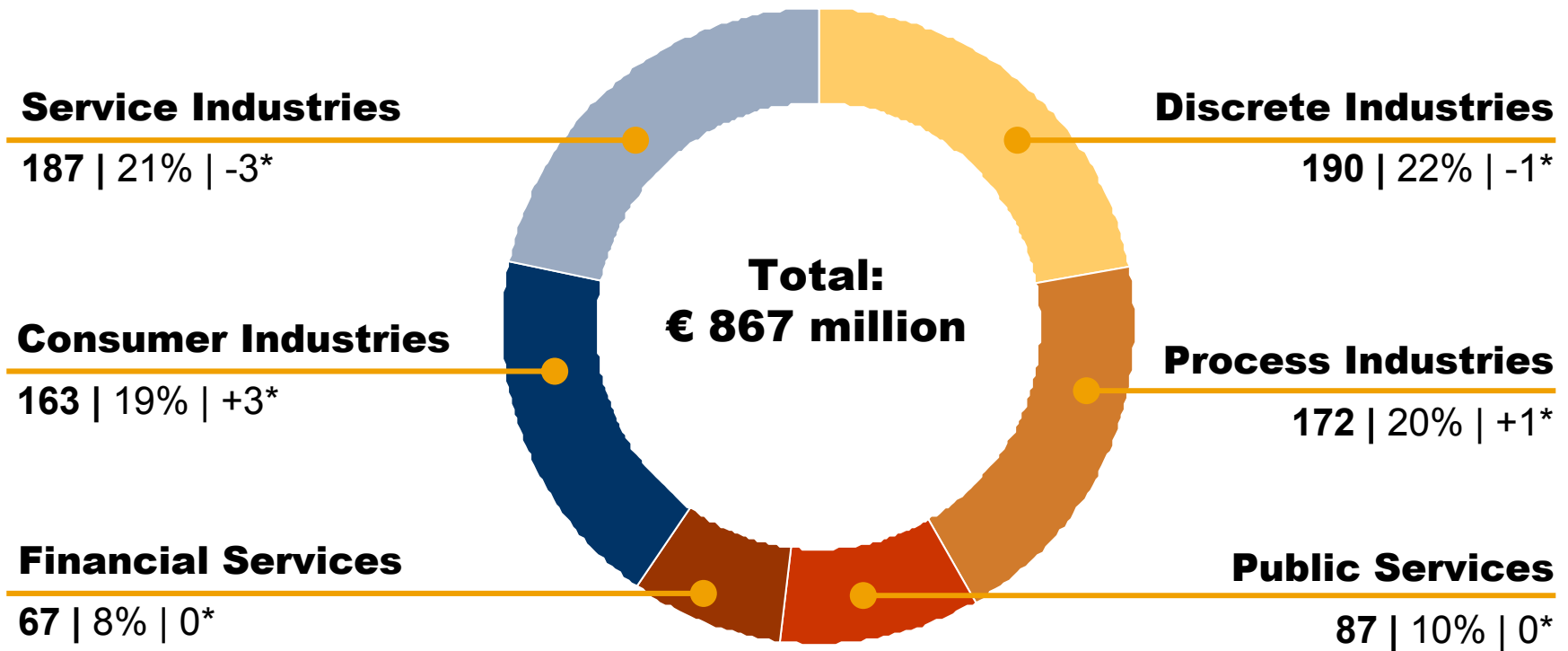
in € millions | as percent of software revenue



\*Software revenues allocated to specific software solutions incl. revenues from integrated solution contracts, which are allocated based on customer usage surveys

# Software Revenue by Industry – First Half 2004

in € million | in percent of software revenue | change compared to FY 2003



\* in percentage points

**Second Quarter & First Half 2004 At a Glance**

**Revenue Analysis**

**→ Operating Expense Analysis**

**Balance Sheet, Cash Flow & Headcount Analysis**

**Outlook 2004**

# Pro Forma Gross Margin\* Analysis – Second Quarter 2004

	<b>Q2 2004</b> € millions	<b>Q2 2003</b> € millions	$\Delta$ %
<b>Product revenue</b>	<b>1,195</b>	<b>1,064</b>	<b>+12</b>
<b>pro forma cost of product</b>			
<b>(excl. SBC &amp; AC)*</b>	<b>-195</b>	<b>-181</b>	<b>+8</b>
- Pro forma product gross margin in %	84	83	1**
<b>Service revenue</b>	<b>565</b>	<b>554</b>	<b>+2</b>
<b>pro forma cost of service</b>			
<b>(excl. SBC &amp; AC)*</b>	<b>-430</b>	<b>-403</b>	<b>+7</b>
- Pro forma service gross margin in %	24	27	-3**
<b>Product + service revenue</b>	<b>1,760</b>	<b>1,618</b>	<b>9</b>
<b>pro forma product + service cost</b>			
<b>(excl. SBC &amp; AC)*</b>	<b>-625</b>	<b>-584</b>	<b>+7</b>
- Pro forma gross margin in %	64	64	0**

\* All pro forma cost excluding stock-based compensation and acquisition-related charges

\*\* In percentage points



# Pro Forma Operating Cost\* Analysis – Second Quarter 2004

	<b>Q2 2004</b> € millions	<b>Q2 2003</b> € millions	$\Delta$ %
<b>Pro forma Research &amp; Development*</b> - as % of total revenues	<b>-251</b> 14	<b>-229</b> 14	<b>+10</b> 0**
<b>Pro forma Sales &amp; Marketing*</b> - as % of total revenues	<b>-395</b> 22	<b>-349</b> 21	<b>+13</b> 1**
<b>Pro forma General &amp; Administration*</b> - as % of total revenues	<b>-85</b> 5	<b>-88</b> 5	<b>-2</b> 0**
<b>Pro forma other income / expenses*</b>	<b>+3</b>	<b>0</b>	
<b>Pro forma total operating expenses*</b>	<b>-1,353</b>	<b>-1,250</b>	<b>8</b>
<b>Total revenues</b>	<b>1,781</b>	<b>1,638</b>	<b>9</b>

\* All pro forma figures excluding stock-based compensation and acquisition-related charges

\*\* In percentage points

# Pro Forma Operating Cost\* Analysis

	2004 € millions	△ volume	△ currency	2003 € millions
Q1 pro forma operating expense*	1,224	+65	-57	1,216
Q2 pro forma operating expense*	1,353	+123	-20	1,250

- Personnel** ↑ Hiring (1,984 FTEs, net since Q2 2003)
- Marketing** ↑ Increased investments, lead generation
- Travel** ↑ Increased business activity
- Royalties** ↑ Depending on software mix

\* All pro forma figures excluding stock-based compensation and acquisition-related charges

**Second Quarter & First Half 2004 At a Glance**

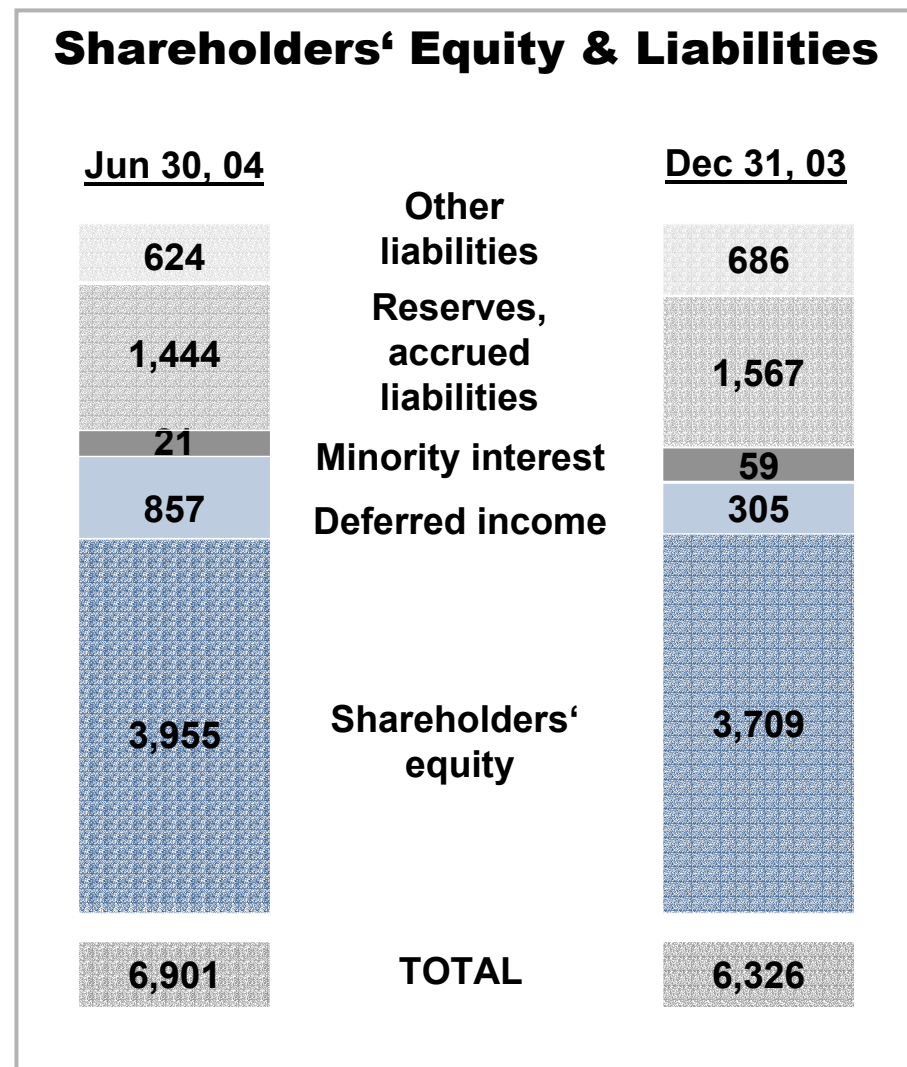
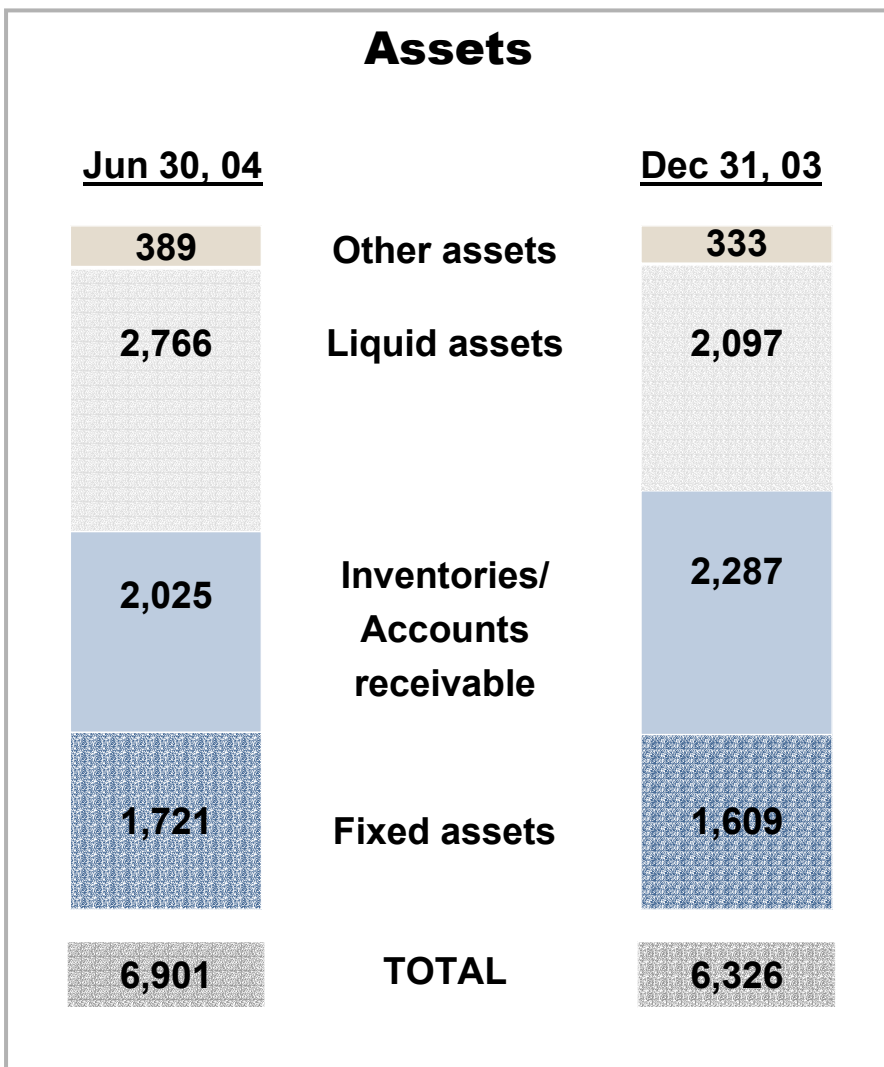
**Revenue Analysis**

**Operating Expense Analysis**

**→ Balance Sheet, Cash Flow & Headcount Analysis**

**Outlook 2004**

# Consolidated Balance Sheet as of Jun 30, 2004








in € millions

# Deferred Income Analysis as of Jun 30, 2004

	<b>06/30/04</b> € millions	<b>06/30/03</b> € millions	 June 04 vs. June 03 in %
<b>Deferred income</b>	<b>857</b>	<b>833</b>	<b>+3</b>

## Year-over-year change

Periodic maintenance	
at constant currency	
Non-standard maintenance	
Future functionality	
Other	

# Balance Sheet & Cash Flow Analysis

	<b>06/30/04</b>	<b>12/31/03</b>	$\triangle$ %
<b>DSO</b>	74 days	76 days	-2 days
<b>Equity ratio</b>	57%	59%	-2*

\* percentage points

in € millions	<b>H1 2004</b>	<b>H1 2003</b>	$\triangle$ %
<b>Operating cash flow</b>	1,164	804	45
- Capital Expenditure	-77	-90	-14
<b>Free cash flow<sup>2)</sup></b>	1,087	714	52
<b>Free cash flow as a % of revenue</b>	33%	23%	10*

\* percentage points

# Worldwide Headcount\* as of Jun 30, 2004

	<b>06/2004</b>	<b>03/2004</b>	<b>06/2003</b>	$\triangle$ % seq. Jun/Mar	$\triangle$ % yoy. 04/03
<b>Group</b>	<b>30,945</b>	<b>30,166</b>	<b>28,961</b>	<b>3</b>	<b>7</b>
- EMEA	20,208	19,936	19,379	1	4
- Americas	6,402	6,228	6,097	3	5
- APA	4,335	4,002	3,485	8	24
<b>R&amp;D</b>	<b>9,269</b>	<b>9,060</b>	<b>8,391</b>	<b>2</b>	<b>10</b>
<b>Service &amp; Support</b>	<b>13,139</b>	<b>12,759</b>	<b>12,473</b>	<b>3</b>	<b>5</b>
<b>Sales &amp; Marketing</b>	<b>5,374</b>	<b>5,246</b>	<b>5,108</b>	<b>2</b>	<b>5</b>
<b>G &amp; A</b>	<b>3,163</b>	<b>3,101</b>	<b>2,989</b>	<b>2</b>	<b>6</b>

	<b>Q2 2004</b>	<b>Q1 2004</b>
<b>Net new hires</b>	<b>779</b>	<b>556</b>

\* in full time equivalents

**Second Quarter & First Half 2004 At a Glance**

**Revenue Analysis**

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**→ Outlook 2004**

# Outlook 2004





- **Focus in 2004 is on software revenue growth**
  - ◆ Software revenues expected to increase around 10%
  - ◆ Pro forma operating margin expected to increase around 1 PP
  - ◆ Pro forma EPS expected to be in a range of €4.20 to €4.30
  
- **Assumptions for 2004**
  - ◆ Average US\$/€ exchange rate of 1.25
  - ◆ Increased investments especially in Sales & Marketing and R&D
  - ◆ Normalized tax rate around 37%
  - ◆ Expected economic rebound in the second half of 2004
  
- **Exchange rate impact on outlook**
  - ◆ At constant currency, software revenues to increase around 15%
  - ◆ At constant currency, pro forma margin to increase around 1.5 PP
  - ◆ At constant currency, pro forma EPS to increase around €4.30 to €4.40

# APPENDIX



# Operating Expenses<sup>3</sup> – Second Quarter 2004

	Q2 2004 € millions		Q2 2003 € millions		 % yoy. U.S. GAAP incl. SBC/AC	 % yoy. pro forma excl. SBC/AC
	U.S. GAAP incl. SBC/AC	pro forma excl. SBC/AC	U.S. GAAP incl. SBC/AC	pro forma excl. SBC/AC		
<b>Cost of product</b>	<b>-200</b>	<b>-195</b>	<b>-189</b>	<b>-181</b>	<b>6</b>	<b>8</b>
<b>Cost of service</b>	<b>-439</b>	<b>-430</b>	<b>-411</b>	<b>-403</b>	<b>7</b>	<b>7</b>
<b>R &amp; D</b>	<b>-261</b>	<b>-251</b>	<b>-241</b>	<b>-229</b>	<b>8</b>	<b>10</b>
<b>Sales &amp; Marketing</b>	<b>-400</b>	<b>-395</b>	<b>-358</b>	<b>-349</b>	<b>12</b>	<b>13</b>
<b>General &amp; Admin.</b>	<b>-93</b>	<b>-85</b>	<b>-99</b>	<b>-88</b>	<b>-6</b>	<b>-2</b>
<b>Other income / expense</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>N/A</b>	<b>N/A</b>
<b>Total costs</b>	<b>-1,390</b>	<b>-1,353</b>	<b>-1,298</b>	<b>-1,250</b>	<b>7</b>	<b>8</b>

# Key Figures – Second Quarter 2004 Analysis – Part I

	<b>Q2 2004</b> € millions	<b>Q2 2003</b> € millions	$\Delta$ %
<b>Operating income</b> <b>(as reported under U.S. GAAP)</b>	<b>391</b>	<b>340</b>	<b>15</b>
- Depreciation & Amortization	51	52	-2
<b>EBITDA <sup>(2)</sup></b>	<b>442</b>	<b>392</b>	<b>13</b>
<b>Operating income</b> <b>(as reported under U.S. GAAP)</b>	<b>391</b>	<b>340</b>	<b>15</b>
- LTI 2000 / STAR	29	41	-29
- Settlement of stock-based compensation prog.	1	1	0
- Stock-based compensation	30	42	-29
- Acquisition-related charges	7	6	17
<b>Pro forma operating income</b> <b>(excl. stock-based compensation and</b> <b>acquisition-related charges <sup>(1)</sup>)</b>	<b>428</b>	<b>388</b>	<b>10</b>
<b>Finance income</b>	<b>11</b>	<b>5</b>	<b>120</b>
- Thereof impairment-related charges	0	-2	-100

## Key Figures – Second Quarter 2004 Analysis – Part II

	<b>Q2 2004</b> € millions	<b>Q2 2003</b> € millions	$\Delta$ %
<b>Net income (as rep. under U.S. GAAP)</b>	<b>249</b>	<b>219</b>	<b>14</b>
- Stock-based compensation, net of tax	20	29	-31
- Acquisition-related charges, net of tax	4	3	33
- Impairment-related charges, net of tax	0	2	-100
<b>Pro forma net income excluding stock-based compensation, acquisition-related charges, and impairment-related charges<sup>(1)</sup></b>	<b>273</b>	<b>253</b>	<b>8</b>
<b>Earnings per share (in €) as reported under U.S. GAAP</b>	<b>0.80</b>	<b>0.71</b>	<b>14</b>
- Stock-based compensation	0.06	0.09	-31
- Acquisition-related charges	0.01	0.01	33
- Impairment-related charges	0.00	0.00	-100
<b>Pro forma EPS excluding stock-based compensation, acquisition-related charges, and impairment-related charges<sup>(1)</sup></b>	<b>0.87</b>	<b>0.81</b>	<b>8</b>

# Pro Forma Information

**(1) SAP has provided information in 2003, 2002 and 2001 using pro forma measures on a consolidated basis and released guidance based on these measures for 2004 and 2003. Management believes that those pro forma measures provide supplemental meaningful information to the investor to fully assess our financial performance of the core operations. Management excludes stock-based compensation expenses because we have no direct influence over the actual expense of these awards once we enter into stock-based compensation plans.**

**Eliminated expenses in the pro forma measures are defined as follows:**

- Acquisition-related charges include amortization of intangible assets acquired in acquisitions**
- Impairment-related charges include other than temporary impairment charges on minority equity investments.**
- Stock-based compensation includes expenses for stock-based compensation as defined under US GAAP (STAR and LTI 2000) as well as expenses related to the settlement of stock-based compensation plans in the context of mergers and acquisitions.**

**However these measures should be considered in addition to, and not as a substitute for, or superior to, operating income, cash flows, or other measures of financial performance prepared in accordance with generally accepted accounting principles. The pro forma measures used by us may be different from pro forma measures used by other companies.**

**(2) Management believes that EBITDA and free cash flow are widely accepted supplemental measures of evaluating operating performance and liquidity among companies. However these measures should be considered in addition to, and not as a substitute for, or superior to, operating income, cash flows, or other measures of financial performance prepared in accordance with generally accepted accounting principles.**

**(3) SAP has provided information in 2003 for pro forma measures on a consolidated basis especially focusing on operational expenses. Management believes that those pro forma measures provide supplemental meaningful information to the investor to fully assess our financial performance of the core operations. Management excludes stock-based compensation expenses because we have no direct influence over the actual expense of these awards once we enter into stock-based compensation plans.**

**Eliminated expenses in the pro forma measures are defined as follows:**

- Acquisition-related charges include amortization of intangible assets acquired in acquisitions**
- Stock-based compensation includes expenses for stock-based compensation as defined under U.S. GAAP (STAR and LTI 2000) as well as expenses related to the settlement of stock-based compensation plans in the context of mergers and acquisitions.**

**However these measures should be considered in addition to, and not as a substitute for, or superior to, operating income, cash flows, or other measures of financial performance prepared in accordance with generally accepted accounting principles. The pro forma measures used by us may be different from pro forma measures used by other companies.**