

Managing Business in Times of Volatile Commodity Prices

Anja Strothkämper, Vice President LoB Solutions for Commodity Management,
Mannheim, September 12th 2012



Legal Disclaimer

The information in this presentation is confidential and proprietary to SAP and may not be disclosed without the permission of SAP. This presentation is not subject to your license agreement or any other service or subscription agreement with SAP. SAP has no obligation to pursue any course of business outlined in this document or any related presentation, or to develop or release any functionality mentioned therein. This document, or any related presentation and SAP's strategy and possible future developments, products and/or platforms directions and functionality are all subject to change and may be changed by SAP at any time for any reason without notice. The information on this document is not a commitment, promise or legal obligation to deliver any material, code or functionality. This document is provided without a warranty of any kind, either express or implied, including but not limited to, the implied warranties of merchantability, fitness for a particular purpose, or non-infringement. This document is for informational purposes and may not be incorporated into a contract. SAP assumes no responsibility for errors or omissions in this document, and shall have no liability for damages of any kind including without limitation direct, special, indirect, or consequential damages that may result from the use of this document. This limitation shall not apply in cases of intent or gross negligence.

All forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from expectations. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates, and they should not be relied upon in making purchasing decisions.

Agenda

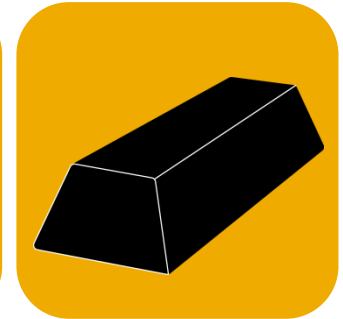
Motivation for Commodity Management

SAP Solution Approach

SAP Solution Offering

Roadmap

Summary





Motivation

Global trends and their impact on commodity management

Volatility fueled by market dynamics

Increasing demand in emerging markets (China and India) is creating a tight balance between supply and demand

- Geopolitical uncertainties
- Rising influence of hedge funds and financial institutions

Increasing focus on risk management

- Increased focus on risk management by crisis-shaken executives, driven by the need to protect earnings and keep company operations running

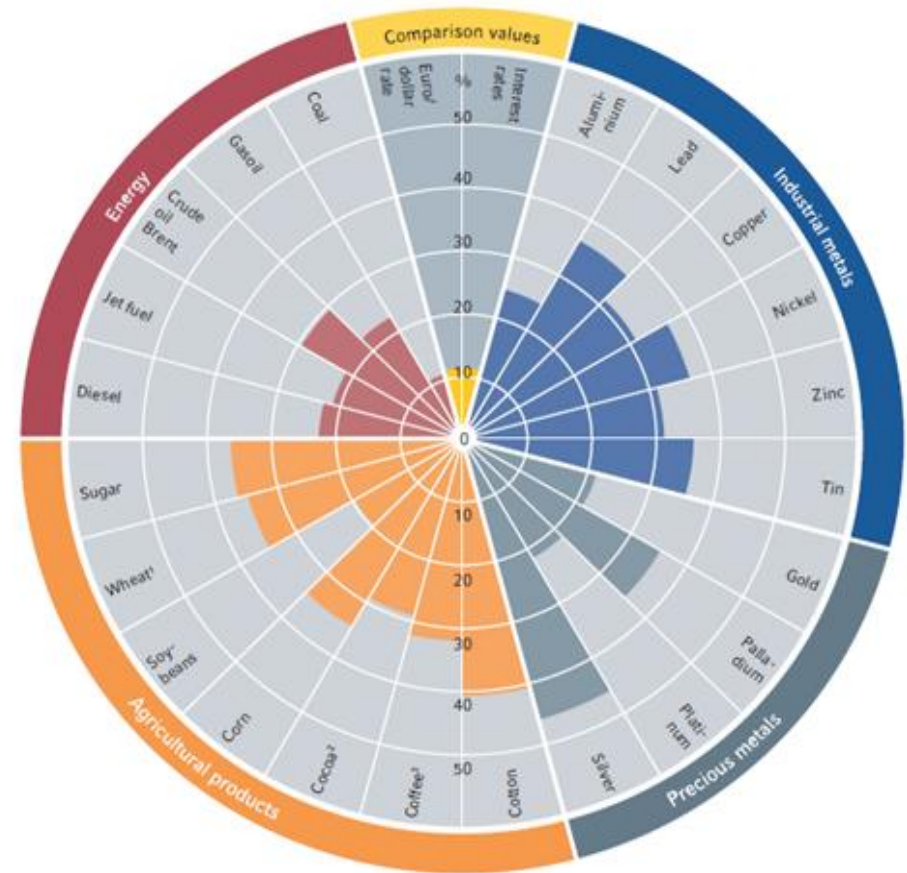
Compliance with government regulations like the Sarbanes-Oxley Act

- Companies struggle to keep up and comply with regulations like hedge accounting laws
- Strong demand for business solutions designed to meet these requirements

Commodity prices are volatile

- Commodity Price Volatility is constantly increasing for commodities like Oil, Copper, Lead, Zinc, Sugar and Wheat.
- Volatility is significantly higher than for currencies or interest rates
- Volatility has a high impact on the profit of many companies
- Calculating and managing the material cost for end products is difficult
- Liquidity and cash planning becomes challenging
- Hedging with financial derivatives can be a strategy to manage the challenges of volatility

Volatilities between 01.04.2011 - 30.03.2012



Source: Commerzbank /Wirtschaftswoche – Commodity radar screen for March 2012

Commodity management industries

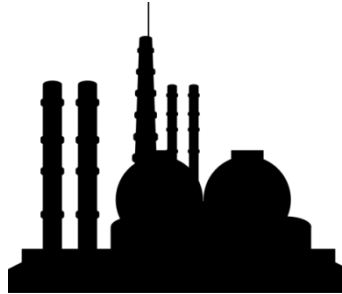
Commodity producers



Industry examples

- Oil
- Mining
- Agriculture

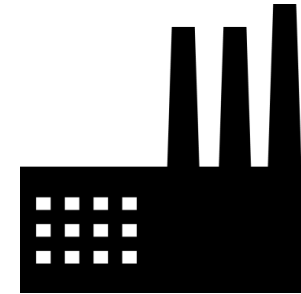
Commodity converters



Industry examples

- Chemicals
- Metals
- Mill products
- Oil and gas (refining)
- Utilities

Commodity consumers

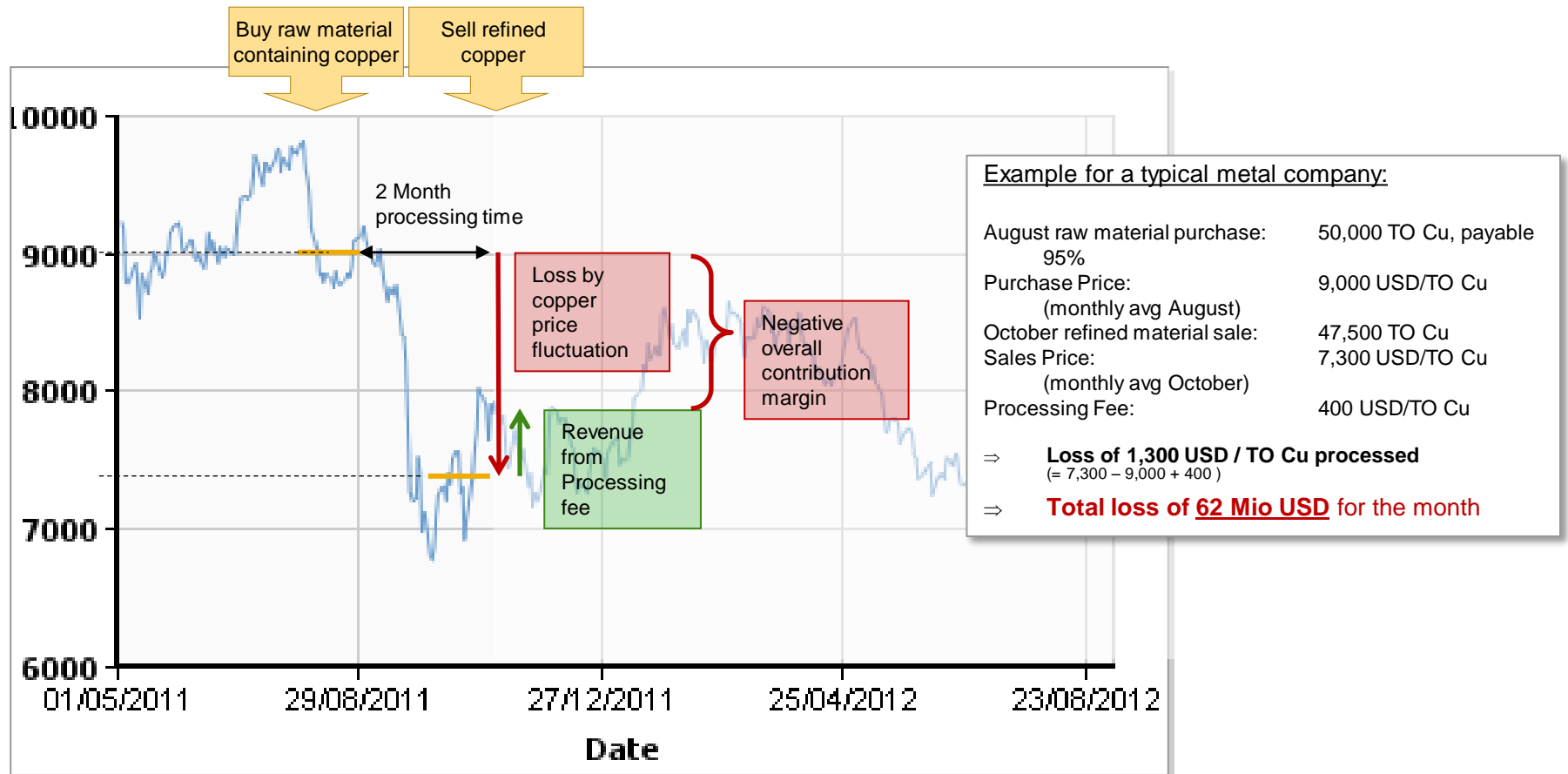


Industry examples

- Automotive
- Consumer products
- High tech
- Aerospace
- Industrial machinery and components
- Defense and security; public administration
- Travel and logistics

Impact of Price Volatility for a Metal Smelter

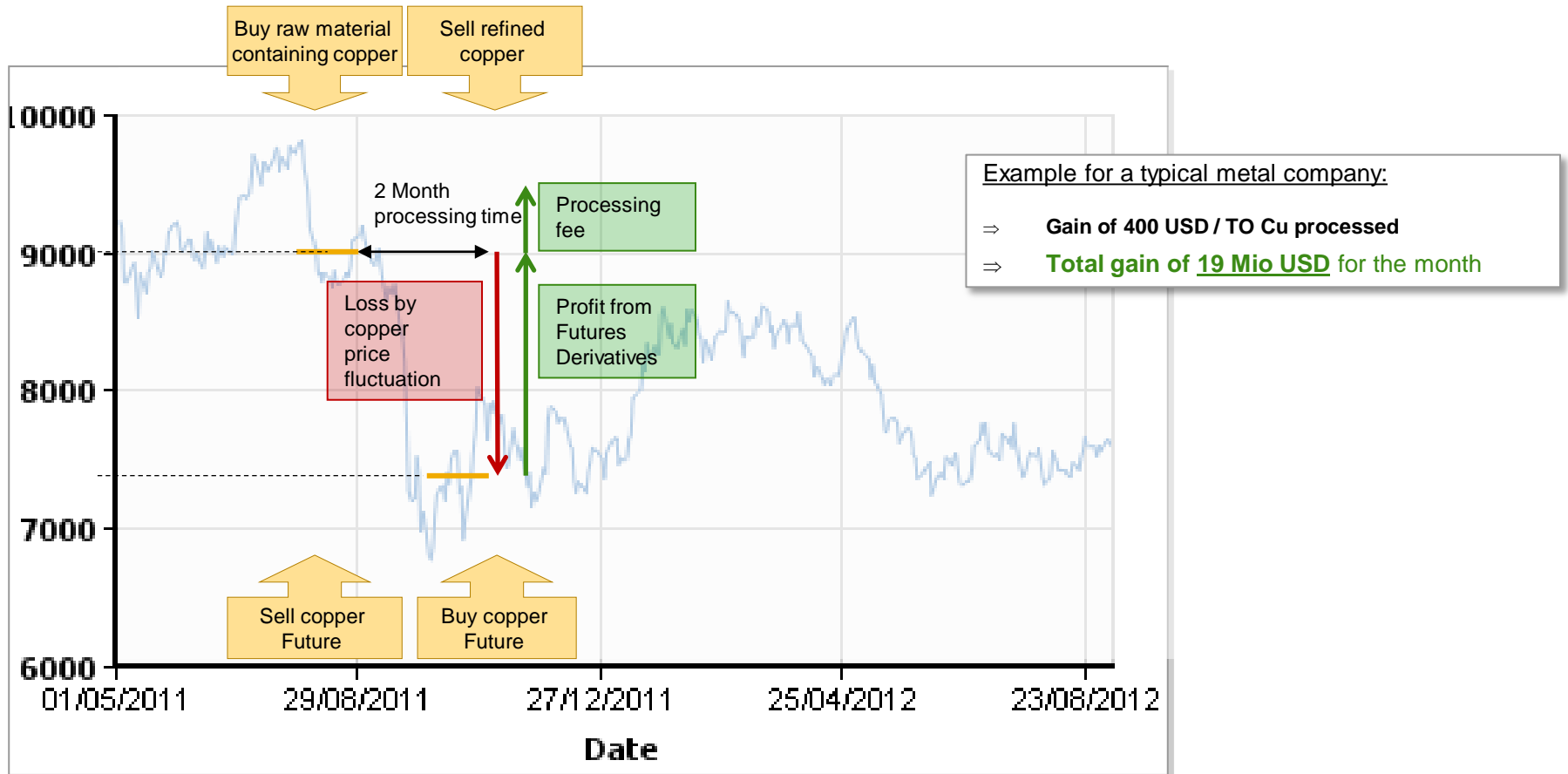
Un-hedged: High Risk Exposure



Copper Grade A – London Metal Exchange (LME)
Official Price Curve in US\$/t – Cash Buyer

Impact of Price Volatility for a Metal Smelter

Hedged: No/Low Risk and ensured profitability



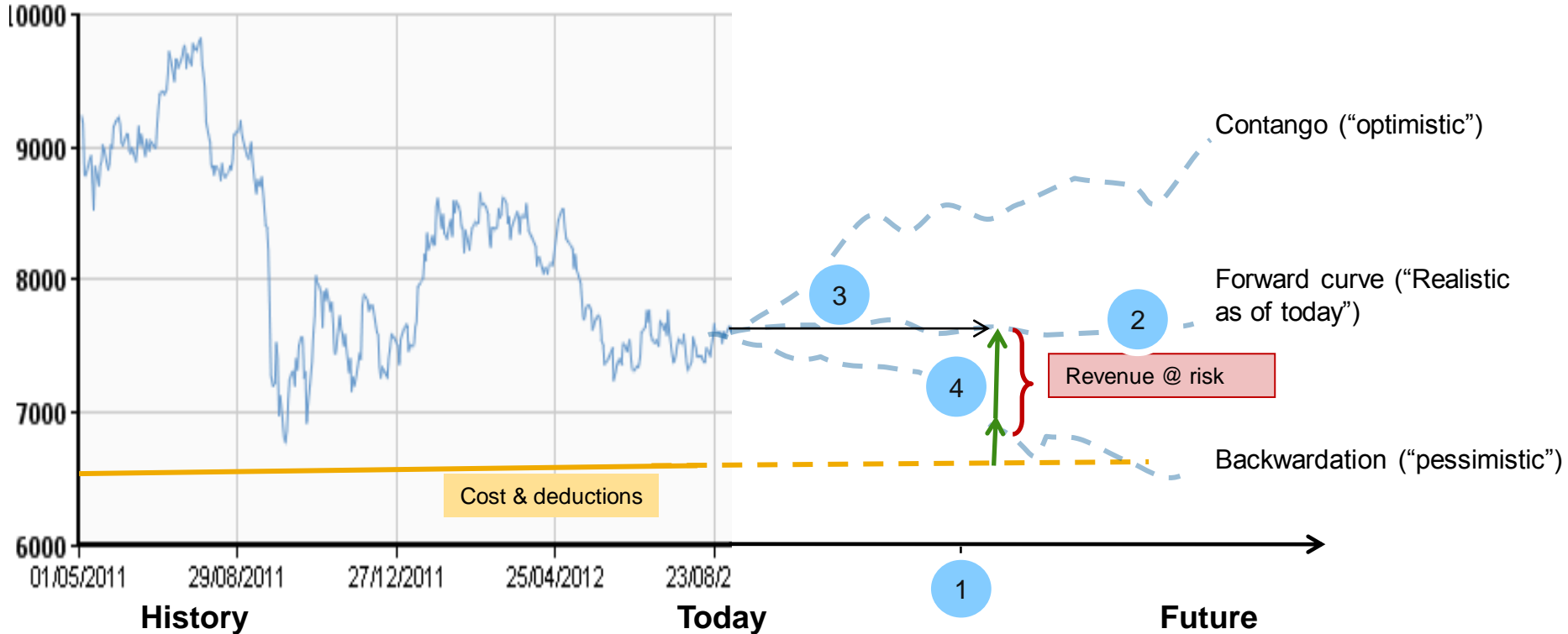
Copper Grade A – London Metal Exchange (LME)
Official Price Curve in US\$/t – Cash Buyer

Impact of Price Volatility for a Mining Company

How do I secure my planned profit?



Where will the market be in the future?
What will my revenue & profit look like?



Copper Grade A – LME
Official Price Curve in US\$/t
– Cash Buyer



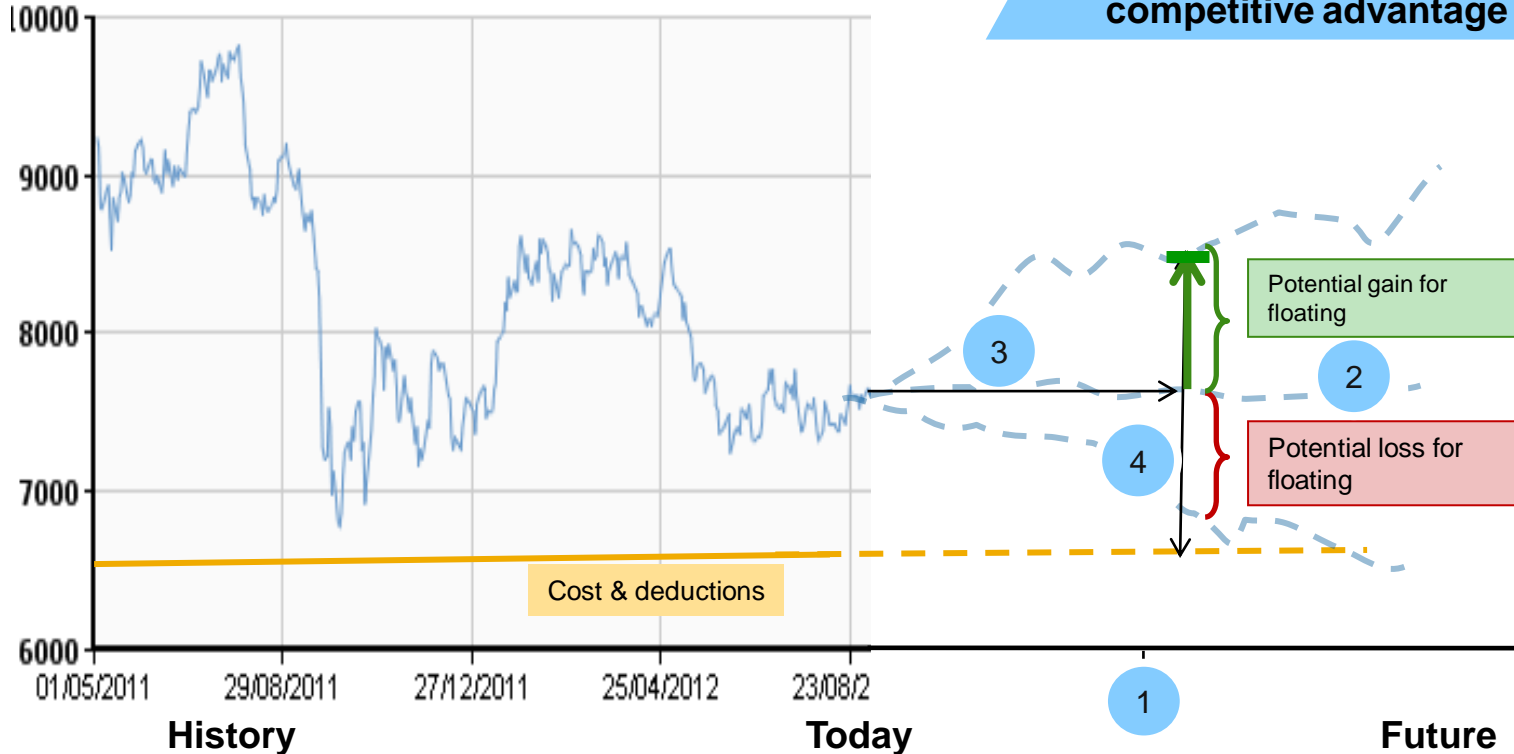
Impact of Price Volatility for a Mining Company

How do I even increase my planned profit?



Where will the market be in the future?
What will my revenue & profit look like?

**Increase Profit –
Know & monitor the market – use
competitive advantage & insight**



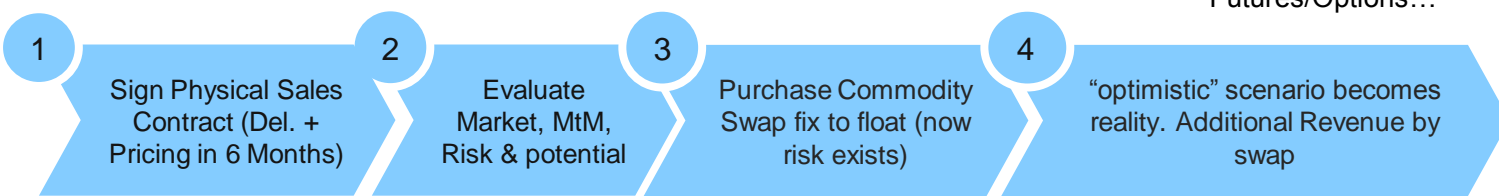
Contango (“optimistic”):

- Convert Physical Deals Fix to Floating (Swaps)
- Move QP further into the future (1MAMA -> 3MAMA) for new physical/spot deals or via Swaps
- ...

Backwardation (“pessimistic”):

- Convert Physical Deals Floating to Fix (Swaps)
- Move QP to start as early as possible (3MAMA -> 1MAMA)
- Minimize Risk through Futures/Options...

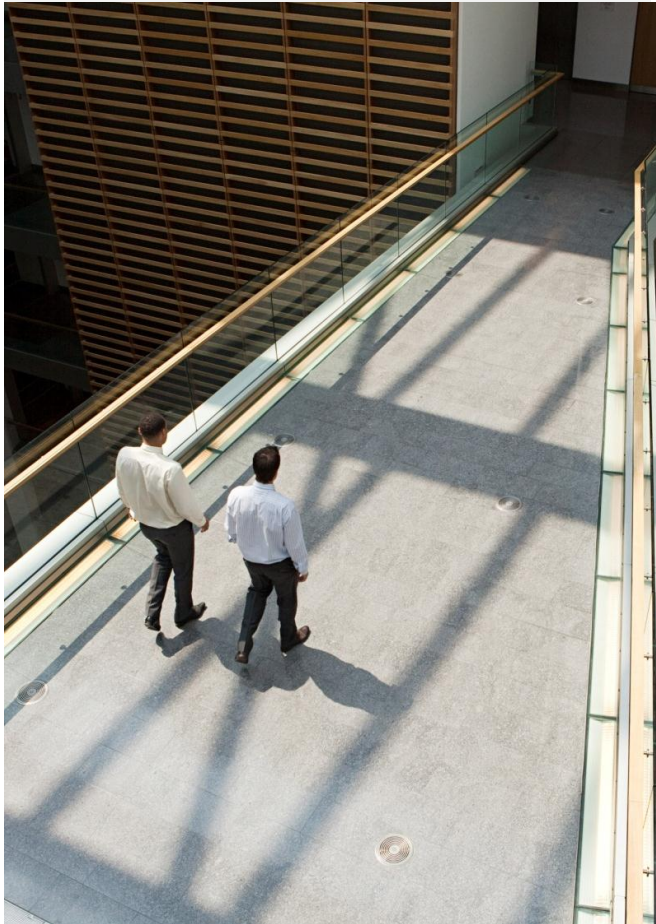
Copper Grade A – LME
Official Price Curve in US\$/t
– Cash Buyer





SAP Solution Approach

SAP's approach to commodity management



- **Commodity management solutions from SAP is one of the strategic investment areas within SAP's Business Suite application platform**
- **Leveraging SAP's core strengths in logistics, finance and industry solutions**
- **New cross industry organizational unit for Commodity management**
- **Dedicated development team for Commodity management**
- **Collaboration with customers and partners to build solution roadmap and to develop best in class solutions**

Commodity management solutions from SAP



**SAP
Commodity
Procurement**

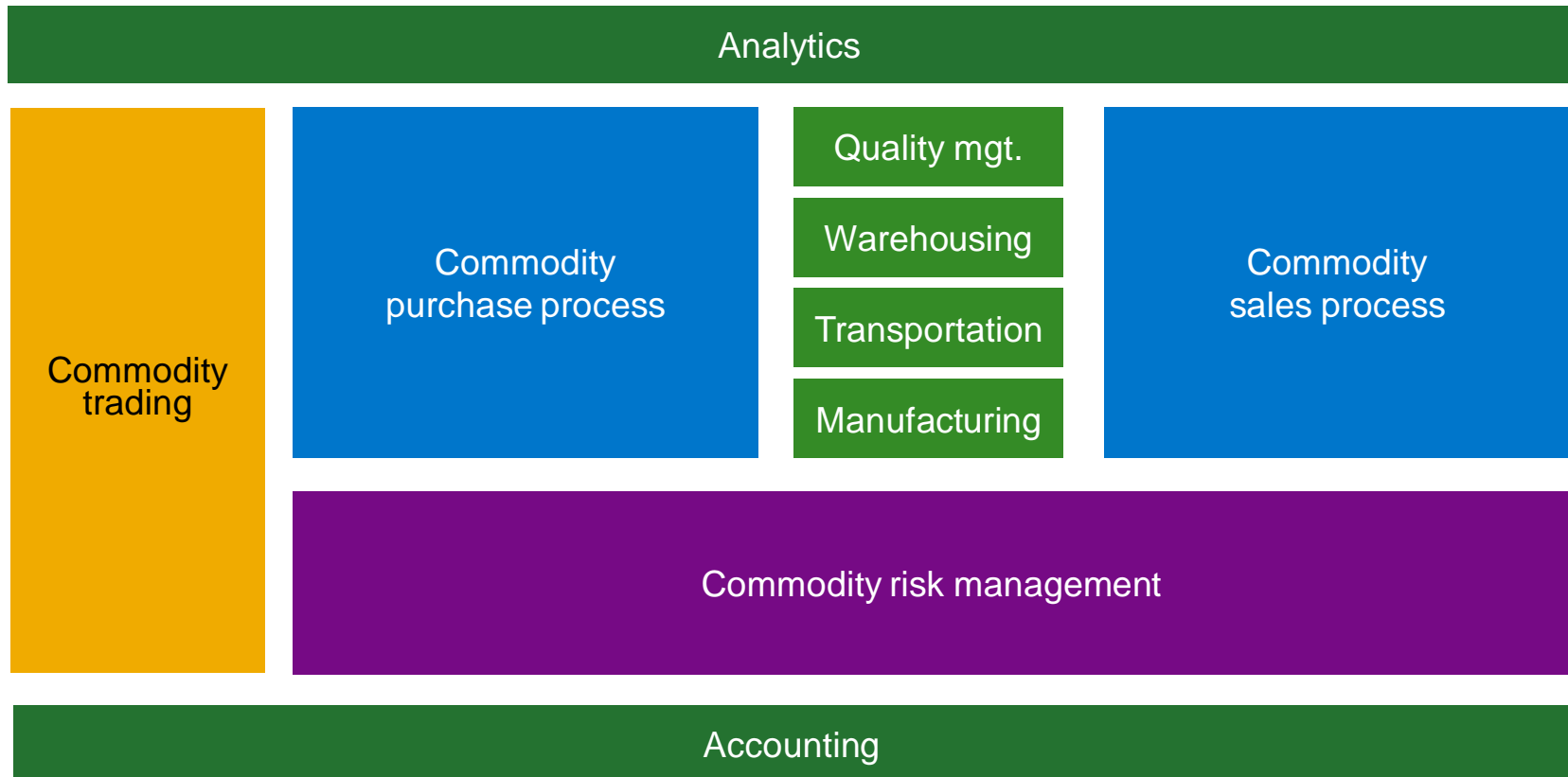


**SAP
Commodity
Risk Management**

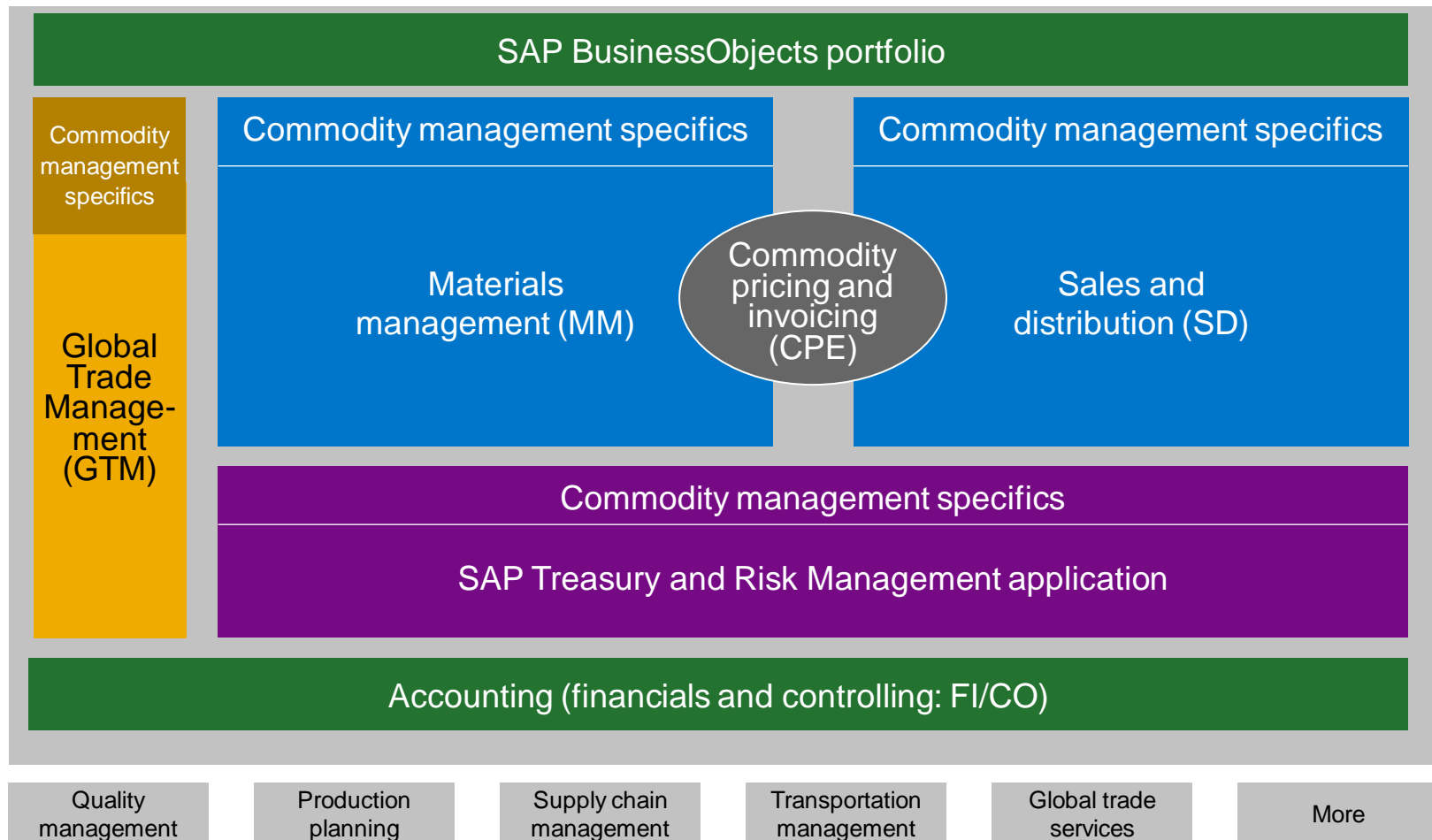


**SAP
Commodity
Sales**

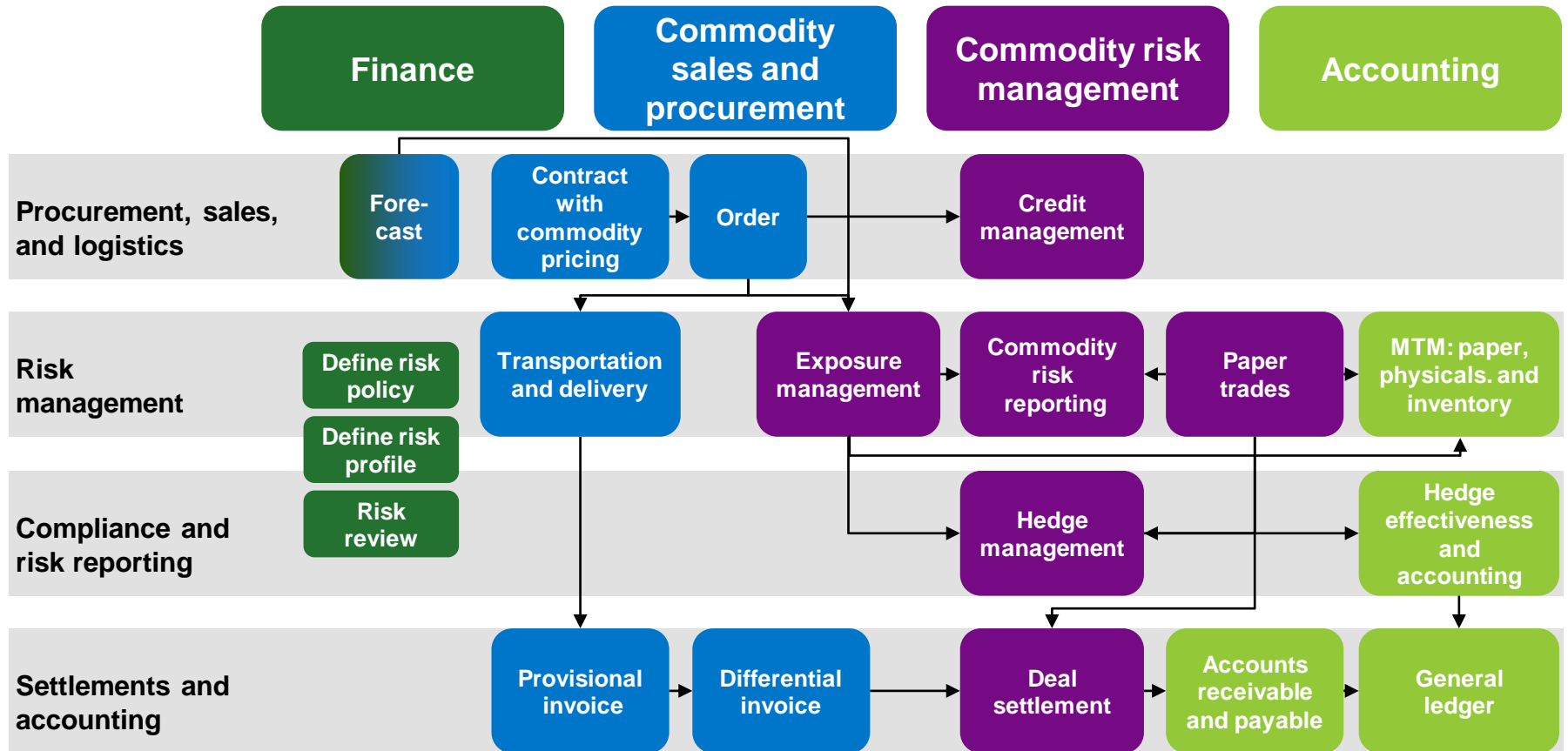
Commodity management – business building blocks



Commodity management – our solution platform

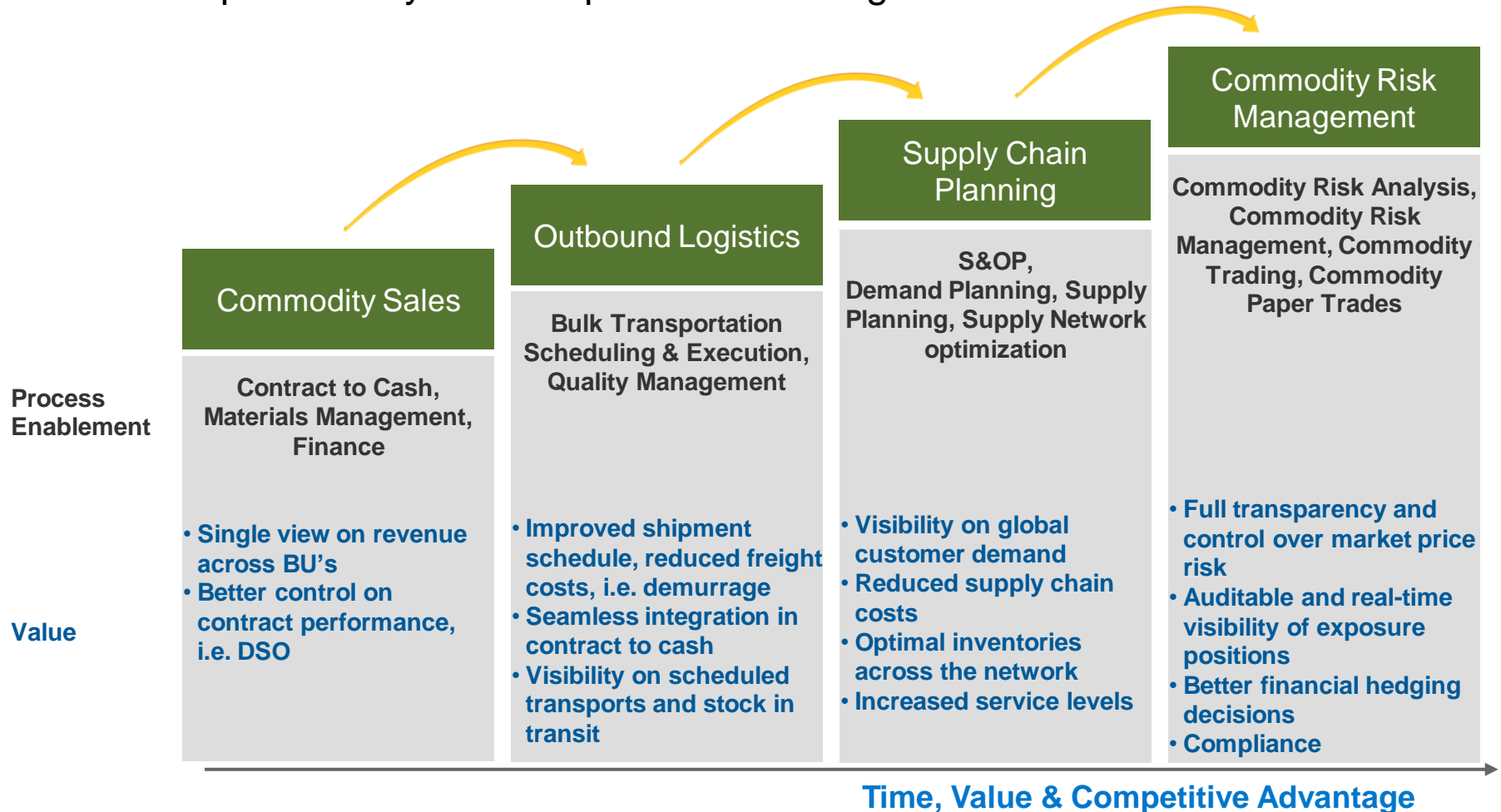


Commodity management solutions from SAP streamline processes across procurement, sales, risk management and accounting departments



A Journey to Maturity for our customers

Many of our customers have deployed our solutions in a sequenced approach and increased productivity and competitive advantage over time

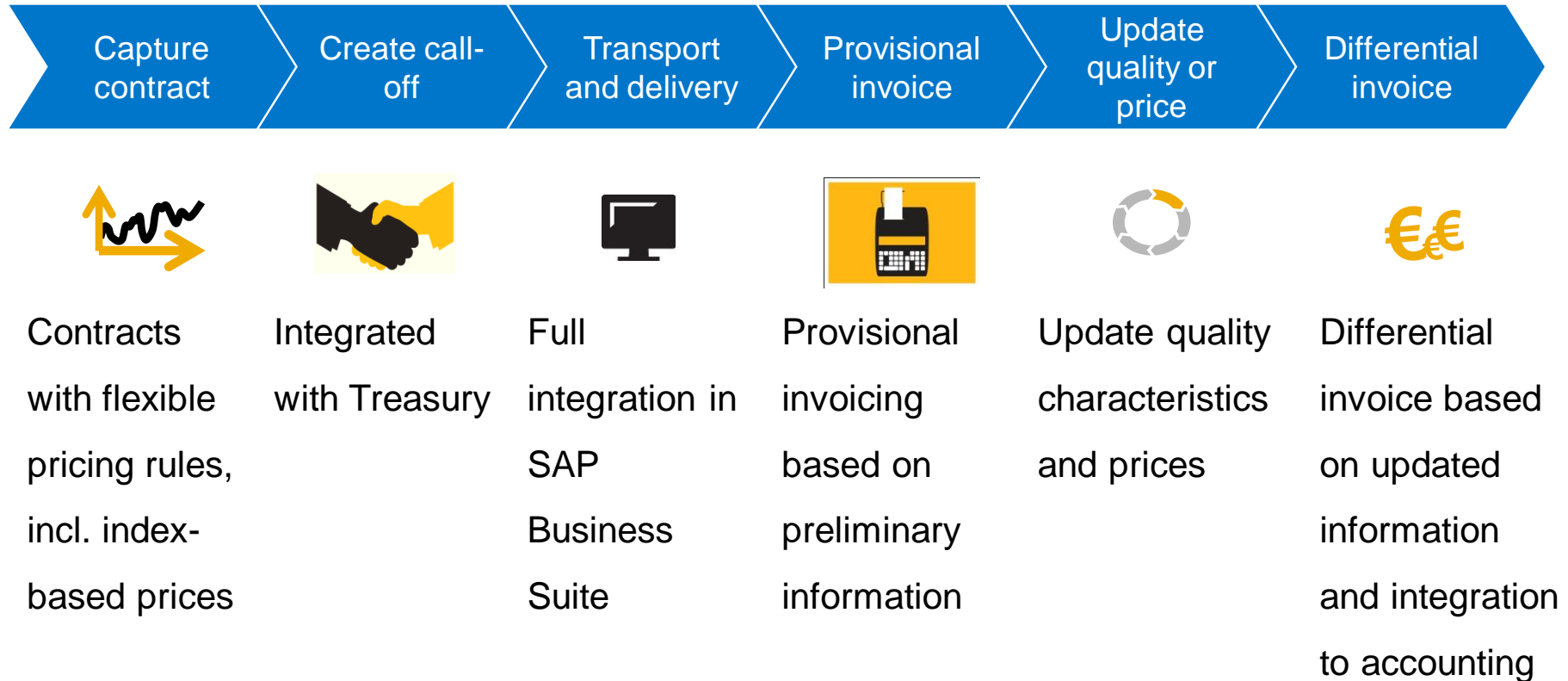




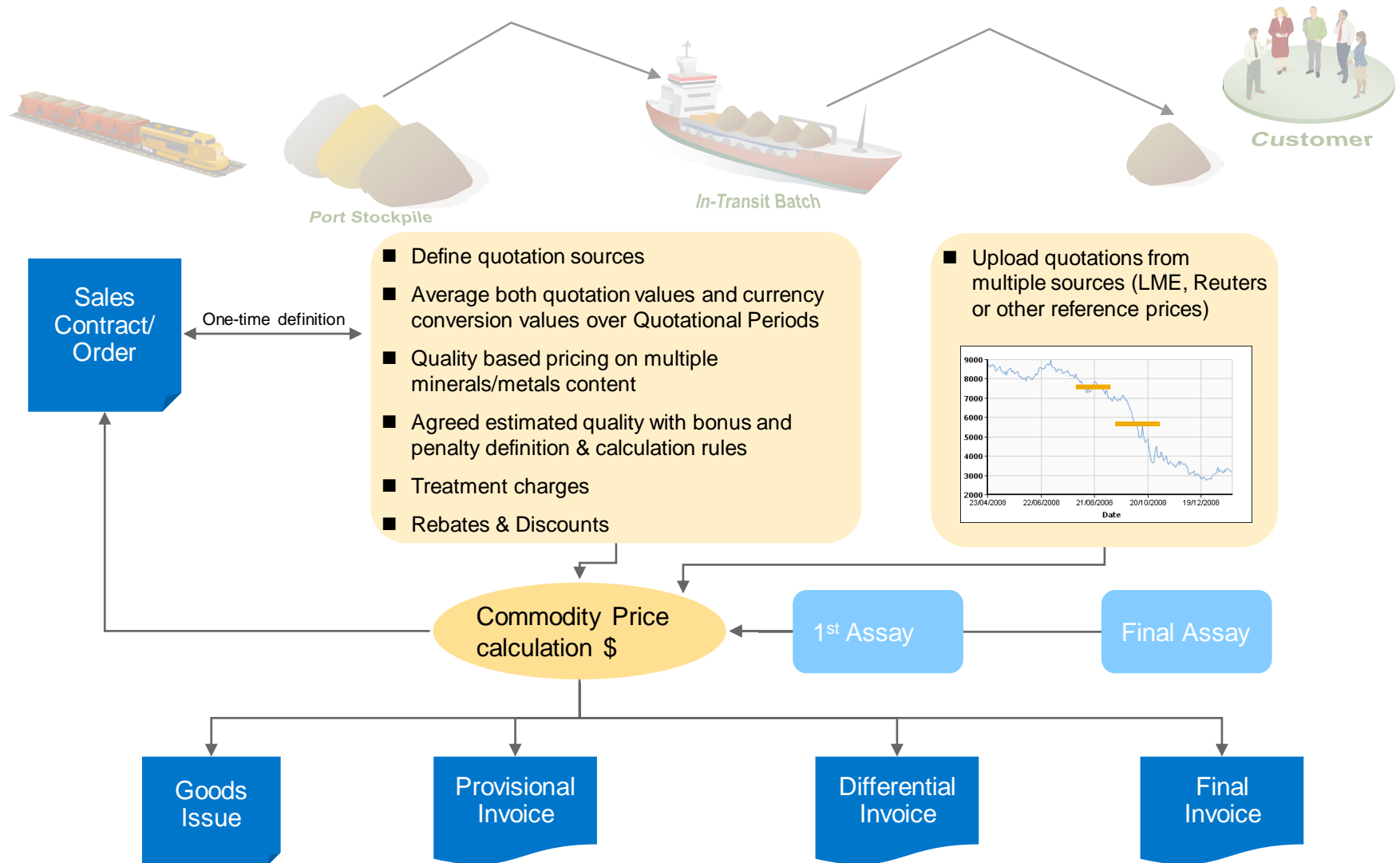
SAP Solution Offering

SAP Commodity Procurement and Commodity Sales

End to End Process supported



Commodity Pricing within a typical Commodity Sales / Commodity Procurement process



SAP Business Objects Xcelsius Dashboard for Commodity Sales

Non interactive screenshot

SHORT SHIP - Delivery 80000043 LATE DELIVERY - Delivery 80000302 SHORT SHIP - Delivery 80000186 SHORT SHIP - Delivery 80000042 LATE DELIVERY

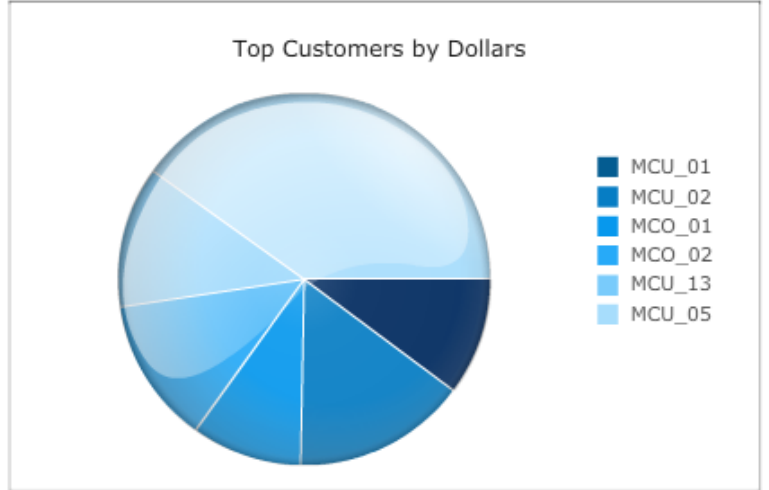
December 2011

Mon	Tue	Wed	Thu	Fri	Sat	Sun
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

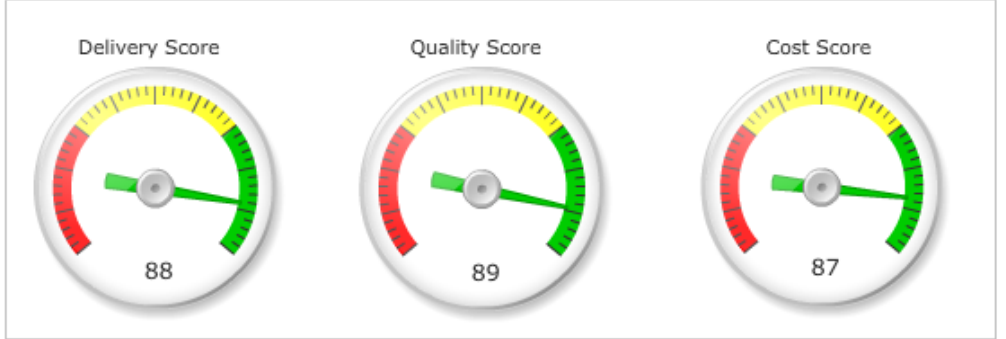
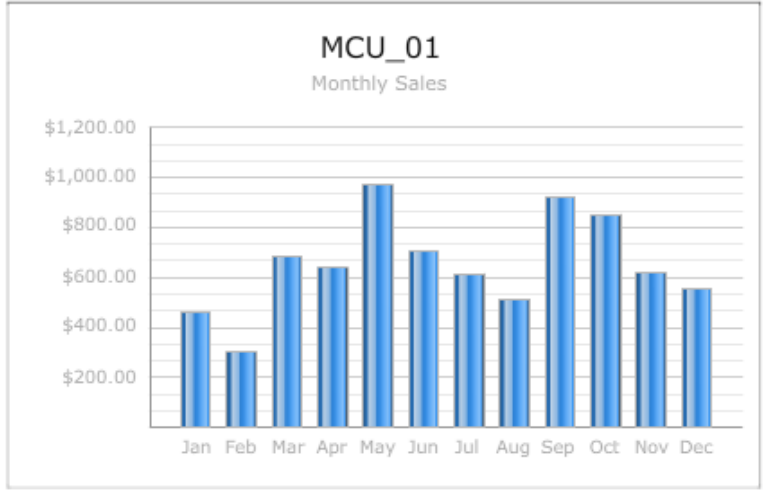
Print Dashboard

Send E-Mail

Display Contract



Customer	Contract	Status	Oper
MCU_01	40000022	Completed	0
MCO_01	40000024	Open	240,0
MCU_01	40000025	Partially Delivered	110,0
MCU_02	40000029	Partially Delivered	100,0
MCO_04	40000030	Partially Delivered	220,0
MCO_01	40000035	Partially Delivered	100,0



SAP Commodity Risk Management

End to End Process supported



Integrated
with Physical
Business /
Logistics



Up-to-date
Risk
Reporting



Full Suite of
Commodity
Instruments



Deal entry,
validation,
correspon-
dence



Instrument
lifecycle
management
and integration
to accounting



Fully supports
Hedge
accounting

Value proposition for integrated SAP Commodity Risk Management

SAP provides comprehensive end to end processes for commodity risk management

Logistics Integration

- Reliability and timeliness of data, e.g. in position report
- Enables timely and efficient hedging decisions
- Lower TCO (IT)



Native Commodity Risk Management

- Increased transparency across multiple and diverse business units
- Key Performance Indicators (KPIs) measured and managed

Accounting Integration

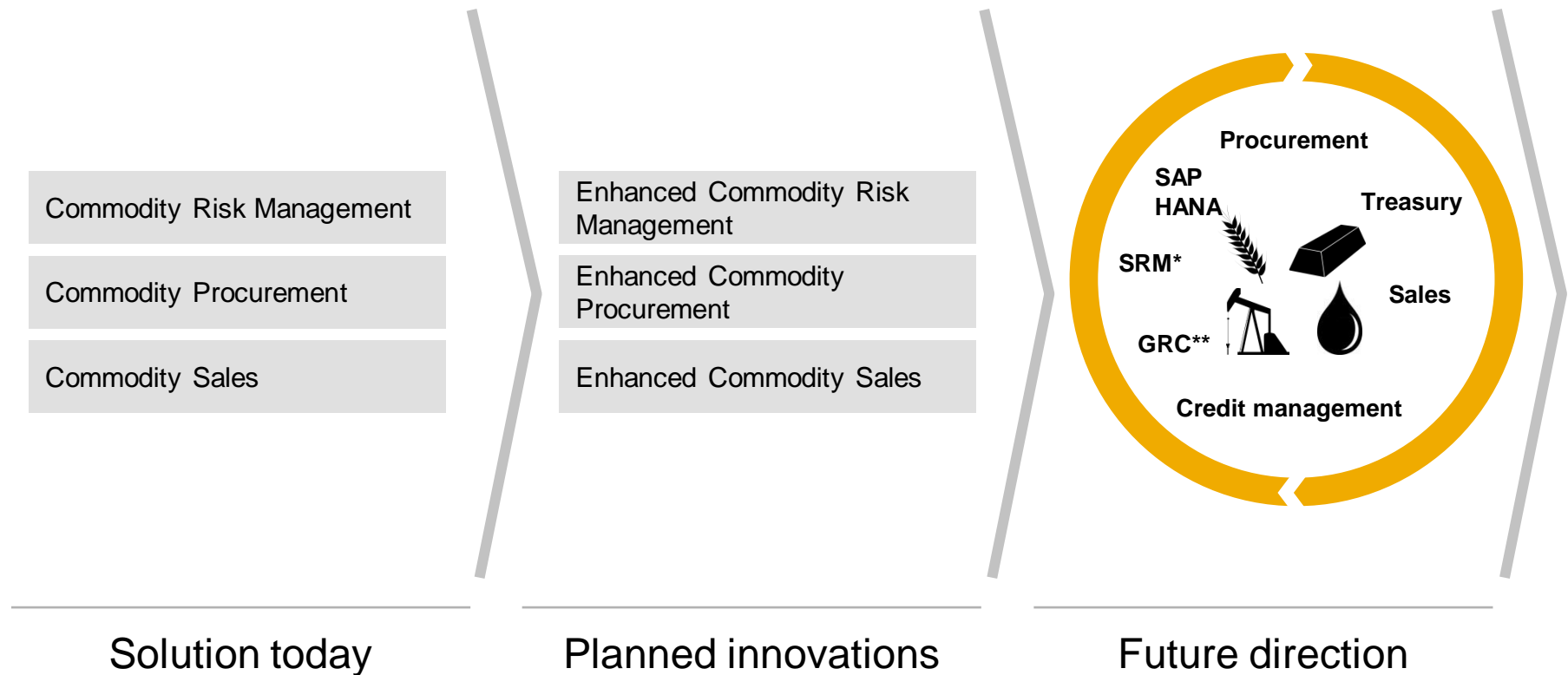
- Increase compliance by reducing complex, error-prone, and difficult-to-audit solutions
- High degree of automation
- Lower TCO (IT)





Roadmap

Overview of SAP road map for Commodity management



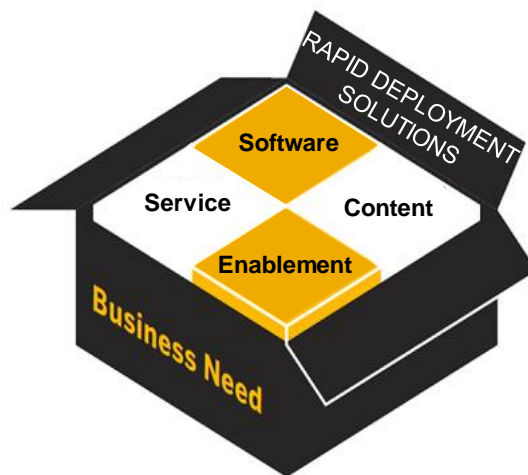
*Supplier relationship management

** Governance, risk, and compliance

Rapid Deployment Solutions for Commodity Management

Planned Innovations

SAP Rapid Deployment Solutions (RDS)



Software

Quickly address the most urgent business processes

Content

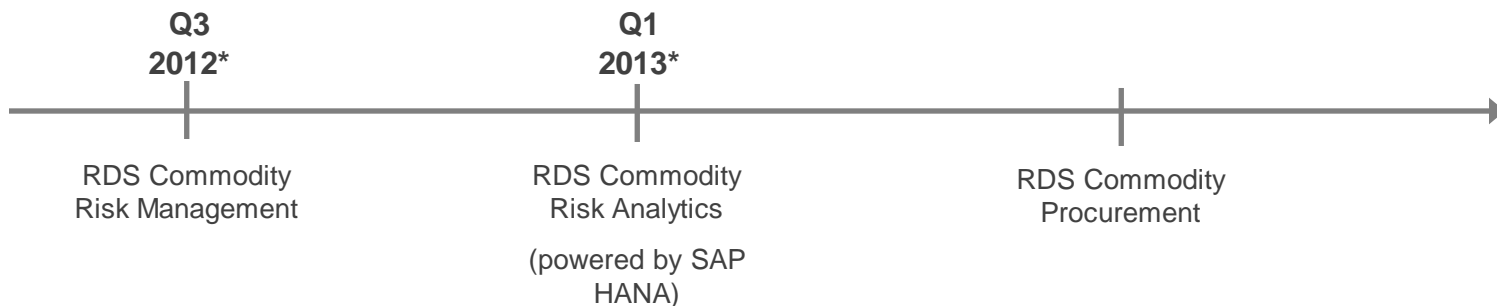
SAP best practices, templates and tools make solution adoption easier

Enablement

Guides and educational material speed end user adoption

Service

Fixed scope and price provides maximum predictability and lowers risk



* Planned dates only



Summary

Summary



- SAP delivers a commodity management platform that leverages the strength of SAP's Business Suite, launched with innovations in 2011
- SAP's commodity management solution provides integration between logistics, risk management and finance
- You can now begin to leverage the commodity management platform and work with SAP to shape the future roadmap



Thank You!

Contact information:

Anja Strothkaemper

Vice President
Commodity Management
LoB Corporate Functions



SAP AG

T +49 6227 7-64398
M +49 160 88 96 587
anja.strothkaemper@sap.com



© 2012 SAP AG. All rights reserved.

No part of this publication may be reproduced or transmitted in any form or for any purpose without the express permission of SAP AG. The information contained herein may be changed without prior notice.

Some software products marketed by SAP AG and its distributors contain proprietary software components of other software vendors.

Microsoft, Windows, Excel, Outlook, PowerPoint, Silverlight, and Visual Studio are registered trademarks of Microsoft Corporation.

IBM, DB2, DB2 Universal Database, System i, System i5, System p, System p5, System x, System z, System z10, z10, z/VM, z/OS, OS/390, zEnterprise, PowerVM, Power Architecture, Power Systems, POWER7, POWER6+, POWER6, POWER, PowerHA, pureScale, PowerPC, BladeCenter, System Storage, Storwize, XIV, GPFS, HACMP, RETAIN, DB2 Connect, RACF, Redbooks, OS/2, AIX, Intelligent Miner, WebSphere, Tivoli, Informix, and Smarter Planet are trademarks or registered trademarks of IBM Corporation.

Linux is the registered trademark of Linus Torvalds in the United States and other countries.

Adobe, the Adobe logo, Acrobat, PostScript, and Reader are trademarks or registered trademarks of Adobe Systems Incorporated in the United States and other countries.

Oracle and Java are registered trademarks of Oracle and its affiliates.

UNIX, X/Open, OSF/1, and Motif are registered trademarks of the Open Group.

Citrix, ICA, Program Neighborhood, MetaFrame, WinFrame, VideoFrame, and MultiWin are trademarks or registered trademarks of Citrix Systems Inc.

HTML, XML, XHTML, and W3C are trademarks or registered trademarks of W3C®, World Wide Web Consortium, Massachusetts Institute of Technology.

Apple, App Store, iBooks, iPad, iPhone, iPhoto, iPod, iTunes, Multi-Touch, Objective-C, Retina, Safari, Siri, and Xcode are trademarks or registered trademarks of Apple Inc.

IOS is a registered trademark of Cisco Systems Inc.

RIM, BlackBerry, BBM, BlackBerry Curve, BlackBerry Bold, BlackBerry Pearl, BlackBerry Torch, BlackBerry Storm, BlackBerry Storm2, BlackBerry PlayBook, and BlackBerry App World are trademarks or registered trademarks of Research in Motion Limited.

Google App Engine, Google Apps, Google Checkout, Google Data API, Google Maps, Google Mobile Ads, Google Mobile Updater, Google Mobile, Google Store, Google Sync, Google Updater, Google Voice, Google Mail, Gmail, YouTube, Dalvik and Android are trademarks or registered trademarks of Google Inc.

INTERMEC is a registered trademark of Intermec Technologies Corporation.

Wi-Fi is a registered trademark of Wi-Fi Alliance.

Bluetooth is a registered trademark of Bluetooth SIG Inc.

Motorola is a registered trademark of Motorola Trademark Holdings LLC.

Computop is a registered trademark of Computop Wirtschaftsinformatik GmbH.

SAP, R/3, SAP NetWeaver, Duet, PartnerEdge, ByDesign, SAP BusinessObjects Explorer, StreamWork, SAP HANA, and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG in Germany and other countries.

Business Objects and the Business Objects logo, BusinessObjects, Crystal Reports, Crystal Decisions, Web Intelligence, Xcelsius, and other Business Objects products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of Business Objects Software Ltd. Business Objects is an SAP company.

Sybase and Adaptive Server, iAnywhere, Sybase 365, SQL Anywhere, and other Sybase products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of Sybase Inc. Sybase is an SAP company.

Crossgate, m@gic EDDY, B2B 360°, and B2B 360° Services are registered trademarks of Crossgate AG in Germany and other countries. Crossgate is an SAP company.

All other product and service names mentioned are the trademarks of their respective companies. Data contained in this document serves informational purposes only. National product specifications may vary.

The information in this document is proprietary to SAP. No part of this document may be reproduced, copied, or transmitted in any form or for any purpose without the express prior written permission of SAP AG.