

# SAP DANMARK A/S

## Annual Report 31 December 2018

Lautrupsgade 11, 2100 Copenhagen

CVR no. 11 93 56 80

Approved at the Annual General Meeting of Shareholders on 10 May 2019

Chairman:

A handwritten signature in blue ink, consisting of a stylized 'C' followed by 'Larsen' and 'Pedersen' in a cursive script, with a long horizontal line extending to the right.

Christian Larsen Pedersen

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# Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of SAP Danmark A/S for the financial year 1 January – 31 December 2018.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position as at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend the adoption of the Annual Report at the Annual General Meeting.

Copenhagen, 10 May 2019

Executive Board:

Per Haakon Lomsdalen

Board of Directors:



Christian Larsen Pedersen (Chairman)

Per Haakon Lomsdalen



Jørn Bo Jacobsen



## **Independent Auditor's Report**

### **To the shareholders of SAP Danmark A/S**

#### **Opinion**

We have audited the financial statements of SAP Danmark A/S for the financial year 1 January – 31 December 2018 comprising income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 in accordance with the Danish Financial Statements Act.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.



## Independent Auditor's Report

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of financial statement users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



## Independent auditor's report

### Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 10 May 2019

**KPMG**

Statsautoriseret Revisionspartnerselskab

CVR no. 25 57 81 98

A handwritten signature in blue ink, appearing to read 'Henrik Kyhnaug', written over a faint, larger version of the same signature.

Henrik Kyhnaug  
State Authorised  
Public Accountant  
MNE40028

# Company Information

Name	SAP Danmark A/S
Address, Postal code, City	Lautrupsgade 11, 2100 Copenhagen
CVR No.	11 93 56 80
Established	1 January 1988
Registered office	Copenhagen
Financial year	1 January - 31 December
Website	<a href="http://www.sap.com/denmark">www.sap.com/denmark</a>
E-Mail	<a href="mailto:info.denmark@sap.com">info.denmark@sap.com</a>
Telephone	+45 39 13 30 00
Board of Directors	Christian Larsen Pedersen, Chairman Martin Günter Schirmer (retired by 31.12.2018) Per Haakon Lomsdalen (elected on 01.01.2019) Jørn Bo Jacobsen
Executive Board	Per Haakon Lomsdalen (elected on 01.01.2019)
Auditors	KPMG Statsautoriseret Revisionspartnerselskab Dampfaergevej 28, 2100 Copenhagen

# Financial Highlights

DKK'000	2018	2017	2016	2015	2014
<b>Key figures</b>					
Revenue	1.595.603	1.491.223	1.430.407	1.460.117	1.491.057
Operating profit	169.483	126.663	151.716	131.479	166.177
Exchange rate differences and finance costs	-1.393	-1.363	-2.588	-334	994
Profit after income tax	131.478	96.264	116.245	100.578	125.140
Total assets	841.039	747.259	636.913	704.323	605.064
Equity	370.419	306.267	210.003	298.258	197.680
<b>Financial ratios in %</b>					
Gross margin	30,7%	29,9%	29,4%	25,5%	26,8%
Return on assets	21,3%	18,3%	22,6%	20,1%	29,7%
Current ratio	178,0%	169,2%	148,7%	173,0%	148,9%
Solvency ratio	44,0%	41,0%	33,0%	42,3%	32,7%
Return on equity	38,9%	37,3%	45,7%	40,6%	72,5%
Average number of employees	220	213	190	179	188



# Operating Review

## The Company's business review

SAP vision is to help the world run better and improve people's lives. Together with our broad ecosystem of partners, this comes to life as we help our customers master complexity and innovate and transform to become sustainable digital businesses. SAP is involved in driving innovation in all fields of the digital economy, such as the Internet of Things, machine learning, and artificial intelligence.

In the past years, we have built our success in the business applications market by expanding our product portfolio to help companies meet the needs of the digital economy. We have organically innovated with groundbreaking technology such as SAP HANA and software such as SAP S/4HANA. We have also expanded our portfolio through acquisitions by integrating valuable assets in the cloud and business network spaces.

In 2018, SAP delivers software and technologies addressing the three core elements of the intelligent enterprise for the 25 industries and 12 lines of business (LoBs) we serve:

- An intelligent suite of LoB applications that includes next generation enterprise resource planning (ERP) in the cloud, as well as solutions for customer experience, manufacturing and supply chain, network and spend management, and people engagement. The intelligent suite is integrated and differentiated by industry-specific business processes for end-to-end scenarios.
- A digital platform to help customers manage data orchestration across their entire application footprint. This includes real-time visibility into distributed data silos using next generation data management solutions and an open cloud platform as a business platform for integration and business process innovation.
- Intelligent technologies, such as AI/ML, IoT, and advanced analytics, help customers optimize their core business processes, extract real-time insights, and reinvent their business models. This intelligence is integrated across applications and helps us deliver unique outcomes to every customer.

## Product and services

SAP works to deliver an intelligent enterprise that brings together machine and human intelligence across all business functions to provide value to customers.

### *Network and Spend Management*

SAP cloud solutions under the SAP Ariba, SAP Concur, and SAP Fieldglass brands give customers the essential visibility and capacity to control their spending.

SAP Ariba solutions offer an online business-to-business marketplace connecting more than 3.8 million sellers in more than 190 countries

SAP Fieldglass solutions are cloud-based applications for external workforce management and services procurement. The SAP Fieldglass Vendor Management System helps organizations find, engage, and manage all types of flexible resources – including contingent workers, statement-of-work-based consultants, freelancers, and more.

SAP Concur is the world's leading travel and expense management software with close to 58 million users worldwide. SAP Concur solutions help companies of all sizes and stages go beyond automation to a connected spend management system that encompasses travel, expense, invoice, compliance, and risk.

### *People Engagement*

SAP SuccessFactors Human Capital Management (HCM) solutions help organizations increase the value of their workforce by developing, managing, engaging, and empowering their people. SAP SuccessFactors solutions are delivered as a complete digital suite that addresses all aspects of human resources (HR), from administration, payroll, and benefits to talent management and collaboration across the employee journey.

### *Digital Core*

SAP S/4HANA is our enterprise resource planning (ERP) suite for the intelligent enterprise. It enables a business to access and analyze data in real time, giving them insights to act in the moment, providing predictive suggestions, and connecting business functions and the people within them. SAP S/4HANA software spans all business functions including finance, human resources, sales, service, procurement, manufacturing, asset management, supply chain, and R&D.

# Operating Review (Continued)

## *Manufacturing and Supply Chain*

Our SAP Digital Supply Chain portfolio offers enterprises an integrated suite of digital supply chain solutions to plan, design, manufacture, deliver, and operate their products. With these solutions, customers can blend the physical and the digital world throughout the complete supply chain – from design, planning, and manufacturing to logistics and ongoing maintenance – embedding intelligence and ensuring their customers are central to every phase of their business.

SAP Integrated Business Planning solution is powered by SAP HANA and delivers real-time supply chain planning capabilities for sales and operations, demand and supply planning, and inventory optimization in the cloud. It provides the necessary information to make business decisions using embedded analytics, simulation, prediction, and decision support. Specific SAP Integrated Business Planning applications can be used with the established SAP Fiori user experience interface or with a Microsoft Excel plug-in, allowing users to run optimization scenarios directly in their spreadsheets.

SAP Intelligent Asset Management solutions support manufacturers and asset operators to define, plan, and monitor the optimal service and maintenance strategy for their physical products and assets. The solutions do this by providing the required level of collaboration, integration, and analytical insights, using an asset central foundation, our digital twin for physical assets, as the common data set.

## *Customer Experience*

SAP C/4HANA was launched in June 2018, a unified suite of cloud solutions designed as the next generation of customer relationship management. SAP C/4HANA software provides companies with a single, holistic view of each customer across all channels and connects demand to the fulfillment engine in one end-to-end value chain. To complete our portfolio of customer experience solutions, SAP acquired and integrated Gigya, Callidus Software, and Coresystems, and rebranded the SAP Hybris business area to SAP Customer Experience to reflect the depth and breadth of our offerings.

## *Digital Platform*

SAP digital platform consists of SAP Cloud Platform, the foundation on which the intelligent suite is built, and SAP HANA Data Management Suite, which manages distributed data from any source. The platform not only caters to the runtime and data storage needs of the end-to-end applications in the intelligent suite, but it also enriches them with intelligent technologies, such as machine learning, Internet of Things (IoT), and analytics capabilities, all offered as cloud services, which are easily embedded in business applications.

SAP Cloud Platform offers an enterprise platform-as-a-service (PaaS) environment where companies can build, test, run, manage, and expand software applications in the cloud. It is the center of gravity for the intelligent enterprise, as applications can run on SAP Cloud Platform, or run with it, by using the platform's services while running on another stack. SAP Data Hub is the solution that enables businesses to manage data from numerous sources, SAP or third-party, without having to centralize data into one location. The solution lets companies safely and effectively move and share their data to enable agile data operations across the enterprise. SAP Data Hub is also part of the SAP Leonardo Data Intelligence capability.

## *Intelligent Technologies*

SAP Leonardo is a methodology that combines design thinking services with intelligent technologies for every business process, to enable rapid innovation and create better outcomes for the customer. SAP Leonardo brings together the customer vision, SAP's processes and industry knowledge, and technologies such as analytics, AI/machine learning, and IoT capabilities. SAP Cloud Platform provides the environment for applications to consume these technologies.

The SAP Analytics Cloud solution leverages the inherent intersection of business intelligence (BI), planning, and predictive analytics to deliver new capabilities such as simulation and automated discovery in BI, as well as storytelling and predicted forecasts in planning. The solution allows organizations to close the gap between transactions, data preparation, analysis, and action. In addition, the SAP Analytics Cloud solution allows customers to take advantage of high-speed innovation in the cloud, while using their existing on-premise investments.

SAP BW/4HANA is a data warehouse solution built entirely on SAP HANA. It offers a unique real-time analytics layer, which can directly query the database, instead of processing data at the application layer like traditional analytical engines do. It integrates data from across an organization to deliver key business intelligence.

SAP Leonardo Internet of Things Intelligent devices that generate contextual sensor data are becoming more commonplace in the enterprise, as older machines are retrofitted with sensors and processing capabilities, while newer machines are made intelligent by design.

# Operating Review (Continued)

SAP Leonardo Machine Learning solutions are already integrated in our SAP portfolio, providing intelligent capabilities in SAP S/4HANA, SAP C/4HANA, SAP Concur, SAP Fieldglass, and SAP SuccessFactors solutions, among others. These intelligent capabilities are orchestrated through the SAP Leonardo Machine Learning Foundation, which runs on SAP.

## **SAP Digital Business Services**

SAP offers an entire portfolio of services and support designed to help our customers maximize the value of their SAP solutions and to realize the full potential of innovation. In 2018, SAP Digital Business Services embarked on a major portfolio simplification process. This work resulted in a portfolio framework that groups our SAP Digital Business Services products into three categories:

- Premium engagements. SAP MaxAttention is the most exclusive and closest customer partnership with SAP. As the highest engagement level throughout the software lifecycle, this customized, on-site engagement orchestrates all SAP experts to work with our customers to innovate, develop ideas, and accelerate their digital transformation. It enables our customers to simplify their IT operations and optimize operations. The SAP ActiveEmbedded service encompasses a similar level of premium engagement but is designed to support smaller businesses requiring less intensive interaction.
- Services. Depending on the needs of the customer, we may offer advisory and implementation services separately, or package them together to deliver defined business outcomes. Advisory services create and realize new opportunities. We guide customers throughout the innovation process, focusing on creating economic, social, and environmental impact. Recent innovations in our advisory services include SAP Leonardo Innovation Services. Implementation and migration services help companies realize the benefits of our products and solutions faster and safer when deploying SAP technology.
- Continuous customer success. We want to enable our customers to succeed, so we help drive adoption of our products and facilitate business continuity with services and support. We deliver success plans to accelerate time to value from SAP technology. Our support offerings are the foundation of customer success plans, and are embedded in all cloud solutions from SAP and for on-premise installations.

These services and support products are underpinned by our collaborative platform, advisory services that provide customers with intelligent guidance, and the SAP ecosystem.

SAP Danmark A/S offers consulting and training services relating to SAP's software solutions.

SAP Danmark A/S is a wholly-owned subsidiary of SAP SE. The Company works closely together with SAP Norge AS, SAP Svenska AB and SAP Finland Oy as well as the Baltic countries via SAP Nordic. As part of SAP's global strategy, SAP Danmark A/S is also closely tied to SAP's European organization (SAP North Europe). Company is managed by Nordic Managing Director, Nordic CFO, Country Managing Director for SAP Denmark A/S and CFO for SAP Denmark.

## **Financial review**

Revenue for the year amounted to DKK 1,595.603 thousand compared to DKK 1,491.223 thousand last year. Profit for the year before tax amounted to DKK 169.364 thousand compared to DKK 125.300 thousand last year, whereas profit after tax amounted to DKK 131.478 thousand compared to DKK 96.264 thousand last year.

## **Knowledge resources**

A significant parameter of success is SAP Danmark A/S' internal culture and external reputation. The Company works with a value-based management form, in which rules and regulations are replaced by an attitude - and behaviour-based framework.

Management's expectation is that all employees should be responsible for their own development. In that context, SAP Danmark A/S provides the individual employee with a development platform - a platform which is meant to generate a link between the employees' understanding of the objective of personal and professional development and which should also provide them with added value in the form of better culture, cooperation and revenue creation for the Company.

## **Special risks**

In general, SAP Danmark A/S is sensitive to changes in demands relating to companies' needs to invest in software solutions, consultancy assistance and training services.

An analysis of the Danish market of small and medium-sized enterprises emphasises that competition is fierce and well-represented within this market segment and that in-house products and solutions may also represent a considerable competitive factor.

The Company has no significant financial risks.



# Operating Review (Continued)

## **Statutory CSR report and diversity**

The ultimate controlling party SAP SE has developed a policy and goals for increasing the number of women in management, which SAP Danmark A/S is covered by. The policy set goals for the percentage of women in management, common to the IT industry. To support and develop female leaders throughout 2018, SAP sponsored and hosted numerous events focused on attracting, developing, and supporting women. Additional ongoing initiatives supporting women at SAP include the Women's Professional Growth Webinar series, the Business Women's Network, and the Women@SAP online community. In addition, we offer executive sponsorships for women at SAP and the Leadership Excellence Acceleration Program (LEAP), a highly respected and award-winning development program that helps prepare high-potential women for leadership roles at SAP. As at 31 December 2018 SAP Danmark A/S has 31 managers, thereof 4 female managers.

SAP Danmark A/S has set a target for the number of women in the board. A target of reaching 1 female board member before 2019 has been set. The board currently consist of 3 members. It has been decided that the three seats go to the Country Managing Director SAP Danmark A/S, the Nordic CFO and the Nordic Managing Director.

The company's ultimate controlling party SAP SE report on SAP's financial, environmental and social performance in one integrated report ("SAP Integrated Report 2018"), which is available at: <https://www.sap.com/investors/en/reports.html>. Additionally the following information can be found in the report such as Anticorruption and Bribery Corporate Social Responsibility, Climate and Environment, Human rights and Labour Standards, Target of the Board, Management levels.

## **Events after the reporting period**

No significant events have occurred after the balance sheet date that may significantly affect the financial statements for 2018.

## **Outlook**

SAP Danmark A/S had a very strong and successful 2018.

SAP Danmark A/S has strong ambitions for sustainable business success, both for our company and for our customers. We believe the most important indicators to measure this success comprise both financial and non-financial indicators: growth, profitability, customer loyalty, and employee engagement.

The ambition for 2019 is to gain even bigger market shares on the Danish market through conscious work and co-operation with our partners. SAP has the right products, solutions and partners and expects to continue the positive trend in sales and maintenance of software licenses that we experienced in 2018.

Based on this, the management also expects satisfactory results for 2019 in line or slightly above the results for 2018.

# Statement of Financial Position

As at 31 December

DKK'000	Notes	2018	2017
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	(4)	7.629	8.414
Intangible assets	(5)	232	556
<b>Total non-current assets</b>		<b>7.861</b>	<b>8.970</b>
<b>Current assets</b>			
Deferred tax assets	(6)	7.084	7.393
Income tax assets		0	6.869
Other assets	(7)	72.590	31.007
Trade and other receivables	(8)	619.201	571.927
Cash and cash equivalents		134.303	121.093
<b>Total current assets</b>		<b>833.178</b>	<b>738.289</b>
<b>Total assets</b>		<b>841.039</b>	<b>747.259</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	(9)	5.500	5.500
Retained earnings	(10)	364.919	300.767
<b>Total equity</b>		<b>370.419</b>	<b>306.267</b>
<b>Non-current liabilities</b>			
Contract liabilities/ deferred income	(10)	253	2.006
Provisions	(11)	2.226	2.689
<b>Total non-current liabilities</b>		<b>2.479</b>	<b>4.695</b>
<b>Current liabilities</b>			
Income tax liabilities		1.248	0
Other liabilities		64.061	28.074
Contract liabilities/ deferred income	(10)	95.428	75.691
Employee benefits liabilities		129.315	122.290
Trade payables	(12)	178.089	210.242
<b>Total current liabilities</b>		<b>468.141</b>	<b>436.297</b>
<b>Total liabilities</b>		<b>470.620</b>	<b>440.992</b>
<b>Total equity and liabilities</b>		<b>841.039</b>	<b>747.259</b>

The above financial statements should be read in conjunction with the accompanying notes.

# Statement of Profit or Loss

For the year ended 31 December

DKK'000	Notes	2018	2017
<b>Revenue</b>	(13)	<b>1.595.603</b>	<b>1.491.223</b>
<b>Material expenses</b>			
Royalties and licenses		-765.146	-685.495
Purchased services expenses		-115.969	-111.421
<b>Total material expenses</b>		<b>-881.115</b>	<b>-796.916</b>
Employee benefits expenses	(14)	-316.259	-315.074
Amortisation	(5)	-324	-323
Depreciation	(4)	-3.345	-3.387
Rent expenses		-16.734	-16.448
Other expenses		-208.343	-232.412
<b>Operating profit</b>		<b>169.483</b>	<b>126.663</b>
Exchange rate differences		1.274	-572
Finance income	(15)	0	205
Finance costs	(15)	-1.393	-996
<b>Profit before income tax</b>		<b>169.364</b>	<b>125.300</b>
Income tax expense/ benefit	(16)	-37.886	-29.036
<b>Profit after income tax</b>	(17)	<b>131.478</b>	<b>96.264</b>

The above financial statements should be read in conjunction with the accompanying notes.

# Statement of Changes in Equity

For the year ended 31 December

DKK'000	Notes	Share capital	Retained earnings	Total
<b>As at 1 January 2017</b>		5.500	279.503	<b>285.003</b>
Profit after income tax		0	21.264	<b>21.264</b>
<b>As at 31 December 2017</b>		5.500	300.767	<b>306.267</b>
Adoption of IFRS 15	(3)	0	7.736	<b>7.736</b>
Adoption of IFRS 9	(3)	0	-62	<b>-62</b>
Profit after income tax		0	131.478	<b>131.478</b>
Dividends	(17)	0	-75.000	<b>-75.000</b>
<b>As at 31 December 2018</b>		<b>5.500</b>	<b>364.919</b>	<b>370.419</b>

The above financial statements should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

These notes form an integral part of the accompanying financial statements.

## (1) REPORTING ENTITY

SAP Danmark A/S (the "Company") is a profit-oriented company incorporated and domiciled in Denmark and registered in Lautrupsgade 11, 2100 Copenhagen, Denmark.

The Company sells software licenses, cloud solutions and services, and provides maintenance, consulting, training and other professional services. The Company is a wholly-owned subsidiary of SAP SE.

The following shareholder is the Company's ultimate controlling party and is registered in the Company's register of shareholders as holding a minimum of 5% of votes.

Name	Domicile	Basis for control
SAP SE	Walldorf, Germany	Participating interest, 100%

Information about consolidated financial statements

Name	Domicile	Requisitioning
SAP SE	Walldorf, Germany	www.sap.com

## (2) BASIS OF PREPARATION

### Statement of compliance

The financial statements of SAP Danmark A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act as regards large reporting class C enterprises.

### Adoption of IFRS 15

Effective 1 January 2018, the Company started to apply IFRS 15 Revenue from Contracts with Customers retrospectively, using the cumulative catch-up approach and the practical expedient to apply the new standard only to contracts that were not completed as at 1 January 2018. This practical expedient affected both the transition adjustment amount recognised in retained earnings in the amount of DKK -7.736 thousands and the reduction of Company's expenses in the amount of DKK 14.877 thousands from higher capitalisation of sales commissions.

In contrast to the previous bases of interpretation contained in IAS 11/18, IFRS 15 contains one overall and comprehensive model for the recognition of revenue. The fundamental principle in IFRS 15 is that the Company is to recognise revenue so it reflects goods or services provided to customers at the amounts to which the Company is expected to be entitled for the provision of these goods or services.

On adopting IFRS 15, the Company changed several of its accounting policies. Under the cumulative catch-up approach, prior years (including the prior-period numbers presented in the primary financial statements) are not restated to conform to the new policies.

As at 31 December 2018, the statement of financial position items are affected by the adoption of IFRS 15 as compared to the Company's pre-IFRS 15 accounting policies as follows:

- Other assets were higher by DKK 24.699 thousands due to the higher capitalisation of sales commissions.
- Deferred tax assets were lower by DKK 3.274 thousands due to the higher capitalisation of sales commissions.

### Adoption of IFRS 9

Effective 1 January 2018, the Company started to apply IFRS 9 Financial Instruments using the exception from full retrospective application. IFRS 9 replaces the provisions of IAS 39 relating to the classification and measurement of financial instruments, the impairment of financial assets and hedge accounting. The impact from IFRS 9 affects the Company's impairment rules and is recognised in retained earnings in the amount of DKK 62 thousands. Comparative figures have not been restated.



## (2) BASIS OF PREPARATION (Continued)

### Statement of compliance (continued)

#### Adoption of IFRS 9

Contrary to the former accounting policies which relied on IAS 39, IFRS 9 introduces the so-called "expected credit losses" model. Accordingly, write-down of receivables is amended for accounting purposes. In accordance with IFRS 9, future expected credit losses should be recognised, whereas write-down in accordance with IAS 39 is not to be recognised before there is indication of losses (incurred loss). Recognition of future expected credit losses should be recognised already at initial recognition, i.e. from the moment when the entity either engages in borrowing activities or makes an investment/ sale.

Apart from the above changes introduced by IFRS 15 and IFRS 9, the accounting policies used in the preparation of the financial statements are consistent with those of last year.

### Basis of measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company and the value of the asset can be reliably measured.

Liabilities are recognised in the balance sheet when an outflow of economic benefits is probable and when the liability can be reliably measured.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each individual item.

In recognising and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities measured at fair value or amortised cost. Equally, costs incurred to generate the year's earnings are recognised, including depreciation, amortisation, impairment and provisions as well as reversals as a result of changes in accounting estimates of amounts which were previously recognised in the income statement.

### Functional and presentation currency

The Company's functional and presentation currency is Danish Kroner (DKK). All amounts included in the financial statements are reported in thousands of Danish Kroner (DKK'000), unless otherwise stated. All financial information has been rounded to the nearest thousand Danish Kroner (DKK'000) unless otherwise indicated. As figures were rounded, numbers presented throughout this document may not add up precisely to the totals provided, and percentages may not precisely reflect the absolute figures.

### Omission to present a Statement of Cash Flows

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The entity's cash flows are part of the consolidated cash flow statement for the parent company, SAP SE.

### Presentation changes and comparative figures

The statement of financial positions has been presented before statement of profit or loss to align with SAP business and internal best practices. Certain comparatives have been reclassified wherever necessary to conform to the presentation adopted in the current year. The reclassifications are not considered material and do not impact the financial statements as at the beginning of the earliest comparative period.

## (3) ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

### Revenue recognition

#### Classes of revenue

The Company derives its revenue from fees charged to the customers for cloud subscriptions and support, software licenses, software support and services including consulting, customer-specific on-premise software development agreements, training, and other services.

### (3) ACCOUNTING POLICIES (Continued)

#### **Revenue recognition (continued)**

Revenue from cloud subscriptions and support

Revenue from cloud subscriptions and support represents fees earned from providing customers with the following:

- Software-as-a-Service (SaaS), that is, a right to use software functionality in a cloud-based-infrastructure (hosting) provided by SAP, where the customer does not have the right to terminate the hosting contract and take possession of the software to run it on the customer's own IT infrastructure or by a third-party hosting provider without significant penalty, or
- Platform-as-a-Service (PaaS), that is, access to a cloud-based infrastructure to develop, run, and manage applications, or
- Infrastructure-as-a-Service (IaaS), that is, hosting services for software hosted by SAP, where the customer has the right to terminate the hosting contract and take possession of the software at any time without significant penalty and related application management services, or
- Additional premium cloud subscription support beyond the regular support that is embedded in the basic cloud subscription fees, or
- Business Network Services, that is, connecting companies in a cloud-based-environment to perform business processes between the connected companies.

Revenue from software licenses

Revenue from software licenses represents fees earned from the sale or license of software to customers for use on the customer's premises, in other words, where the customer has the right to take possession of the software for installation on the customer's premises (on-premise software). Software licenses revenue includes revenue from both the sale of our standard software products and customer-specific on-premise software development agreements.

Revenue from software support

Software support revenue represents fees earned from providing customers with standardized support services which comprise unspecified future software updates, upgrades, enhancements, and technical product support services for on-premise software products. The company does not sell separately technical product support or unspecified software upgrades, updates, and enhancements. Accordingly, the Company does not distinguish within software support revenue or within cost of software support the amounts attributable to technical support services and unspecified software upgrades, updates, and enhancements.

Services revenue

Services revenue primarily represents fees earned from professional consulting services, premium support services, training services, messaging services, and payment services in connection with the Company's travel and expense management offerings.

#### **Identification of contract**

The Company frequently enters into multiple contracts with the same customer that the Company treats, for accounting purposes, as one contract if the contracts are entered into at or near the same time and are economically interrelated. The Company does not combine contracts with closing days more than three months apart because the Company does not consider them being entered into near the same time. Judgment is required in evaluating whether two or more contracts are interrelated, which includes considerations as to whether they were negotiated as a package with a single commercial objective, whether the amount of consideration on one contract is dependent on the performance of the other contract, or if some or all goods in the contracts are a single performance obligation.

New arrangements with existing customers can be either a new contract or the modification of prior contracts with the customer. The management's respective judgment in making this determination considers whether there is a connection between the new arrangement and the pre-existing contracts, whether the goods and services under the new arrangement are highly interrelated with the goods and services sold under prior contracts, and how the goods and services under the new arrangement are priced. In determining whether a change in transaction price represents a contract modification or a change in variable consideration, the management examines whether the change in price results from changing the contract or from applying unchanged existing contract provisions.

#### **Identification of performance obligations**

The Company's customer contracts often include various products and services. In general, the products and services outlined under the Classes of revenue section qualify as separate performance obligations and the portion of the contractual fee allocated to them is recognised separately. Judgment is required, however, in determining whether a good or service is considered a separate performance obligation. In particular for the Company's professional services and implementation activities, judgment is required to evaluate whether such services significantly integrate, customise, or modify the on-premise software or cloud service to which they relate. In this context, the management considers the nature of the services and their volume relative to the volume of the on-premise software or cloud service to which they relate. In general, the implementation services for the Company's cloud services go beyond pure setup activities and qualify as separate performance obligations.

### (3) ACCOUNTING POLICIES (Continued)

#### **Revenue recognition (continued)**

Similarly, the Company's on-premise implementation services and custom development services qualify as separate performance obligations. Non-distinct goods and services are combined into one distinct bundle of goods and services (combined performance obligation).

When selling goods or services, the Company frequently grants its customers options to acquire additional goods or services (for example, renewals of renewable offerings, or additional volumes of purchased software). The management applies judgment in determining whether such options provide a material right to the customer that the customer would not receive without entering into that contract (material right options). In this judgment, the management considers whether the options entitle the customer to a discount that exceeds the discount granted for the respective goods or services sold together with the option.

#### **Determination of transaction price**

The management applies judgment in determining the amount to which the management expects to be entitled in exchange for transferring promised goods or services to a customer. This includes estimates as to whether and to what extent subsequent concessions or payments may be granted to customers and whether the customer is expected to pay the contractual fees. In this judgment, the management considers the history both with the respective customer and more broadly.

The Company's typical cloud services do not provide the customer with a software license because the customer does not have the right to terminate the hosting contract and take possession of the software. Consequently, cloud fees that are based on transaction volumes are considered in the transaction price based on estimates rather than being accounted for as sales-based license royalties.

Only very rarely, the Company's contracts include significant financing components. The Company does not account for financing components if the period between when the Company transfers the promised goods or services to the customer and when the customer pays for those goods or services is one year or less.

#### **Allocation of transaction price**

The Company have established a hierarchy to identify the stand-alone selling prices (SSPs) that is used to allocate the transaction price of a customer contract to the performance obligations in the contract.

- Where standalone selling prices for an offering are observable and reasonably consistent across customers (that is, not highly variable), the Company's SSP estimates are derived from its respective pricing history. In general, the Company's standardised support offerings and its professional service offerings follow this approach.
- Where sales prices for an offering are not directly observable or highly variable across customers, the management uses estimation techniques. For renewable offerings with highly variable pricing, these techniques consider the individual contract's expected renewal price as far as this price is substantive. In general, the Company's cloud subscription offerings follow this approach. For non-renewable offerings, these estimations follow a cost-plus-margin approach.
- For offerings that lack renewals and have highly variable pricing, the Company allocates the transaction price by applying a residual approach. The Company uses this technique in particular for its standard on-premise software offerings.

Judgment is required when estimating SSPs. To judge whether the historical pricing of the Company's goods and services is highly variable, the management have established thresholds of pricing variability. For judging whether contractual renewal prices are substantive, the management have established floor prices that they use as SSPs whenever the contractual renewal prices are below these floor prices. In judging whether contracts are expected to renew at their contractual renewal prices, the Company relies on its respective renewal history. The SSPs of material right options depend on the probability of option exercise. In estimating these probabilities, the management applies judgment considering historical exercise patterns.

The management reviews the stand-alone selling prices periodically or whenever facts and circumstances change to ensure the most objective input parameters available are used.

#### **Recognition of revenue**

##### **Revenue from cloud subscriptions and support**

Revenue from cloud subscriptions and support is recognised over time as the services are performed. Where the Company's performance obligation is the grant of a right to continuously access and use a cloud offering for a certain term, revenue is recognised based on time elapsed and thus ratably over this term.

##### **Revenue from software licenses**

Revenue from software licenses is recognised at a point in time or over time depending on whether the Company delivers standard software or customer-specific software.



### (3) ACCOUNTING POLICIES (Continued)

#### Revenue recognition (continued)

Licenses for the Company's standard on-premise software products are delivered by providing the customer with access to download the software. The license period starts when such access is granted. The Company recognises revenue for these on-premise licenses at the point in time when the customer has access to and thus control over the software. In judging that the Company's on-premise software offerings grant customers a right to use, rather than a right to access, the Company's intellectual property, the management have considered the usefulness of the software without subsequent updates to it.

In general, the Company's custom on-premise-software development agreements

- Are for software developed for specific needs of individual customers and therefore it does not have any alternative use for the Company
- Provide the Company with an enforceable right to payment for performance completed to date

For such development agreements, the Company recognises revenue over time as the software development progresses. Judgment is required in identifying an appropriate method to measure the progress toward complete satisfaction of such performance obligations. The management measure progress of the Company's development agreements based on the direct costs incurred to date in developing the software as a percentage of the total reasonably estimated direct costs to fully complete the development work (percentage-of-completion method). This method of measuring progress faithfully depicts the transfer of the development services to the customer, as substantially all of these costs are cost of the staff or third parties performing the development work. In estimating the total cost to fully complete the development work, the management considers the Company's history with similar projects.

#### Revenue from software support

Revenue from software support is recognised based on time elapsed and thus ratably over the term of the support arrangement. Under the Company's standardised support services, the Company's performance obligation is to stand ready to provide technical product support and unspecified updates, upgrades, and enhancements on a when-and-if-available basis. The Company's customers can simultaneously receive and consume the benefits of these support services as the support services are performed.

#### Services revenue

Services revenue is recognised over time. Where the Company stands ready to provide the service (such as access to learning content), the Company recognises revenue based on time elapsed and thus ratably over the service period. Consumption-based services (such as separately identifiable consulting services and premium support services, messaging services, and classroom training services) are recognised over time as the services are utilised, following the percentage-of-completion method or ratably. When using the percentage-of-completion method, the Company measures the progress toward complete satisfaction of the performance obligation in the same way and with the same reasoning and judgment as the Company does

When using the percentage-of-completion method, the Company measures the progress toward complete satisfaction of the performance obligation in the same way and with the same reasoning and judgment as the Company does for custom on-premise software development agreements. The management applies judgment in determining whether a service qualifies as a stand-ready service or as a consumption-based service.

Revenue for combined performance obligations is recognised over the longest period of all promises in the combined performance obligation.

Judgement is also required to determine whether revenue is to be recognised at a point in time or over time. For performance obligations satisfied over time, the Company needs to measure the progress using the method that best reflects SAP's performance. When using cost incurred as a measure of progress for recognising revenue over time, the management applies judgement in estimating the total cost to satisfy the performance obligation.

All of the judgments and estimates mentioned above can significantly impact the timing and amount of revenue to be recognised.

#### Material expenses

Material expenses are mainly comprised of royalties and licenses and cost of services and are recognised when software and cloud is sold to customers and services are rendered by vendors.

#### Rent expenses

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Operating lease payments (as lessee) are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

### (3) ACCOUNTING POLICIES (Continued)

#### **Other expenses**

Other expenses are mainly comprised of costs of administering the day-to-day operations of the business and costs incurred to market and advertise the Company's services.

#### **Finance income and finance costs**

Finance income are comprised of gains from disposal of subsidiary and interest income on deposits with the ultimate controlling party.

Finance costs are comprised of interest expense from trade and other payables and loans from related parties, interest expenses on income taxes and interest expenses on late royalty payments to the ultimate controlling party.

#### **Interest income and interest expenses**

Interest income and interest expenses are recognised using the effective interest rate method.

#### **Exchange rate differences from foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Exchange rate differences from foreign currency transactions are recognised on a net basis as net gains or losses in profit or loss.

#### **Income taxes**

##### **Income taxes**

Income taxes are comprised of current and deferred taxes. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income and equity.

##### **Current taxes**

Current taxes are the expected tax liabilities or assets on the taxable income or loss for the year. Current tax liabilities or assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period, and any adjustment to tax payable in respect of previous financial years.

Current tax assets and liabilities are offset only if certain criteria are met.

##### **Deferred taxes**

Deferred taxes are recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, and/ or from tax losses carry forward.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised, or the liability is settled, based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax is not recognised for the following:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

### (3) ACCOUNTING POLICIES (Continued)

#### **Intangible assets**

##### *Recognition and measurement*

The Company classifies intangible assets according to their nature and use in its operations. Software and database licenses consist primarily of developed technology for internal use, whereas acquired technology consists primarily of purchased software to be incorporated into the Company's product offerings and in-process research and development (IPRD). Customer relationship consists of customer contracts and acquired trademark licenses.

Intangible assets are measured at cost less accumulated amortisation and impairment losses on intangibles assets.

##### *Amortisation*

Intangible assets with a definite useful life are amortised and recognised in profit or loss on a straight-line method over the estimated useful lives of the intangible assets.

The estimated useful lives for the current and comparative years are as follows:

Acquired technology	2 – 10 years
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#### **Property and equipment**

##### *Recognition and measurement*

Property and equipment are stated at cost, net of accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of assets and includes the cost of replacements that are eligible for capitalisation when these are incurred.

Gains and losses on disposal of property and equipment items are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognised net within other income or other expenses, as relevant, in profit or loss.

##### *Depreciation*

Depreciation is recognised in profit or loss on a straight-line method over the estimated useful lives of each part of the asset.

The estimated useful lives for the current and comparative years are as follows:

Leasehold improvements	The shorter of the estimated useful lives and the lease term of the related leasehold;
Office equipment, furniture and fixtures	3 – 15 years;
Computer equipment	2 – 6 years.

##### *Derecognition*

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### **Cash and cash equivalents**

Cash and cash equivalents are comprised of cash at banks.

#### **Trade and other receivables**

Trade and other receivables are comprised of trade receivables, other receivables and receivables from related parties. Trade and other receivables are subsequently measured at amortised cost using the effective interest rate method, less allowances for expected credit losses. Receivables from related parties are interest free, unsecured and usually subject to payment term of 30 days.

##### *Allowances for expected credit losses*

The Company measures trade receivables and contract assets from contracts with customers at amortised cost less expected credit losses. The Company accounts for expected credit losses by recording an allowance on a portfolio basis. The Company applies the simplified impairment approach in that, on initial measurement of the receivables, the Company considers all credit losses that are expected to occur during the lifetime of the receivables. The Company uses a provision matrix to estimate these losses.

The default risk of the Company's trade receivables is managed separately, mainly based on assessing the creditworthiness of customers through external ratings and on the Company's past experience with the customers concerned. Based on this assessment, individual credit limits are established for each customer and deviations from such credit limits need to be approved by management.



### (3) ACCOUNTING POLICIES (Continued)

#### **Trade and other receivables (continued)**

The Company applies the simplified impairment approach using a provision matrix for all trade receivables to take into account any lifetime expected credit losses already at initial recognition. For the purpose of the provision matrix, customers are clustered into different risk classes, mainly based on market information such as the country risk assessment of their country of origin. Loss rates used to reflect lifetime expected credit losses are determined using a roll-rate method based on the probability of a receivable progressing through different stages of being overdue and on the Company's actual credit loss experience over the past four years. These loss rates are enhanced by forward-looking information to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions, and the expected changes in the economic conditions over the expected life of the receivables. Forward-looking information is based on changes in country risk ratings, or fluctuations in credit default swaps of countries of the customers the Company does business with. The Company continuously monitors outstanding receivables locally to assess whether there is objective evidence that the trade receivables and contract assets are credit-impaired. Evidence that trade receivables and contract assets are credit-impaired include, among the trade receivables being past due, information about significant financial difficulty of the customer or non-adherence to a payment plan. The Company considers receivables to be in default when the counterparty is unlikely to pay its obligations in full. However, a delay of payments (e.g. more than 90 days past due) in the normal course of business alone does not necessarily indicate a customer default.

Additionally, the Company recognises allowances for individual receivables if there is objective evidence of credit impairment.

The Company writes off account balances either partially or in full if the management judges that the likelihood of recovery is remote, which might be evidenced, for example, when bankruptcy proceedings for a customer are finalised or when all enforcement efforts have been exhausted.

In the statement of profit or loss, expenses from allowances for expected credit losses from applying the provision matrix, from credit-impaired customer balances, and from write offs are included in other income or other expenses.

#### **Other assets**

Other assets are comprised of capitalised contract costs, prepaid expenses, advances paid, salary advances, contract assets, and advances received.

##### ***Capitalised contract costs***

Capitalised contract costs are assets which mainly result from the capitalisation of direct and incremental cost incurred when obtaining a customer cloud subscription contract. Capitalised contract costs are amortised on a straight-line basis over the period of providing the cloud subscriptions to which the assets relate.

##### ***Prepaid expenses***

Prepaid expenses are non-financial assets recognised in the statement of financial position when it is probable that future economic benefit will flow to the Company and the amounts can be measured reliably. Prepaid expenses are amortised over the period for which the expenses are incurred and recognised in profit or loss.

##### ***Advances paid***

Advances paid are non-financial assets and are comprised of the payments made by the Company to the external parties for the acquisition of current assets.

##### ***Salary advances***

Salary advances are non-financial assets and are comprised of the interest-free advances given to the employees by the Company.

#### **Trade payables**

Trade payables are comprised of trade payables and payables to related parties. Trade payables are subsequently measured at amortised cost using the effective interest rate method. Payables to related parties are interest free, unsecured and usually subject to payment term of 30 days.

#### **Other liabilities**

Other liabilities are comprised of other payables, advances received, value added tax (VAT), payroll tax liabilities, other tax liabilities, and miscellaneous liabilities.

##### ***Advances received***

Advances received are non-financial liabilities and are comprised of the payments received from the Company's external parties for the future deliverables.

### (3) ACCOUNTING POLICIES (Continued)

#### **Other liabilities (continued)**

##### **Value-added tax (VAT)**

Revenue, expenses and assets are recognised net of the amount of VAT except where the VAT incurred on a purchase of goods or services are not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

##### **Employee benefits**

Salaries, vacation, bonuses, sales commissions and other employee benefits

Salaries, paid vacation and sick leave, bonuses, sales commissions, and other employee benefits expected to be settled within 12 months of the reporting date are recognised in respect of employees' services during the reporting period. Short-term employee benefits are measured at the amounts expected to be paid when the liabilities are settled on an undiscounted basis.

##### **Post-employment benefits**

Defined contribution pension plan

The Company maintains domestic defined contribution plan based on local practices and regulations. Amounts contributed by the Company under such plan is based on a percentage of the employees' salaries or on the amount of contributions made by employees and are recognised as part of pension expenses in profit or loss in the periods during which services are rendered by employees.

The Company's employees have the option to purchase employee shares in the ultimate parent company at a price below the market price. The parent company re-invoices the full value of the shares to the Company. The bonus element is expensed under staff costs.

The parent company has issued share options to the Executive Board and a number of executive employees in the Company. The share options can be exercised at a price lower than the market price. The option scheme concerns shares in the ultimate parent company SAP SE. SAP Danmark A/S is invoiced the difference between the market price and the exercise price in relation to those employees who exercise their options. The differences between the market price and executive flow is recognised in the financial statements under staff costs over the vesting period for the options. At 31 December 2016, the total obligation is recognised in the annual report as a provision.

##### **Share-based payments**

Share-based payments are comprised of cash-settled awards and equity settled awards issued to employees.

The fair values of both cash-settled and equity-settled awards are measured at grant date using an option-pricing model. The fair value of equity-settled awards is not subsequently re-measured. The grant-date fair value of equity-settled awards is recognised as employee benefits expenses in the profit or loss over the period in which the employees become unconditionally entitled to the rights, with a corresponding increase in equity. The amount recognised as an expense is adjusted to reflect the actual number of equity-settled awards options that ultimately vest. Employees are granted discounts on certain share-based payments plans. Since those discounts are not dependent on future services to be provided by the employees, the discount is recognised as an expense when the rights are granted.

Cash-settled awards are re-measured to fair value at each reporting date until the award is settled. Any changes in the fair value of the liability are recognised as employee benefits expenses in the profit or loss. The amount of unrecognised share-based payments expenses related to non-vested share-based payment arrangements granted under the cash-settled plans is dependent on the final intrinsic value of the awards. The amount of unrecognised share-based payments expenses is dependent on the future price of the ultimate controlling party common share which cannot reasonably predict.

Certain assumptions are used in estimating the fair values for the Company's share-based payments plans, including expected future stock price volatility and expected option life (which represents the management's estimate of the average amount of time remaining until the options are exercised or expire unexercised). In addition, final pay-out for these plans also depends on the SAP SE share price at the respective exercise dates. All these assumptions may significantly impact the fair value determination and thus the amount and timing of the share-based payments expenses.

##### **Deferred income (applicable for 2017)**

Deferred income are recognised as cloud subscriptions and support revenue, software licenses revenue, software support revenue, or services revenue, depending on the reason for the deferral, once the basic applicable revenue recognition have been met. These criteria are met, for example, when the services are performed or when the discounts that relate to a material right granted in a purchase option are applied.



### (3) ACCOUNTING POLICIES (Continued)

#### **Contract assets and contract liabilities (applicable for 2018)**

The Company recognises trade receivables for performance obligations satisfied over time gradually as the performance obligation is satisfied and in full once the invoice is due. Judgment is required in determining whether a right to consideration is unconditional and thus qualifies as a receivable. Contract liabilities primarily reflect invoices due or payments received in advance of revenue recognition.

In general, the Company invoice fees for on-premise standard software upon contract closure and software delivery. Periodic fixed fees for cloud subscription services, software support services, and other multiperiod agreements are invoiced yearly or quarterly in advance. Such fee prepayments account for the majority of the Company's contract liability balance. Fees based on actual transaction volumes for cloud subscriptions and fees charged for non-periodical services are invoiced as the services are delivered. While payment terms and conditions vary by contract type and region, the terms generally require payment within 30 to 60 days.

#### **Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### *Restructuring provisions*

A provision for restructuring is recognised when a detailed and formal restructuring plan has been approved and the restructuring has been announced or has commenced.

#### **Share capital**

Share capital is recognised as issued when it is paid for or subscribed under a binding subscription agreement and is measured at par value

#### **Retained earnings**

Retained earnings represent the cumulative balance of net profit or loss, dividend declaration, effect of changes in accounting policy and other equity adjustments.

#### *Common control transactions*

Common control transactions are the acquisition of operations acquired under business combinations arising from transfers of interests in entities and/ or assets and liabilities, that are under the control of the related parties ultimately controlled by SAP SE, are recognised at the carrying amounts recognised previously in the transferor's financial statements. Any cash paid for the acquisition in excess of the carrying amounts is recognised directly in equity.

#### **Dividends**

Dividends are recognised as a liability in the period in which they are declared. The holder of ordinary shares i.e. the immediate controlling party is entitled to receive dividends as and when declared by the Company and approved by the Board of Directors. Dividends to the shareholders are accounted for as a deduction from retained earnings.

#### **Related parties**

Related party relationship exists when one party has the ability to control the other party, directly or indirectly, through one or more intermediaries or exercise significant influence over the other party in making financial and operating decisions. Such relationships exist between the Company and its ultimate controlling party, SAP SE, between the Company and other entities under common control of SAP SE, and between the Company and its key management personnel. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

#### **Commitments**

Commitments are future payments that the Company has committed based on legal contracts. The Company discloses its significant commitments which are non-cancellable operating lease commitments and other financial commitments.

### (3) ACCOUNTING POLICIES (Continued)

**Financial ratios**

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss from operating activities}}{\text{Average assets} \times 100}$
Current ratio	$\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{Profit/loss for the year after tax} \times 100}{\text{Average equity}}$

**Events after the reporting period**

Events after the reporting period that provide additional information about the Company's financial position at the reporting date (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to financial statements, when material.

## (4) PROPERTY AND EQUIPMENT

DKK'000	Leasehold improvements	Office equipment, furniture and fixtures	Computer equipment	Total
<b>Cost</b>				
<b>As at 1 January 2018</b>	<b>5.690</b>	<b>12.125</b>	<b>14.963</b>	<b>32.778</b>
Additions	283	164	2.157	2.604
Disposals	-2.930	-158	-571	-3.659
<b>As at 31 December 2018</b>	<b>3.043</b>	<b>12.131</b>	<b>16.549</b>	<b>31.723</b>
<b>Accumulated depreciation</b>				
<b>As at 1 January 2018</b>	<b>4.756</b>	<b>8.726</b>	<b>10.882</b>	<b>24.364</b>
Depreciation	227	795	2.323	3.345
Disposals	-2.930	-158	-527	-3.615
<b>As at 31 December 2018</b>	<b>2.053</b>	<b>9.363</b>	<b>12.678</b>	<b>24.094</b>
<b>Net book value</b>				
<b>As at 31 December 2018</b>	<b>990</b>	<b>2.768</b>	<b>3.871</b>	<b>7.629</b>

## (5) INTANGIBLE ASSETS

DKK'000	Acquired technology
<b>Cost</b>	
<b>As at 1 January 2018</b>	<b>1.924</b>
Additions	0
Disposals	0
<b>As at 31 December 2018</b>	<b>1.924</b>
<b>Accumulated amortisation</b>	
<b>As at 1 January 2018</b>	<b>1.368</b>
Amortisation	324
<b>As at 31 December 2018</b>	<b>1.692</b>
<b>Net book value</b>	
<b>As at 31 December 2018</b>	<b>232</b>

## (6) DEFERRED TAX ASSETS

DKK'000	2018	2017
<b>Deferred tax assets</b>		
Intangible assets	792	1.300
Property and equipment	322	178
Trade and other receivables	569	630
Employee benefits liabilities	4.911	4.810
Provisions	490	475
<b>Deferred tax assets</b>	<b>7.084</b>	<b>7.393</b>

Management has assessed that the deferred income tax asset can be utilised against positive earnings within 3 to 5 years.

## (7) OTHER ASSETS

DKK'000	2018	2017
Capitalised contract costs	66.003	29.546
Contract assets	5.228	0
Prepaid expenses	1.255	1.461
Salary advances	19	0
Advances paid	85	0
<b>Total</b>	<b>72.590</b>	<b>31.007</b>

For the year ended 31 Decemeber 2018 the prepaid expenses comprise of prepayments for rent expenses (DKK 854 thousands), insurance expenses (DKK 203 thousands), travel expenses (DKK 188 thousands), and marketing expenses (DKK 10 thousands).

## (8) TRADE AND OTHER RECEIVABLES

DKK'000	Note	2018	2017
Trade receivables		267.981	176.260
Deposits with the ultimate controlling party	(18)	309.057	368.584
Receivables from related parties	(18)	36.207	21.257
Rent deposits		5.956	5.823
Other receivables		0	3
<b>Total</b>		<b>619.201</b>	<b>571.927</b>

## (9) SHARE CAPITAL

DKK'000	2018	2017
<b>Authorised, issued and fully paid</b>		
500.000 ordinary shares of 1 DKK each	500	500
1.000.000 ordinary shares of 5 DKK each	5.000	5.000
<b>Total</b>	<b>5.500</b>	<b>5.500</b>

The last change in the share capital was in 1990.

## (10) DEFERRED INCOME/ CONTRACT LIABILITIES

DKK'000	2018	2017
Deferred income current	95.428	75.691
Deferred income non-current	253	2.006
<b>Total</b>	<b>95.681</b>	<b>77.697</b>

## (11) PROVISIONS

DKK'000	2018	2017
Restoration provisions	2.226	2.159
Equity-settled share-based payments provisions	0	530
<b>Total</b>	<b>2.226</b>	<b>2.689</b>

## (12) TRADE AND OTHER PAYABLES

DKK'000	Note	2018	2017
Trade payables		5.656	7.359
Payables to related parties	(18)	172.433	202.883
<b>Total</b>		<b>178.089</b>	<b>210.242</b>

## (13) REVENUE

## Revenue by line of business

DKK'000	2018	2017
Cloud subscriptions and support	165.073	107.004
Software licenses	264.701	211.945
Software support	828.555	806.959
Software licenses and support	1.093.256	1.018.904
<b>Cloud and software</b>	<b>1.258.329</b>	<b>1.125.908</b>
Services	337.274	365.315
<b>Total</b>	<b>1.595.603</b>	<b>1.491.223</b>

## Revenue by region

For the year ended 31 December 2018 the revenue arose within Denmark (DKK 1.369.476 thousands), Germany (DKK 117.618 thousands), Sweden (DKK 30.075 thousands), Iceland (DKK 15.598 thousands), Norway (DKK 15.517 thousands), and other countries (DKK 47.319 thousands).

## (14) EMPLOYEE BENEFITS AND EMPLOYEES' NUMBER

## Average number of employees

Number of full-time equivalents	2018	2017
Average number of employees	220	213

## Employee benefits expenses

DKK'000	2018	2017
Salaries	275.152	272.689
Social security expenses	2.369	2.342
Defined contribution pension plan expenses	17.792	16.537
Cash-settled share-based payments expenses	13.012	16.650
Equity-settled share-based payments expenses	4.082	4.573
Other employee benefits expenses	3.852	2.283
<b>Total</b>	<b>316.259</b>	<b>315.074</b>

The Company's Executive Board only consists of one person and no remuneration have been paid to the members of the Board of Directors. In accordance with section 98b (3), (ii), of the Danish Financial Statements Act, remuneration to management is not disclosed.

## (15) FINANCE INCOME AND FINANCE COSTS

DKK'000	2018	2017
<b>Finance income</b>		
Interest income	0	21
Interest income from the deposits with the ultimate controlling party	0	184
<b>Total</b>	<b>0</b>	<b>205</b>
<b>Finance costs</b>		
Interest expenses	-1.065	-525
Interest expenses on income taxes	-312	-401

Interest expenses on the late royalty payments to the ultimate controlling party	-16	-70
<b>Total</b>	<b>-1.393</b>	<b>-996</b>



## (16) INCOME TAX EXPENSE

DKK'000	2018	2017
<b>Current income tax expense</b>		
Current income tax expense for current year	39.795	26.734
Current income tax benefit/ expense for prior year	-53	2.138
<b>Deferred income tax benefit/ expense</b>		
Deferred income tax benefit/ expense	-1.856	164
<b>Income tax expense</b>	<b>37.886</b>	<b>29.036</b>

## (17) PROPOSED PROFIT APPROPRIATION

DKK'000	2018	2017
Proposed dividends	90.000	75.000
Retained earnings	41.478	21.264
<b>Profit after income tax</b>	<b>131.478</b>	<b>96.264</b>

## (18) RELATED PARTIES

DKK'000	2018	2017
<b>Balances</b>		
Deposits with the ultimate controlling party	309.057	368.584
Receivables from the ultimate controlling party	4.593	3.964
Receivables from other related parties	31.614	17.293
Payables to the ultimate controlling party	145.292	172.986
Payables to other related parties	27.141	29.897
<b>Transactions</b>		
Services revenue from the ultimate controlling party	71.822	66.579
Services revenue from other related parties	129.347	165.249
Royalties and licenses expenses with the ultimate controlling party	723.048	638.947
Royalties and licenses expenses with other related parties	40.986	46.126
Purchased services expenses with the ultimate controlling party	44.919	45.904
Purchased services expenses with other related parties	67.273	61.232
Other expenses with the ultimate controlling party	82.750	84.933
Other expenses with other related parties	71.303	91.999
Interest income from the deposits with the ultimate controlling party	0	184
Interest expenses on the late royalty payments to the ultimate controlling party	16	70

## (19) COMMITMENTS

As at 31 December, the total future minimum payments under non-cancellable operating leases are payable as follows:

DKK'000	2018	2017
Within one year	15.745	16.624
Later than one year but not later than five years	47.234	66.497
<b>Total</b>	<b>62.978</b>	<b>83.121</b>

Rent agreement has remaining contract terms until year 2022.

**(19) COMMITMENTS (Continued)**

Other financial commitments outstanding as at 31 December 2018 for services, assets and car lease are as follows:

DKK'000	Note	2018	2017
Trade payables		5.656	7.359
Payables to related parties	(17)	172.433	202.883
<b>Total</b>		<b>178.089</b>	<b>210.242</b>

Car lease agreement has remaining contract terms until year 2021.

**(20) EVENTS AFTER REPORTING PERIOD**

In 2019, SAP will further increase focus on its key strategic growth areas. SAP will execute a global restructuring program in 2019 to further simplify company structures and processes and to ensure that SAP's organisational setup, skills set, and resource allocation continue to meet evolving customer demand. The main features of the restructuring plan were announced on 29 January 2019. The Company's restructuring expenses are projected to be DKK 14.009 thousands.