

SAP AG  
Form 20-F  
March 22, 2013  
Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

.. **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

p **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2012

**OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**

.. **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
Date of event requiring this shell company report

For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number: 1-14251

**SAP AG**

*(Exact name of Registrant as specified in its charter)*

**SAP CORPORATION**

*(Translation of Registrant's name into English)*

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Federal Republic of Germany

(Jurisdiction of incorporation or organization)

Dietmar-Hopp-Allee 16

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Federal Republic of Germany

(Address of principal executive offices)

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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each Representing one Ordinary Share, without nominal value	New York Stock Exchange
Ordinary Shares, without nominal value	New York Stock Exchange*

**Securities registered or to be registered pursuant to Section 12(g) of the Act: None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

**Ordinary Shares, without nominal value: 1,228,504,232 (as of December 31, 2012)\*\***

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was

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required to submit and post such files.)

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

\* Listed not for trading or quotation purposes, but only in connection with the registration of American Depositary Shares representing such ordinary shares pursuant to the requirements of the Securities and Exchange Commission.

\*\* Including 36,334,516 treasury shares.

**Table of Contents**

**TABLE OF CONTENTS**

<u>INTRODUCTION</u>	1
<u>FORWARD-LOOKING STATEMENTS</u>	1
<u>MEASURES CITED IN THIS REPORT</u>	2
<u>PART I</u>	10
<u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	10
<u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u>	10
<u>ITEM 3. KEY INFORMATION</u>	10
<u>Selected Financial Data</u>	10
<u>Exchange Rates</u>	12
<u>Dividends</u>	12
<u>Risk Factors</u>	13
<u>ITEM 4. INFORMATION ABOUT SAP</u>	25
<u>Vision, Mission, and Strategy</u>	26
<u>Business Activity and Organization</u>	27
<u>Portfolio of Products, Solutions, and Services</u>	28
<u>Sales, Marketing, and Distribution</u>	34
<u>Research and Development</u>	35
<u>Partner Ecosystem</u>	38
<u>Acquisitions</u>	39
<u>Energy and Emissions</u>	40
<u>Seasonality</u>	41
<u>Intellectual Property, Proprietary Rights and Licenses</u>	42
<u>Description of Property</u>	42
<u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u>	43
<u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	43
<u>Overview</u>	43
<u>Economic Conditions</u>	44
<u>Outlook for 2012</u>	45
<u>Foreign Currency Exchange Rate Exposure</u>	63
<u>Outlook</u>	63
<u>Liquidity and Capital Resources</u>	68
<u>Off-Balance Sheet Arrangements</u>	72
<u>Contractual Obligations</u>	73
<u>Research and Development</u>	73
<u>Critical Accounting Estimates</u>	73
<u>New Accounting Standards Not Yet Adopted</u>	74
<u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	75
<u>Supervisory Board</u>	75
<u>Executive Board</u>	76
<u>Compensation Report</u>	77
<u>Employees</u>	93
<u>Share Ownership</u>	94
<u>Share-Based Compensation Plans</u>	94
<u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS</u>	95
<u>Major Shareholders</u>	95
<u>Related-Party Transactions</u>	96
<u>ITEM 8. FINANCIAL INFORMATION</u>	96
<u>Consolidated Financial Statements and Financial Statement Schedule</u>	96
<u>Other Financial Information</u>	96

**Table of Contents**

<u>ITEM 9. THE OFFER AND LISTING</u>	96
<u>General</u>	96
<u>Trading on the Frankfurt Stock Exchange and the NYSE</u>	97
<u>ITEM 10. ADDITIONAL INFORMATION</u>	98
<u>Articles of Incorporation</u>	98
<u>Corporate Governance</u>	98
<u>Change in Control</u>	102
<u>Change in Share Capital</u>	103
<u>Rights Accompanying Our Shares</u>	103
<u>Taxation</u>	104
<u>Material Contracts</u>	109
<u>Documents on Display</u>	110
<u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	110
<u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	110
<u>American Depositary Shares</u>	110
<u>PART II</u>	112
<u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	112
<u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	112
<u>ITEM 15. CONTROLS AND PROCEDURES</u>	112
<u>Evaluation of Disclosure Controls and Procedures</u>	112
<u>Management's Annual Report on Internal Control Over Financial Reporting</u>	112
<u>Changes in Internal Control Over Financial Reporting</u>	112
<u>ITEM 16. [RESERVED]</u>	112
<u>ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u>	112
<u>ITEM 16B. CODE OF ETHICS</u>	113
<u>ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	113
<u>Audit Fees, Audit Related Fees, Tax Fees and All Other Fees</u>	113
<u>Audit Committee's Pre-Approval Policies and Procedures</u>	113
<u>ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	114
<u>ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	115
<u>ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	115
<u>ITEM 16G. DIFFERENCES IN CORPORATE GOVERNANCE PRACTICES</u>	115
<u>Introduction</u>	115
<u>Legal Framework</u>	116
<u>Significant Differences</u>	116
<u>German Stock Corporations are Required to have a Two-Tier Board System</u>	116
<u>Director Independence Rules</u>	116
<u>Audit Committee Independence</u>	117
<u>Rules on Non-Management Board Meetings are Different</u>	117
<u>Rules on Establishing Committees Differ</u>	117
<u>Rules on Shareholders' Compulsory Approval are Different</u>	118
<u>Specific Principles of Corporate Governance</u>	118
<u>Specific Code of Business Conduct</u>	118
<u>PART III</u>	119
<u>ITEM 17. FINANCIAL STATEMENTS</u>	119
<u>ITEM 18. FINANCIAL STATEMENTS</u>	119
<u>ITEM 19. EXHIBITS</u>	119
<u>Signatures</u>	121
<u>Index to the Consolidated Financial Statements</u>	F-1
<u>Report of the Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Financial Statements</u>	F-3

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**Table of Contents**

**INTRODUCTION**

SAP AG is a German stock corporation (Aktiengesellschaft) and is referred to in this report, together with its subsidiaries, as SAP, or as Company, Group, we, our, or us. Our Consolidated Financial Statements included in Item 18. Financial Statements in this report have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, referred to as IFRS throughout this report.

In this report: (i) references to US\$, \$, or dollars are to U.S. dollars; (ii) references to or euro are to the euro. Our financial statements are denominated in euros, which is the currency of our home country, Germany. Certain amounts that appear in this report may not add up because of differences due to rounding.

Unless otherwise specified herein, euro financial data have been converted into dollars at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on December 31, 2012, which was US\$1.3186 per 1.00. No representation is made that such euro amounts actually represent such dollar amounts or that such euro amounts could have been or can be converted into dollars at that or any other exchange rate on such date or on any other date. The rate used for the convenience translations also differs from the currency exchange rates used for the preparation of the Consolidated Financial Statements. This convenience translation is not a requirement under IFRS and, accordingly, our independent registered public accounting firm has not audited these US\$ amounts. For information regarding recent rates of exchange between euro and dollars, see Item 3. Key Information Exchange Rates. On March 7, 2013, the Noon Buying Rate for converting euro to dollars was US\$1.3098 per 1.00.

Unless the context otherwise requires, references in this report to ordinary shares are to SAP AG's ordinary shares, without nominal value. References in this report to ADRs are to SAP AG's American Depositary Receipts, each representing one SAP ordinary share. References in this report to ADSs are to SAP AG's American Depositary Shares, which are the deposited securities evidenced by the ADRs.

SAP, R/3, ABAP, BAPI, SAP NetWeaver, Duet, PartnerEdge, ByDesign, SAP BusinessObjects

Explorer, StreamWork, SAP HANA, the Business Objects logo, BusinessObjects, Crystal Reports, Crystal Decisions, Web Intelligence, Xcelsius, Sybase, Adaptive Server, Adaptive Server Enterprise, iAnywhere, Sybase 365, SQL Anywhere, Crossgate, B2B 360°, B2B 360° Services, m@gic EDDY, Ariba, Quadrem, b-process, Ariba Discovery, SuccessFactors, Execution is the Difference, BizX Mobile Touchbase, It's time to love work again, Jam and BadAss SaaS and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG in Germany or an SAP affiliate company.

Throughout this report, whenever a reference is made to our website, such reference does not incorporate by reference into this report the information contained on our website.

We intend to make this report and other periodic reports publicly available on our Web site ([www.sap.com](http://www.sap.com)) without charge immediately following our filing with the U.S. Securities and Exchange Commission (SEC). We assume no obligation to update or revise any part of this report, whether as a result of new information, future events or otherwise, unless we are required to do so by law.

**FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements and information based on the beliefs of, and assumptions made by, our management using information currently available to them. Any statements contained in this report that are not historical facts are forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations, assumptions, and projections about future conditions and events. As a result, our forward-looking statements and information are subject to uncertainties and risks. A broad range of uncertainties and risks, many of which are beyond our control, could cause our actual results and performance to differ materially from any projections expressed in or implied by our forward-looking statements. The uncertainties and risks include, but are not limited to:

Uncertainty in the global economy, financial markets, and in political conditions could have a negative impact on our business, financial position, profit, and cash flows and put pressure on our operating profit.



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## **Table of Contents**

Third parties have claimed, and might claim in the future, that we infringe their intellectual property rights, which could lead to damages being awarded against us and limit our ability to use certain technologies in the future.

There is a risk that undetected security vulnerabilities shipped and deployed within our software products could cause customer damage.

Established customers might not buy additional software products, renew maintenance agreements, or purchase additional professional services, or they might switch to other products or service offerings (including competitor products).

We describe these and other risks and uncertainties in the Risk Factors section.

If one or more of these uncertainties or risks materializes, or if management's underlying assumptions prove incorrect, our actual results could differ materially from those described in or inferred from our forward-looking statements and information.

The words aim, anticipate, assume, believe, continue, could, counting on, is confident, estimate, expect, forecast, guidance, outlook, plan, project, predict, seek, should, strategy, want, will, would, and similar expressions as they relate to us are intended to describe forward-looking statements. Such statements include, for example, those made in the Operating Results section, our quantitative and qualitative disclosures about market risk pursuant to the International Financial Reporting Standards (IFRS), namely IFRS 7 and related statements in our Notes to the Consolidated Financial Statements, the Risk Report, our outlook guidance, and other forward-looking information appearing in other parts of this report. To fully consider the factors that could affect our future financial results, both our Management Report and this report should be considered, as well as all of our other filings with the Securities and Exchange Commission (SEC). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date specified or the date of this report. Except where legally required, we undertake no obligation to publicly update or revise any forward-looking statements as a result of new information that we receive about conditions that existed upon issuance of this report, future events, or otherwise unless we are required to do so by law.

This report includes statistical data about the IT industry and global economic trends that comes from information published by sources including International Data Corporation (IDC), a provider of market information and advisory services for the information technology, telecommunications, and consumer technology markets; the European Central Bank (ECB); and the International Monetary Fund (IMF). This type of data represents only the estimates of IDC, ECB, IMF, and other sources of industry data. SAP does not adopt or endorse any of the statistical information provided by sources such as IDC, ECB, IMF, or other similar sources that is contained in this report. In addition, although we believe that data from these sources is generally reliable, this type of data is imprecise. We caution readers not to place undue reliance on this data.

## **MEASURES CITED IN THIS REPORT**

We use various performance measures to help manage our performance with regard to our primary financial goals, which are growth and profitability, and our primary non-financial goals, which are customer satisfaction and employee engagement.

### **Measures We Use to Manage Our Financial Performance**

#### ***Revised Software and Software-Related Service Revenue Presentation***

As a result of placing greater focus on cloud computing, we revised the presentation of our software and software-related service (SSRS) revenue as of January 1, 2012, and we adjusted our comparative figures accordingly. As a result of these adjustments, the subscription and other software-related service revenue item has been deleted. We believe this creates more transparency regarding SSRS revenue, particularly with respect to revenue from cloud subscriptions and support. These revenues are no longer recorded under the subscription and other software-related service revenue item, but instead shown as a separate item within the SSRS revenue. Revenue from long-term license agreements and all other revenue previously shown under SSRS revenue has been broken down into its software and support components and recorded under the software revenue and support revenue items. Thus, we present higher revenue for software and for support for 2011. This change is merely a reclassification that only



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## **Table of Contents**

affects items within SSRS revenue. The overall sum of SSRS revenue and thus the total revenue are not affected.

In addition, we introduced a new subtotal at the end of 2012 to better reflect our wide range of on-premise and cloud solutions: the software revenue item and the cloud subscription and support revenue item were merged and are now recorded under the software and cloud subscription revenue item. We believe this creates more transparency and allows better comparability with our biggest competitor.

### ***Measures We Use to Manage Our Operating Financial Performance***

In 2012, we used the following key measures to manage our operating financial performance:

*Non-IFRS SSRS revenue:* Our SSRS revenue includes software and related support revenue plus cloud subscription and support revenue. The principal source of our software revenue is the fees customers pay for on-premise software licenses resulting in software being installed on the customer's hardware. We generate cloud subscription and support revenue when we provide software and the respective support for delivery in the cloud. Software revenue and cloud subscription and support revenue are our key revenue drivers because they tend to affect our other revenue streams. Generally, customers who buy software licenses also enter into maintenance contracts, and these generate recurring software-related service revenue in the form of support revenue after the software sale. Maintenance contracts cover support services and software updates and enhancements. Software revenue as well as cloud subscription and support revenue also tend to stimulate service revenue from consulting and training sales.

*Non-IFRS bookings/billings revenue:* For our cloud activities we look at the recognized revenues as well as the contract values generated in a given period (bookings/billings). We measure bookings/billings as the amounts that we are contractually entitled to invoice the customers over the shorter of the contract term and the first 12 months following the contract execution date, anniversary of contract execution date or contract renewal date (12 months bookings/billings). In contrast to the cloud subscription and support revenues that are recognized over the period of providing the cloud service rather than in the period of contract closure, the booking/billing numbers give insight into the future revenue

potential. When evaluating 12 months bookings/billings numbers, we consider both the total bookings/billings and the subset of bookings/billings that results from new customers or additional sales to existing customers in the reporting period rather than from subsequent years or renewals of existing contracts. There is no comparable IFRS measure for this figure.

Our Cloud Applications segment has grown significantly through the acquisition of SuccessFactors in early 2012. As SuccessFactors is included in SAP's financials only from the day of acquisition, a year-over-year comparison of the bookings/billings is impacted by the acquisition. We therefore analyze and report, in addition to the absolute growth rate of bookings/billings for cloud applications, a pro forma growth rate assuming that the acquisition of SuccessFactors was completed as of January 1, 2011. A similar analysis is not provided for the Ariba segment due to the Ariba acquisition having occurred late in 2012.

*Non-IFRS operating profit/non-IFRS operating margin:* In 2012, we used non-IFRS operating profit/non-IFRS operating margin and constant currency non-IFRS operating profit/non-IFRS operating margin to measure our overall operational process efficiency and overall business performance. Non-IFRS operating margin is the ratio of our non-IFRS operating profit to total non-IFRS revenue, expressed as a percentage. See below for a discussion of the IFRS and non-IFRS measures we use.

### ***Measures We Use to Manage Our Non-Operating Financial Performance***

We use the following measures to manage our non-operating financial performance:

*Finance income, net:* This measure provides insight especially into the return on liquid assets and capital investments and the cost of borrowed funds. To manage our financial income, net, we focus on cash flow, the composition of our liquid asset and capital investment portfolio, and the average rate of interest at which assets are invested. We also monitor average outstanding borrowings and the associated finance costs.

*Days of Sales Outstanding and Days of Payables Outstanding:* We manage working capital by controlling the days' sales outstanding for operating receivables, or DSO (defined as average number of days from the raised invoice to cash

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## **Table of Contents**

receipt from the customer), and the days payables outstanding for operating liabilities, or DPO (defined as average number of days from the received invoice to cash payment to the vendor).

### ***Measures We Use to Manage Overall Financial Performance***

We use the following measures to manage our overall financial performance:

*Earnings per share (EPS):* EPS measures our overall performance, because it captures all operating and non-operating elements of profit as well as income tax expense. It represents the portion of profit after tax allocable to each SAP share outstanding (using the weighted average number of shares outstanding over the reporting period). EPS is influenced not only by our operating and non-operating business, and income taxes, but also by the number of shares outstanding. We are authorized by our shareholders to repurchase shares and believe that such repurchases, additional to dividend distributions, are a good means to return value to our shareholders.

*Effective tax rate:* We define our effective tax rate as the ratio of income tax expense to profit before tax, expressed as a percentage.

*Operating, investing, and financing cash flows:* Our consolidated statement of cash flows provides insight as to how we generated and used cash and cash equivalents. When used in conjunction with the other primary financial statements, it provides information that helps us evaluate the changes of our net assets, our financial structure (including our liquidity and solvency), and our ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities.

### **Measures We Use to Manage Our Non-Financial Performance**

In 2012, we used the following key measures to manage our non-financial performance in the areas of employee engagement and customer satisfaction:

*Employee Engagement Index:* With this index, we measure the level of employee commitment, pride, and loyalty, as well as the level of employee advocacy for SAP. The index is derived from surveys conducted among our employees. With

this measure, we recognize that we can achieve our growth strategy only with engaged employees.

*Net Promoter Score:* This score measures the willingness of our customers to recommend or promote SAP to others. It is derived from our customer survey. Conducted each year, this survey identifies whether a customer is loyal and likely to recommend SAP to friends or colleagues, is neutral, or is unhappy. We introduced this measure in 2012, as we are convinced that we can achieve our financial goals only when our customers are loyal to and satisfied with SAP and our solutions. To derive the Net Promoter Score (NPS), we start with the percentage of promoters of SAP those who give us a score of 9 or 10 on a scale of 0 to 10. We then subtract the percentage of detractors those who give us a score of 0 to 6. The methodology calls for ignoring passives, who give us a score of 7 or 8.

### **Value-Based Management**

Our holistic view of the performance measures described above, together with our associated analyses, comprises the information we use for value-based management. We use planning and control processes to manage the compilation of these key measures and their availability to our decision makers across various management levels.

SAP's long-term strategic plans are the point of reference for our other planning and controlling processes, including creating a multiyear plan until 2015. We identify future growth and profitability drivers at a highly aggregated level. This process is intended to identify the best areas in which to target sustained investment. Next, we evaluate our multiyear plans for our support and development functions and break down the customer-facing plans by sales region. Based on our detailed annual plans, we determine the budget for the respective year. We also have processes in place to forecast revenue and profit on a quarterly basis, to quantify whether we expect to realize our strategic goals, and to identify any deviations from plan. We continuously monitor the concerned units in the Group to analyze these developments and define any appropriate actions.

Our entire network of planning, control, and reporting processes is implemented in integrated planning and information systems, based on SAP software, across all organizational units so that we can conduct the evaluations and analyses needed to make informed decisions.



**Table of Contents****Non-IFRS Financial Measures Cited in This Report**

As in previous years, we provided our 2012 financial outlook on the basis of certain non-IFRS

measures. Therefore, this report contains a non-IFRS based comparison of our actual performance in 2012 against our outlook in the chapter Assets, Finances, and Operating Results.

**Reconciliations of IFRS to Non-IFRS Financial Measures for 2012 and 2011**

The following table reconciles our IFRS financial measures to the respective and most comparable non-IFRS financial measures of this report for each of 2012 and 2011. Due to rounding, the sum of the numbers presented in this table might not precisely equal the totals we provide.

**Reconciliations of IFRS to Non-IFRS Financial Measures for 2012 and 2011**

millions, unless otherwise stated	for the years ended December 31								
	2012			2011					
	IFRS	Adj.	Non-IFRS	Currency Impact	Non-IFRS Constant Currency	IFRS	Adj.	Non-IFRS	
<b>Revenue measures</b>									
Software	4,658	0	4,658	134	4,524	4,107	0	4,107	
Cloud subscriptions and support	270	73	343	21	322	18	0	18	
Software and cloud subscriptions	4,928	73	5,001	155	4,846	4,125	0	4,125	
Support	8,237	9	8,246	286	7,959	7,194	27	7,221	
<b>Software and software-related service revenue</b>	<b>13,165</b>	<b>81</b>	<b>13,246</b>	<b>441</b>	<b>12,806</b>	<b>11,319</b>	<b>27</b>	<b>11,346</b>	
Consulting	2,442	0	2,442	95	2,347	2,341	0	2,341	
Other services	616	0	616	18	599	573	0	573	
<b>Professional services and other service revenue</b>	<b>3,058</b>	<b>0</b>	<b>3,058</b>	<b>113</b>	<b>2,945</b>	<b>2,914</b>	<b>0</b>	<b>2,914</b>	
<b>Total revenue</b>	<b>16,223</b>	<b>81</b>	<b>16,304</b>	<b>553</b>	<b>15,751</b>	<b>14,233</b>	<b>27</b>	<b>14,260</b>	
<b>Operating expense measures</b>									
Cost of software and software-related services	2,551	414	2,137			2,107	285	1,822	
Cost of professional services and other services	2,514	128	2,385			2,248	32	2,216	
Research and development	2,253	129	2,124			1,939	41	1,898	
Sales and marketing	3,907	223	3,684			3,081	127	2,954	
General and administration	947	164	783			715	30	685	
Restructuring	8	8	0			4	4	0	
TomorrowNow litigation	0	0	0			717	717	0	
Other operating income/expense, net	23	0	23			25	0	25	
<b>Total operating expenses</b>	<b>12,158</b>	<b>1,067</b>	<b>11,090</b>	<b>362</b>	<b>10,728</b>	<b>9,352</b>	<b>198</b>	<b>9,550</b>	
<b>Operating profit measures</b>									
<b>Operating profit</b>	<b>4,065</b>	<b>1,148</b>	<b>5,214</b>	<b>191</b>	<b>5,023</b>	<b>4,881</b>	<b>171</b>	<b>4,710</b>	
<b>Operating margin in %</b>	<b>25.1</b>		<b>32.0</b>		<b>31.9</b>	<b>34.3</b>		<b>33.0</b>	

**Explanation of Non-IFRS Measures**

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We disclose certain financial measures, such as non-IFRS revenue, non-IFRS operating expenses, non-IFRS operating profit, non-IFRS operating

margin, non-IFRS earnings per share, constant currency revenue and operating profit measures that are not prepared in accordance with IFRS and are therefore considered non-IFRS financial measures. Our non-IFRS financial measures may not correspond to non-IFRS financial measures

## **Table of Contents**

that other companies report. The non-IFRS financial measures that we report should only be considered in addition to, and not as substitutes for or superior to, revenue, operating expenses, operating profit, operating margin, earnings per share or other measures of financial performance prepared in accordance with IFRS.

We believe that the disclosed supplemental historical and prospective non-IFRS financial information provides useful information to investors because management uses this information, in addition to financial data prepared in accordance with IFRS, to attain a more transparent understanding of our past performance and our anticipated future results. In 2012, we used these non-IFRS measures consistently in our internal planning and forecasting, reporting and compensation, as well as in our external communications as follows:

Our management primarily uses these non-IFRS measures rather than IFRS measures as the basis for making financial, strategic and operating decisions.

The variable remuneration components of our Executive Board members and employees are based on non-IFRS revenue and non-IFRS operating profit measures rather than the respective IFRS measures.

The annual budgeting process for all management units is based on non-IFRS revenue and non-IFRS operating profit numbers rather than the respective IFRS financial measures.

All forecast and performance reviews with all senior managers globally are based on these non-IFRS measures, rather than the respective IFRS financial measures.

Both our internal performance targets and the guidance we provided to the capital markets are based on non-IFRS revenues and non-IFRS profit measures rather than the respective IFRS financial measures.

Our non-IFRS financial measures reflect adjustments based on the items below, as well as adjustments for the related income tax effects.

### **Non-IFRS Revenue**

Revenue items identified as non-IFRS revenue have been adjusted from the respective IFRS financial measures by including the full amount of support revenue, cloud subscriptions revenue,

and other similarly recurring revenues which we are not permitted to record as revenue under IFRS due to fair value accounting for the contracts in effect at the time of the respective acquisitions.

Under IFRS, we record at fair value the contracts in effect at the time entities were acquired. Consequently, our IFRS support revenue, our IFRS cloud subscriptions and support revenue, our IFRS software and cloud subscription revenue, our IFRS software and software-related service revenue, and our IFRS total revenue for periods subsequent to acquisitions do not reflect the full amount of revenue that would have been recorded by entities acquired by SAP had they remained stand-alone entities. Adjusting revenue numbers for this revenue impact provides additional insight into the comparability across periods of our ongoing performance.

Through 2011, our adjustments for deferred revenue write-downs were limited to support revenue. During 2012, we also made such deferred revenue write-down adjustments for cloud subscriptions revenue and other similarly recurring revenues. As the deferred revenue write-down adjustments for recurring revenues other than support revenue from acquisitions that were executed through 2011 were immaterial, we have not restated prior-period non-IFRS measures to align with our new non-IFRS revenue definition.

### **Non-IFRS Operating Expense**

Operating expense figures that are identified as non-IFRS operating expenses have been adjusted by excluding the following expenses:

Acquisition-related charges

Amortization expense/impairment charges of intangibles acquired in business combinations and certain stand-alone acquisitions of intellectual property (including purchased in-process research and development)

Settlements of pre-existing business relationships in connection with a business combination

Acquisition-related third-party expenses

Discontinued activities: Results of discontinued operations that qualify as such under IFRS in all respects except that they do not represent a major line of business

Expenses from our share-based payments

Restructuring expenses

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## **Table of Contents**

### **Non-IFRS Operating Profit, Non-IFRS Operating Margin, and Non-IFRS Earnings per Share**

Operating profit, operating margin, and earnings per share identified as non-IFRS operating profit, non-IFRS operating margin, and non-IFRS earnings per share have been adjusted from the respective IFRS measures by adjusting for the above-mentioned non-IFRS revenue and non-IFRS operating expenses.

We exclude certain acquisition-related expenses for the purpose of calculating non-IFRS operating profit, non-IFRS operating margin, and non-IFRS earnings per share when evaluating SAP's continuing operational performance because these expenses generally cannot be changed or influenced by management after the relevant acquisition other than by disposing of the acquired assets. Since management at levels below the Executive Board does not influence these expenses, we generally do not consider these expenses for the purpose of evaluating the performance of management units. Additionally, these non-IFRS measures have been adjusted from the respective IFRS measures for the results of the discontinued activities, share-based payment expenses, and restructuring expenses.

### **Usefulness of Non-IFRS Measures**

We believe that our non-IFRS measures are useful to investors for the following reasons:

The non-IFRS measures provide investors with insight into management's decision making because management uses these non-IFRS measures to run our business and make financial, strategic, and operating decisions.

The non-IFRS measures provide investors with additional information that enables a comparison of year-over-year operating performance by eliminating certain direct effects of acquisitions and discontinued activities.

Non-IFRS and non-GAAP measures are widely used in the software industry. In many cases, inclusion of our non-IFRS measures may facilitate comparison with our competitors' corresponding non-IFRS and non-GAAP measures. Additionally, we believe that our adjustments to our IFRS financial measures for the results of our discontinued TomorrowNow activities are useful to investors for the following reason:

TomorrowNow activities were discontinued and we will thus continue to exclude potential future TomorrowNow results, which are expected to mainly comprise expenses in connection with the Oracle lawsuit, from our internal management reporting, planning, forecasting, and compensation plans. Therefore, adjusting our non-IFRS measures for the results of the discontinued TomorrowNow activities provides insight into the financial measures that SAP uses internally.

We include the revenue adjustments outlined above and exclude the expense adjustments outlined above when making decisions to allocate resources, both on a company level and at lower levels of the organization. In addition, we use these non-IFRS measures to gain a better understanding of SAP's operating performance from period to period.

We believe that our non-IFRS financial measures described above have limitations, including but not limited to, the following:

The eliminated amounts could be material to us.

Without being analyzed in conjunction with the corresponding IFRS measures, the non-IFRS measures are not indicative of our present and future performance, foremost for the following reasons:



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While our non-IFRS profit numbers reflect the elimination of certain acquisition-related expenses, no eliminations are made for the additional revenue and other revenue that result from the acquisitions.

While we adjust for the fair value accounting of the acquired entities' recurring revenue contracts, we do not adjust for the fair value accounting of deferred compensation items that result from commissions paid to the acquired company's sales force and third parties for closing the respective customer contracts.

The acquisition-related charges that we eliminate in deriving our non-IFRS profit numbers are likely to recur should SAP enter into material business combinations in the future.

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## **Table of Contents**

The acquisition-related amortization expense that we eliminate in deriving our non-IFRS profit numbers is a recurring expense that will impact our financial performance in future years.

The revenue adjustment for the fair value accounting of the acquired entities' contracts and the expense adjustment for acquisition-related charges do not arise from a common conceptual basis. This is because the revenue adjustment aims to improve the comparability of the initial post-acquisition period with future post-acquisition periods, while the expense adjustment aims to improve the comparability between post-acquisition periods and pre-acquisition periods. This should particularly be considered when evaluating our non-IFRS operating profit and non-IFRS operating margin numbers as these combine our non-IFRS revenue and non-IFRS expenses despite the absence of a common conceptual basis.

Our discontinued activities and restructuring charges could result in significant cash outflows. The same applies to our share-based payment expense because most of our share-based payments are to be settled in cash rather than shares.

The valuation of our cash-settled, share-based payments could vary significantly from period to period due to the fluctuation of our share price and other parameters used in the valuation of these plans.

We have in the past issued share-based payment awards to our employees every year and we intend to continue doing so in the future. Thus, our share-based payment expenses are recurring although the amounts usually change from period to period. Despite these limitations, we believe that the presentation of the non-IFRS measures and the corresponding IFRS measures, together with the relevant reconciliations, provides useful information to management and investors regarding present and future business trends relating to our financial condition and results of operations. We do not evaluate our growth and performance without considering both non-IFRS measures and the comparable IFRS measures. We

caution the readers of our financial reports to follow a similar approach by considering our non-IFRS measures only in addition to, and not as a substitute for or superior to, revenue or other measures of our financial performance prepared in accordance with IFRS.

### **Constant Currency Information**

We believe it is important for investors to have information that provides insight into our sales. Revenue measures determined under IFRS provide information that is useful in this regard. However, both sales volume and currency effects impact period-over-period changes in sales revenue. We do not sell standardized units of products and services, so we cannot provide relevant information on sales volume by providing data on the changes in product and service units sold. To provide additional information that may be useful to investors in breaking down and evaluating changes in sales volume, we present information about our revenue and various values and components relating to operating profit that are adjusted for foreign currency effects. We calculate constant currency revenue and operating profit measures by translating foreign currencies using the average exchange rates from the previous year instead of the current year.

We believe that constant currency measures have limitations, particularly as the currency effects that are eliminated constitute a significant element of our revenue and expenses and could materially impact our performance. We therefore limit our use of constant currency measures to the analysis of changes in volume as one element of the full change in a financial measure. We do not evaluate our results and performance without considering both constant currency measures in non-IFRS revenue and non-IFRS operating profit measures on the one hand, and changes in revenue, operating expenses, operating profit, or other measures of financial performance prepared in accordance with IFRS on the other. We caution the readers of our financial reports to follow a similar approach by considering constant currency measures only in addition to, and not as a substitute for or superior to, changes in revenue, operating expenses, operating profit, or other measures of financial performance prepared in accordance with IFRS.

**Table of Contents*****Free Cash Flow***

We use our free cash flow measure to estimate the cash flow remaining after all expenditures required to maintain or expand our organic business have been paid off. This measure provides management with supplemental information to assess our liquidity needs. We calculate free cash flow as net cash from operating activities minus purchases, other than purchases made in connection with business combinations, of intangible assets and property, plant, and equipment.

**Free Cash Flow**

<b>millions</b>	<b>2012</b>	<b>2011</b>	<b>Change</b>
Net cash flows from operating activities	3,822	3,775	1%
Purchase of intangible assets and property, plant, and equipment (without acquisitions)	541	445	22%
<b>Free Cash Flow</b>	<b>3,281</b>	<b>3,330</b>	<b>1%</b>

**Table of Contents**

Part I

Item 1, 2, 3

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**SELECTED FINANCIAL DATA**

The following table sets forth our selected consolidated financial data as of and for each of the years in the five-year period ended December 31, 2012. The consolidated financial data has been derived from, and should be read in conjunction with, our Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), presented in Item 18. Financial Statements of this report.

Our selected financial data and our Consolidated Financial Statements are presented in euros. Financial data as of and for the year ended December 31, 2012 has been translated into U.S. dollars for the convenience of the reader.

**Table of Contents**

Part I

Item 3

**SELECTED FINANCIAL DATA: IFRS**

millions, unless otherwise stated	2012 <sup>(1)</sup> US\$	2012	2011	2010	2009	2008
<b>Income Statement Data:</b>						
<b>Years ended December 31,</b>						
Software and software-related service revenue	17,359	13,165	11,319	9,794	8,198	8,457
Total revenue	21,392	16,223	14,233	12,464	10,672	11,575
Operating profit	5,360	4,065	4,881	2,591	2,588	2,701
Operating margin in % <sup>(2)</sup>	25.1	25.1	34.3	20.8	24.3	23.3
Profit after tax	3,722	2,823	3,439	1,813	1,750	1,848
Profit attributable to owners of parent	3,722	2,823	3,438	1,811	1,748	1,847
Earnings per share <sup>(2)</sup>						
Basic in	3.13	2.37	2.89	1.52	1.47	1.55
Diluted in	3.12	2.37	2.89	1.52	1.47	1.55
<b>Other Data:</b>						
Weighted-average number of shares outstanding						
Basic	1,192	1,192	1,189	1,188	1,188	1,190
Diluted	1,193	1,193	1,190	1,189	1,189	1,191
<b>Statement of Financial Position Data: At December 31,</b>						
Cash and cash equivalents	3,266	2,477	4,965	3,518	1,884	1,280
Total assets <sup>(3)</sup>	35,385	26,835	23,227	20,839	13,374	13,900
Current financial liabilities <sup>(4)</sup>	1,058	802	1,331	142	146	2,563
Non-current financial liabilities <sup>(4)</sup>	5,862	4,446	2,925	4,449	729	40
Issued capital	1,621	1,229	1,228	1,227	1,226	1,226
Total equity	18,686	14,171	12,707	9,824	8,491	7,171

(1) Amounts presented in US\$ have been translated for the convenience of the reader at 1.00 to US\$1.3186, the Noon Buying Rate for converting 1.00 into dollars on December 31, 2012. See Item 3. Key Information Exchange Rates for recent exchange rates between the Euro and the dollar.

(2) Operating profit is the numerator and total revenue is the denominator in the calculation of operating margin. Profit attributable to owners of parent is the numerator and weighted average number of shares outstanding is the denominator in the calculation of earnings per share. See Note (11) to our Consolidated Financial Statements for more information on earnings per share.

(3) The large increase in total assets from 2009 to 2010 was mainly due to the acquisition of Sybase in 2010. The large increase in total assets from 2011 to 2012 was mainly due to the acquisitions of SuccessFactors and Ariba in 2012. See Note (4) to our Consolidated Financial Statements for more information on acquisitions.

(4) The balances include primarily bonds, private placements and bank loans. Current is defined as having a remaining life of one year or less; non-current is defined as having a remaining term exceeding one year. The high amount of current financial liabilities during 2008 was due to financial debt incurred to finance the acquisition of Business Objects. The significant increase in non-financial liabilities in 2010 was due to an acquisition-term loan used to finance the acquisition of Sybase. In addition, we issued two bonds and a U.S. private placement transaction, of which, the proceeds were primarily used to finance the acquisition of Sybase. The significant increase in non-financial liabilities in 2012 was due to the issuance of a U.S. private placement transaction and

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Eurobonds in the course of the acquisition of Ariba. See Note (17b) to our Consolidated Financial Statements for more information on our liabilities.

**Table of Contents**

Part I

Item 3

**EXCHANGE RATES**

The prices for our ordinary shares traded on German stock exchanges are denominated in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar affect the dollar equivalent of the euro price of the ordinary shares traded on the German stock exchanges and, as a result, may affect the price of the ADRs traded on the NYSE in the United States. See Item 9. The Offer and Listing for a description of the ADRs. In addition, SAP AG pays cash dividends, if any, in euro. As a result, any exchange rate fluctuations will also affect the dollar amounts received by the holders of ADRs on the conversion into dollars of cash dividends paid in euro on the ordinary shares represented by the ADRs. Deutsche Bank Trust Company Americas is the depositary (the Depositary) for SAP AG's ADR program. The deposit agreement with respect to the ADRs requires the Depositary to convert any dividend payments from euro into dollars as promptly as practicable upon receipt. For additional information on the Depositary and the fees associated with SAP's ADR program see Item 12 Description of Securities Other Than Equity Securities American Depositary Shares.

A significant portion of our revenue and expense is denominated in currencies other than the euro. Therefore, fluctuations in the exchange rate between the euro and the respective currencies in which we conduct business could materially affect our business, financial position, income or cash flows. See Item 5. Operating and Financial Review and Prospects Foreign Currency Exchange Rate Exposure for details on the impact of these exchange rate fluctuations.

The following table sets forth (i) the average, high and low Noon Buying Rates for the euro expressed as U.S. dollars per 1.00 for the past five years on an annual basis and (ii) the high and low Noon Buying Rates on a monthly basis from July 2012 through March 7, 2013.

<b>Year</b>	<b>Average<sup>(1)</sup></b>	<b>High</b>	<b>Low</b>
2008	1.4695	1.6010	1.2446
2009	1.3955	1.5100	1.2547
2010	1.3216	1.4536	1.1959
2011	1.4002	1.4875	1.2926
2012	1.2909	1.3463	1.2062

<b>Month</b>	<b>High</b>	<b>Low</b>
2012		
July	1.2620	1.2062
August	1.2583	1.2149
September	1.3142	1.2566
October	1.3133	1.2876
November	1.3010	1.2715
December	1.3260	1.2930
2013		
January	1.3584	1.3047
February	1.3692	1.3054
March (through March 7, 2013)	1.3098	1.2988

<sup>(1)</sup> The average of the applicable Noon Buying Rates on the last day of each month during the relevant period. The Noon Buying Rate on March 7, 2013 was US\$1.3098 per 1.00.

## **DIVIDENDS**

### **Dividend Distribution Policy**

Dividends are jointly proposed by SAP AG's Supervisory Board (Aufsichtsrat) and Executive Board (Vorstand) based on SAP AG's year-end stand-alone statutory financial statements, subject to approval by the Annual General Meeting of Shareholders. Dividends are officially declared for the prior year at SAP AG's Annual General Meeting of Shareholders. SAP AG's Annual General Meeting of Shareholders usually convenes during the second quarter of each year. Dividends are usually remitted to the custodian bank on behalf of the shareholder within one business day following the Annual General Meeting of Shareholders. Record holders of the ADRs on the dividend record date will be entitled to receive



**Table of Contents**

Part I

Item 3

payment of the dividend declared in respect of the year for which it is declared. Cash dividends payable to such holders will be paid to the Depositary in euro and, subject to certain exceptions, will be converted by the Depositary into U.S. dollars.

Dividends paid to holders of the ADRs may be subject to German withholding tax. See Item 8. Financial Information – Other Financial Information – Dividend Policy and Item 10. Additional Information – Taxation, for further information.

**Annual Dividends Paid and Proposed**

The following table sets forth in euro the annual dividends paid or proposed to be paid per ordinary share in respect of each of the years indicated. One SAP ADR currently represents one SAP AG ordinary share. Accordingly, the final dividend per ADR is equal to the dividend for one SAP AG ordinary share and is dependent on the euro/U.S. dollar exchange rate. The table does not reflect tax credits that may be available to German taxpayers who receive dividend payments. If you own our ordinary shares or ADRs and if you are a U.S. resident, refer to Item 10. Additional Information – Taxation, for further information.

Year Ended December 31,	Dividend Paid per Ordinary Share	
	US\$	
2008	0.50	0.68 <sup>(1)</sup>
2009	0.50	0.60 <sup>(1)</sup>
2010	0.60	0.85 <sup>(1)</sup>
2011	1.10 <sup>(2)</sup>	1.38 <sup>(1)</sup>
2012 (proposed)	0.85 <sup>(3)</sup>	1.11 <sup>(3),(4)</sup>

(1) Translated for the convenience of the reader from euro into U.S. dollars at the Noon Buying Rate for converting euro into U.S. dollars on the dividend payment date. The Depositary is required to convert any dividend payments received from SAP as promptly as practicable upon receipt.

(2) Thereof a special dividend of 0.35 per share to celebrate our 40<sup>th</sup> anniversary.

(3) Subject to approval at the Annual General Meeting of Shareholders of SAP AG currently scheduled to be held on June 4, 2013.

(4) Translated for the convenience of the reader from euro into U.S. dollars at the Noon Buying Rate for converting euro into U.S. dollars on March 7, 2013 of US\$1.3098 per 1.00. The dividend paid may differ due to changes in the exchange rate.

The amount of dividends paid on the ordinary shares depends on the amount of profits to be distributed by SAP AG, which depends in part upon our performance. In addition, the amount of dividends received by holders of ADRs may be affected by fluctuations in exchange rates (see Item 3. Key Information – Exchange Rates). The timing and amount of future dividend payments will depend upon our future earnings, capital needs and other relevant factors, in each case as proposed by the Executive Board and the Supervisory Board of SAP AG and approved by the Annual General Meeting of Shareholders.

**RISK FACTORS**

## **Economic, Political, Social, and Regulatory Risk**

**Uncertainty in the global economy, financial markets, or political conditions could have a negative impact on our business, financial position, profit, and cash flows and put pressure on our operating profit.**

The ability of our customers to invest in our products is dependent on current economic, financial, and political conditions. In the mid- to long-term, events such as a global economic crisis, shifts in government policy, fluctuations in national currencies, a potential euro area break-up, U.S. or European recession, or increasing sovereign debts, could negatively impact our customers' ability and willingness to make investments in our products and services. These events could reduce the demand for SAP software and services, and lead to the following:

Delayed purchases, decreased deal size, or cancelations of proposed investments

Higher credit barriers for customers, reducing their ability to finance software purchases

Increased number of bankruptcies among customers, business partners, and key suppliers

Increased default risk, which may lead to significant impairment charges in the future

Market disruption from aggressive competitive behavior, acquisitions, or business practices

Increased price competition and demand for cheaper products and services

**Table of Contents**

Part I

Item 3

Economic, financial, or political uncertainty could therefore cause a decline in our revenue and operating profit. As a result, we could fail to achieve our operating profit target.

**Our international business activities expose us to numerous and potentially conflicting regulatory requirements, and risks which could harm our business, financial position, profit, and cash flows.**

We currently market our products and services in more than 130 countries in the APJ, EMEA, Latin America, and North America regions. Sales in these countries are subject to numerous risks inherent in international business operations. Among others, these risks include:

Conflict and overlap among tax regimes

Possible tax constraints impeding business operations in certain countries

Expenses associated with the localization of our products and compliance with local regulatory requirements

Operational difficulties in countries with a high corruption perception index

Protectionist trade policies

Regulations for import and export

Works councils, labor unions, and immigration laws in different countries

Data protection and privacy in regard to access by foreign authorities to customer, partner, or employee data

Country-specific software certification requirements

As we expand further into new countries and markets, these risks could intensify. One or more of these factors could negatively impact our operations globally or in one or more countries or regions. Overall, we could fail to achieve our revenue target.

**Social and political instability caused by terrorist attacks, civil unrest, war, or international hostilities as well as pandemic disease outbreaks or natural disasters may disrupt SAP's business operations.**

Terrorist attacks and other acts of violence or war, civil and political unrest (such as in the Middle East), or natural disasters (such as Superstorm Sandy or similar events) could have a significant negative impact on the related economy or beyond. An event that results, for example, in the loss of a significant number of our employees, or in the disruption or disablement of operations at our locations, could affect our ability to provide business services. Furthermore, this could have a significant negative impact on our partners as well as our customers and their investment decisions, which could prevent us from achieving our future revenue and operating profit target.

***Market Risks***

**Our established customers might not buy additional software solutions, renew maintenance agreements, purchase additional professional services, or they might switch to other products or service offerings (including competitive products).**

In 2012, we offered a wide range of support services including SAP MaxAttention, SAP Enterprise Support, and SAP Product Support for Large Enterprises. We continue to depend materially on the success of our support portfolio and on our ability to deliver high-quality services. Traditionally, our large installed customer base generates additional new software, maintenance, consulting, and training revenue. Existing customers might cancel or not renew their maintenance contracts, decide not to buy additional products and services, switch to subscription models, or accept alternative offerings from other vendors so that we could fail to achieve our maintenance-related revenue and operating profit target.

**Table of Contents**

Part I

Item 3

**The market for our Cloud product portfolio depends on widespread adoption of cloud solutions instead of on-premise solutions. The market for cloud solutions is at a relatively early stage of development. As a result, if it does not develop or develops more slowly than we expect, our business could be harmed.**

The market for cloud computing is at an early stage relative to on-premise solutions. Cloud applications may not achieve and sustain high levels of demand and market acceptance. Our success will depend on the willingness of organizations to increase their use of software as a service. Many companies have invested substantial personnel and financial resources to integrate traditional enterprise software into their businesses, and therefore may be reluctant or unwilling to migrate to the cloud. We have encountered customers who were unwilling to subscribe to our Cloud product portfolio because they could not install it on their premises. Other factors that could affect the market acceptance of cloud solutions include:

Perceived security capabilities and reliability

Perceived concerns about the ability to scale operations for large enterprise customers

Concerns with entrusting a third party to store and manage critical employee or company-confidential data

The level of configurability or customizability of the software

If organizations do not perceive the benefits of cloud computing, the market for our cloud business might not develop further, or it may develop more slowly than we expect, either of which would adversely affect our business.

**Our market share and profit could decline due to intense competition, consolidation, and technological innovation in the software industry.**

The software industry continues to evolve rapidly and currently is undergoing a significant shift due to innovations in the areas of mobile, Big Data, cloud computing, and social media. While smaller innovative companies tend to create new markets continuously, large traditional IT vendors tend to enter such markets mostly through acquisitions.

In 2012, most merger and acquisition activities within the software industry were in cloud computing, social media, database and technology, and analytics. Therefore, SAP is facing increased competition in its business environment from traditional as well as new competitors. This could result in increased price pressure, cost increases, and loss of market share and could negatively impact the achievement of our future operating profit target.

***Business Strategy Risks***

**Demand for our new solutions may not develop as planned and our strategy on new business models and flexible consumption models may not be successful.**

Our customers are looking to take advantage of technological breakthroughs from SAP without compromising their previous IT investments. Thus, our customers might not realize the expected benefits from these previous investments. Additionally, the introduction of new SAP solutions, technologies, and business models are subject to uncertainties. Therefore, customers might wait for reference customers first, which

might lead to a lower level of adoption of our new solutions and business models or no adoption at all.

**Our Cloud organization recognizes subscription and support revenue from our customers over the term of their agreements, and our business depends substantially on customers renewing their agreements and purchasing additional modules or users from us. Also, any downturns or upturns in cloud sales may not be immediately reflected in our operating results, and any decline in our customer renewals would harm the future operating results of the cloud business.**

We recognize cloud subscription and support revenue over the duration of our cloud business customer agreements, which typically range from one to three years with some up to five years. As a result, most of the respective revenue recognized in a given period originates from agreements entered into in earlier periods. Consequently, a shortfall in demand for our Cloud portfolio in any period may not significantly impact our cloud subscription and support

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**Table of Contents**

Part I

Item 3

revenue for that quarter, but could negatively affect targeted cloud subscription and support revenue in future periods.

To maintain or improve our operating results in the cloud business, it is important that our customers renew their agreements with us when the initial contract term expires and purchase additional modules or additional users. Our customers have no obligation to renew their subscriptions after the initial subscription period, and we cannot assure that customers will renew subscriptions at the same or higher level of service, if at all.

Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their satisfaction or dissatisfaction with our cloud product portfolio, our customer support, our pricing, the prices of competing products or services, mergers and acquisitions affecting our customer base, the effects of global economic conditions, or reductions in our customers' spending levels. If our customers do not renew their subscriptions, renew on less favorable terms, or fail to purchase additional modules or users, our revenue and billings may decline, and we may not realize significantly improved operating results from our customer base.

**We might fail to maintain and enhance an effective partner ecosystem.**

A vibrant and open partner ecosystem is a fundamental pillar of our success and growth strategy. We have entered into partnership agreements that drive co-innovation on our platforms, profitably expand all our routes-to-market to optimize market coverage, and provide high-quality services capacity in all market segments. Partners play a key role in driving market adoption of our entire solutions portfolio, by co-innovating on our platforms, embedding our technology, and reselling and/or implementing our software.

These partners might not do the following:

Enable enough resources to promote, sell, and support to scale into targeted markets

Develop a sufficient number of new solutions and content on our platforms

Sufficiently embed our solutions to profitably drive SAP everywhere (OEM model)  
Provide high-quality products and services to our customers

Comply with applicable laws and regulations, resulting in delayed, disrupted, or terminated sales and services

Renew their agreements with us on terms acceptable to us or at all

If one or more of these risks materialize, the demand for our products and services may be adversely impacted, and we may not be able to compete successfully with other software vendors. As a result, we might not achieve our revenue target.

***Human Capital Risks***

**If we do not effectively manage our geographically dispersed workforce, we may not be able to run our business efficiently and successfully.**

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Our success is dependent on appropriate alignment of our internal and external workforce planning processes and our location strategy with our general strategy. It is critical that we manage our internationally dispersed workforce effectively, taking short and long-term workforce and skill requirements into consideration. Changes in headcount and infrastructure needs could result in a mismatch between our expenses and revenue. Failure to do so could hinder our ability to run our business efficiently and successfully.

**If we are unable to attract, develop and retain leaders and employees with specialized knowledge and technology skills, or are unable to achieve internal gender diversity objectives, we might not be able to manage our operations effectively and successfully, or develop successful new solutions and services.**

Our highly qualified workforce provides the foundation for our continued success. Competition in our industry for highly-skilled and specialized personnel and leaders, both male and female, is intense. In certain regions and specific technology and solution areas, we have set ambitious growth targets in countries such as Brazil, China, and Russia. If we are unable to identify, attract, develop, motivate, and retain well-qualified personnel, both male and female, or if existing



**Table of Contents**

## Part I

## Item 3

highly-skilled and specialized personnel leave SAP and ready successors or adequate replacements are not available, we may not be able to manage our operations effectively or develop, sell, or implement successful new solutions and services as planned. This is particularly true as we continue to introduce new and innovative technology offerings and expand our business in emerging markets. In addition, SAP might not be able to achieve its internal gender diversity objectives by 2017. Finally, hiring such personnel could expose us to claims by other companies seeking to prevent their employees from working for a competitor.

***Organizational and Governance-Related Risks*****Laws and regulatory requirements in Germany, the United States, and elsewhere have become much more stringent.**

As a stock corporation domiciled in Germany with securities listed in Germany and the United States, we are subject to German, U.S., and other governance-related regulatory requirements. The regulatory requirements have become significantly more stringent in recent years, and some legislation, such as the anticorruption legislation in Germany, the U.S. Foreign Corrupt Practices Act, and the UK Bribery Act, is being applied more rigorously. The rules are highly complex. Any failure by us to comply with applicable laws and regulations, or any related allegations of wrongdoing against us, whether merited or not, could have a significant negative impact on our reputation and our stock price.

**Non-compliance with applicable data protection and privacy laws or failure to adequately meet the requirements of SAP's customers with respect to our products and services could lead to civil liabilities and fines, as well as loss of customers and damage to SAP's reputation.**

As a global software and service provider, SAP is required to comply with the laws in the locations where SAP does business. SAP and its subsidiaries are facing a surge of data protection and privacy laws and regulations around the world, with further changes to be expected in the future, for example, by the European Data Protection Regulation proposed by the European

Commission. These laws and regulations amend and supplement existing requirements regarding the processing of personal data that SAP and SAP's customers need to fulfill and which SAP consequently must address with its products and services. Failure to comply with applicable laws or to adequately address privacy concerns of customers, even if unfounded, could lead to investigations by supervisory authorities, civil liability, fines (in the future potentially calculated based on the Company's annual turnover), loss of customers, and damage to SAP's reputation, and thereby harm SAP's business.

**Failure to respond to meet customer, partner, or other stakeholder expectations or generally accepted standards on climate change, energy constraints, and our social investment strategy could negatively impact SAP's business, results of operations, and reputation.**

Energy and emissions management as well as our social investments are an integral component of our holistic management of social, environmental and economic risks and opportunities. We have identified related risks in these major areas:

Our solutions and green IT

SAP's own operations – energy management and other environmental issues such as carbon management, water use, and waste

Social investments focusing on education and entrepreneurship

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Because SAP's customers, employees, and investors expect a reliable energy and carbon strategy, we have re-emphasized our previously communicated targets, especially our annual carbon target of 480 kilotons for greenhouse gas emissions. If we do not achieve this target, our customers might no longer recognize SAP for its environmental leadership and buy other vendors' products and services with the consequence that we could fail to achieve our revenue target.

### **Principal shareholders may be able to exert control over our future direction and operations.**

If SAP AG's principal shareholders and the holdings of entities controlled by them vote in the same manner, this could delay, prevent or facilitate a change in control of SAP or other

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**Table of Contents**

Part I

Item 3

significant changes to SAP AG or its capital structure. See Item 7. Major Shareholders and Related-Party Transactions – Major Shareholders for further information.

**U.S. judgments may be difficult or impossible to enforce against us or our Board members.**

Currently, except for Bill McDermott, Lars Dalgaard and Vishal Sikka, all members of SAP AG’s Executive Board and all members of the Supervisory Board are non-residents of the United States. A substantial portion of the assets of SAP and our Board members are located outside the United States. As a result, it may not be possible to effect service of process within the United States upon non-U.S. resident persons or SAP or to enforce against non-U.S. resident persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the securities laws of the United States. In addition, awards of punitive damages in actions brought in the United States or elsewhere might be unenforceable in Germany.

***Communication and Information Risks***

**Our controls and efforts to prevent the unauthorized disclosure of confidential information might not always be effective.**

Information classified as confidential or strictly confidential that is related to topics such as our strategy, new technologies, mergers and acquisitions, unpublished financial results, or personal data could be prematurely or inadvertently disclosed. For some of these events, this could require notification of multiple regulatory agencies and, where appropriate, the data owner, which could result in a loss of reputation for SAP. For example, breached information during a merger or acquisition deal could cause the loss of our deal target, or our share price could decline in case of prematurely published financial results. This could also negatively impact our market position, and lead to fines and penalties. In addition, this could prevent us from achieving our operating profit target.

***Financial Risks***

**Our sales are subject to quarterly fluctuations and our sales forecasts may not be accurate.**

Our revenue and operating results can vary and have varied in the past, sometimes substantially, from quarter to quarter. Our revenue in general, and in particular our software revenue, is difficult to forecast for a number of reasons, including:

The relatively long sales cycles for our products

The large size, complexity, and extended timing of individual license transactions

The introduction of new licensing and deployment models such as cloud subscription models

The timing of the introduction of new products or product enhancements by SAP or our competitors

Changes in customer budgets

Decreased software sales that could have a significant negative impact on related maintenance and services revenue

Timing, size, and length of a customer's services projects

Deployment models that require the recognition of revenue over an extended period of time

Seasonality of a customer's technology purchases

Limited visibility into the ability of acquired companies to accurately predict their sales pipelines and the likelihood that the projected pipeline will convert favorably into sales

Other general economic, social, environmental, and market conditions, such as the global economic crisis and the current difficulties for countries with large debt

Since many of our customers make their IT purchasing decisions near the end of calendar quarters, and with a significant percentage of those decisions being made during our fourth quarter, even a small delay in purchasing decisions could have a significant negative impact on our revenue results for a given year. Our dependence on large transactions has decreased in recent years with a trend towards an increased number of transactions coupled with a decrease in

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**Table of Contents**

Part I

Item 3

deal size. However, the loss or delay of one or a few large opportunities, which are still characteristic of the large enterprise segment, could have a significant negative impact on our results in terms of failure to achieve our revenue target.

**External factors could impact our liquidity and increase the default risk associated with and the valuation of our financial assets.**

An economic downturn (for example, resulting from the euro area crisis) could have a significant negative impact on our future liquidity. We use a globally centralized financial management to control financial risk, such as liquidity, exchange rate, interest rate, counterparty, and equity price risks. The primary aim is to maintain liquidity in the Group at a level that is adequate to meet our obligations at any time. Our total group liquidity was 2,492 million on December 31, 2012. This position is supported by our strong operating cash flows, of which a large part is recurring, and by credit facilities on which we can draw if necessary. However, an economic downturn could increase the default risk associated with our total group liquidity. That could have a significant negative impact on the valuation of our financial assets including our trade receivables. SAP's investment policy with regard to total Group liquidity is set out in our internal treasury guideline document, which is a collection of uniform rules that apply globally to all companies in the Group. Among its stipulations, it requires that with limited exceptions we invest only in assets and funds rated BBB flat or better. The weighted average rating of the investments of our total group liquidity is in the range A to A-. We continue to pursue a policy of cautious investment characterized by wide portfolio diversification with a variety of counterparties, predominantly short-term investments, and standard investment instruments.

**Management's use of estimates could negatively affect our business, financial position, profit, and cash flows.**

To comply with IFRS, management is required to make many judgments, estimates, and assumptions. The facts and circumstances on which management bases these estimates and judgments, and management's judgment regarding the facts and circumstances, may change from time to time and this could result in significant changes in the estimates.

**Current and future accounting pronouncements and other financial reporting standards, especially but not only concerning revenue recognition, may negatively impact the financial results we present.**

We regularly monitor our compliance with applicable financial reporting standards and review new pronouncements and drafts thereof that are relevant to us. As a result, we might be required to change our accounting policies, particularly concerning revenue recognition, to alter our operational policy so that it reflects new or amended financial reporting standards, or to restate our published financial statements.

**Because we conduct operations throughout the world, our business, financial position, profit, and cash flows may be affected by currency and interest rate fluctuations.**

Our Group-wide management reporting and our external financial reporting are both in euros. Nevertheless, a significant portion of our business is conducted in currencies other than the euro. Approximately 72% of our revenue in 2012 was attributable to operations outside the euro area and was translated into euros. Consequently, period-over-period changes in the euro rates for particular currencies can significantly affect our reported revenue and income. In general, appreciation of the euro relative to another currency has a negative effect while depreciation of the euro relative to another currency has a positive effect. Variable interest balance-sheet items are also subject to changes in interest rates. For more information about our currency and interest-rate risks and our related hedging activity, see the Notes to the Consolidated Financial Statements section, Notes (25) and (26).

**The cost of using derivative instruments to hedge share-based payments may exceed the benefits of hedging them.**

We use derivative instruments to reduce the impact of our share-based payments on our income statement and to limit future expense associated with those plans. We decide case by case whether and to what extent we should hedge this risk. The expense of hedging the share-based payments could exceed the benefit achieved by hedging them. Additionally, a decision to leave the plans materially unhedged could prove disadvantageous.



**Table of Contents**

Part I

Item 3

**The market price for our ADRs and ordinary shares may be volatile.**

The trading prices of our ADRs and ordinary shares have experienced and may continue to experience significant volatility in response to various factors including, but not limited to:

the announcement of new products or product enhancements by us or our competitors;

technological innovation by us or our competitors;

quarterly variations in our results or our competitors' results of operations or results that fail to meet market expectations;

the announcement of new products or product enhancements by us or our competitors;

changes in revenue and revenue growth rates on a consolidated basis or for specific geographic areas, business units, products or product categories;

changes in our externally communicated outlook;

changes in our capital structure, for example due to the potential future issuance of additional debt instruments;

general market conditions specific to particular industries;

litigation to which we are a party

general and country specific economic or political conditions (particularly wars, terrorist attacks, etc.);

proposed and completed acquisitions or other significant transactions by us or our competitors; and

general market conditions.

Many of these factors are beyond our control. In the past, companies that have experienced volatility in the market price of their stock have been subject to shareholder lawsuits including securities class action litigation. Any such lawsuits against us, with or without merit, could result in

substantial costs and the diversion of management's attention and resources, resulting in a decline in our results of operations and our stock price.

### ***Project Risks***

**Implementation of SAP software often involves a significant commitment of resources by our customers and is subject to a number of significant risks over which we often have no control.**

A core element of our business is the successful implementation of software solutions to enable our customers to make their business a best-run business. The implementation of SAP software is led by SAP, by partners, by customers, or by a combination thereof. Depending on various factors, such as the complexity of solutions, the customer's implementation needs or the resources required, SAP faces a number of different risks. For example, functional requirement changes, delays in timeline, or deviation from recommended best practices may occur during the course of a project. These scenarios have a direct impact on the project resource model and on securing adequate internal personnel or consultants in a timely manner and could therefore prove challenging.

As a result of these and other risks, SAP and/or some of our customers have incurred significant implementation costs in connection with the purchase and installation of SAP software products. Also, some customers' implementations have taken longer than planned. We cannot guarantee that we can reduce or eliminate protracted installation or significant third-party consulting costs, that trained consultants will be readily available, that our costs will not exceed the fees agreed in fixed-price contracts, or that customers will be satisfied with the implementation. Unsuccessful, lengthy, or costly customer implementation projects could result in claims from customers, harm SAP's reputation, and cause a loss of future profit as well as the failure of SAP to achieve its operating profit target.

### ***Product and Technology Risks***

**There is a risk that undetected security vulnerabilities shipped and deployed within our software products cause customer damage.**

Customer systems or systems operated by SAP itself to provide services could potentially be compromised by vulnerabilities if they are



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**Table of Contents**

Part I

Item 3

exploited by hackers. This could lead to theft, destruction, or abuse of data, or systems could be rendered unusable (such as denial of service attack). If our software, our customers' systems, or SAP systems used in the provision of services to customers are exploited by hackers, this could prevent us from meeting our contractual obligations as well as harm our reputation, and adversely impact our business, financial position, profit, and cash flows.

**Undetected defects or delays in the introduction of new products and product enhancements could increase our costs and reduce customer demand.**

To achieve market acceptance and high customer satisfaction, our new products and product enhancements often require long development and testing periods. Development work and market introduction are subject to risks. For example, products might not completely meet our stringent quality standards, might not fulfill market needs or customer expectations, or might not comply with local standards and requirements. Furthermore, this risk exists with respect to acquired companies' technologies and products where we might not be able to manage these as quickly and successfully as expected. Therefore, market launches, entering new markets, or the introduction of new innovations could be delayed or not be successful.

Also, new products could contain undetected defects or they might not be mature enough from the customer's point of view for business-critical solutions. In some circumstances, we might not be in a position to rectify such defects or entirely meet the expectations of customers specifically as we are expanding our product portfolio towards additional markets. As a result, we might be faced with customer claims for cash refunds, damages, replacement software, or other concessions. The risk of defects and their adverse consequences could increase as we seek to introduce a variety of new software products simultaneously at a higher innovation rate. Significant undetected defects or delays in introducing new products or product enhancements could affect market acceptance of SAP software products and lead to failure of SAP to achieve our future operating profit target.

The use of existing SAP software products by customers in business-critical solutions and processes and the relative complexity and technical interdependency of our software products create a risk that customers or third

parties may pursue warranty, performance, or other claims against us for actual or alleged defects in SAP software products, in our provision of services, or in our application hosting services. We have in the past been, and may in the future be, subject to warranty, performance, or other similar claims.

Although our contracts generally contain provisions designed to limit our exposure due to actual or alleged defects in SAP software products or in our provision of services, these provisions may not cover every eventuality or be effective under the applicable law. Regardless of its merits, any claim could entail substantial expense and require the devotion of significant time and attention by key management personnel. Publicity surrounding such claims could affect our reputation and the demand for our software.

**Changes in our rights to use software and technologies we license from third parties, which are an integral part of SAP's products, could increase the time required to develop or release products, diminish their functional capabilities, or require us to pay higher license fees.**

We have licensed numerous third-party technologies and we use open source software, which both have become an integral part of our product portfolio. We depend on those technologies for the functionality of our software. Changes to or the loss of third-party licenses as well as used open source licenses being construed could significantly increase in the cost of these licenses and significantly reduce software functionality and/or usability of SAP's software products. As a result, we might incur additional development or license costs to ensure the continued functionality of our products which could prevent us from meeting our operating profit target. This risk increases when we acquire a company or a company's intellectual property assets which had been subject to third-party technology licensing, open source software, and product standards less rigorous than our own.

**If we are unable to keep up with rapid technological innovations, new business models, and market expectations, we might not be able to compete effectively.**

Our future success continues to depend on our ability to keep pace with technological innovations and new business models, as well as the ability to

**Table of Contents**

Part I

Item 3

enhance and expand our existing products and services. It also depends on our ability to introduce new solutions, technologies, and services that are broadly accepted in the market and that satisfy changing customer requirements.

We might not be successful in bringing new solutions, solution enhancements, and/or services to market before our competitors, and might not be able to generate enough revenue to offset the significant research and development costs we incur. Moreover, we might not anticipate and develop technological improvements or succeed in adapting our products to technological change, changing regulatory requirements, emerging industry standards, and changing customer requirements. Finally, we might not succeed in producing high-quality products, enhancements, and releases in a timely and cost-effective manner to compete with solutions and other technologies offered by our competitors.

**Our technology strategy might not succeed or customers might not adopt our technology platform offering if we are unable to keep up with technological innovations or successfully compete in the market.**

Our technology strategy centers on the SAP HANA in-memory computing platform, a real-time platform for analytics and applications. Its success depends on the convergence with SAP Mobile Platform, our cloud platform, and the SAP NetWeaver technology platform as well as the delivery of SAP solutions based on the SAP HANA platform. Our technology strategy also relies on our ability to maintain a dynamic network of ISVs developing their own business applications using our platform technology.

We might not be successful in enabling the complete product portfolio for SAP HANA and bringing new solutions based on the SAP HANA platform to the market as fast as expected. As a result, our partner organizations and customers might not adopt the SAP HANA platform quickly enough and our competitors could introduce successful in-memory solutions to the market faster than us. As a result, we might not achieve our revenue target.

**Our cloud offerings might be subject to a security attack, become unavailable, or fail to perform properly.**

The software used in our Cloud portfolio is inherently complex and any defects in product functionality or system stability that cause interruptions in the availability of our application suite could result in the following:

Lost or delayed market acceptance and sales

Breach of warranty or other contract breach or misrepresentation claims

Sales credits or refunds to our customers

Loss of customers

Diversion of development and customer service resources

Injury to our reputation

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The costs incurred in correcting any defects or errors might be substantial and could adversely affect our operating results. Because of the large amount of data that we collect and manage, it is possible that hardware failures, defects in our software, or errors in our systems could result in data loss or corruption, or cause the information that we collect to be incomplete or contain inaccuracies that our customers regard as significant. Furthermore, the availability of our application suite could be interrupted by a number of factors, including customers' inability to access the Internet, the failure of our network or software systems due to human or other error, and security breaches, or variability in user traffic for our application suite. Additionally, any loss of the right to use hardware purchased or leased from third parties could result in delays in our ability to provide our application suite until equivalent technology is either developed by us or, if available, identified.

While we have administrative, technical, and physical security measures in place, as well as contracts that require third party data centers to have appropriate security measures in place, if these security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to our customers' data, including personally identifiable information regarding users, our reputation could be damaged, our business may suffer, and we could incur significant liability.

## **Table of Contents**

### Part I

#### Item 3

In addition, our insurance coverage might not cover claims against us for loss or security breach of data or other indirect or consequential damages and defending a suit, regardless of its merit, could be costly and time-consuming. In addition to potential liability, if we experience interruptions in the availability of our application suite, our reputation could be harmed and we could lose customers. As a result, we might not achieve our revenue and operating profit target.

### ***Operational Risks***

**Third parties have claimed, and might claim in the future, that we infringe their intellectual property rights, which could lead to damages being awarded against us and limit our ability to use certain technologies in the future.**

We continue to believe that we will increasingly be subject to intellectual property infringement claims as the number of products in our industry segment grows, as we acquire companies, with increased use of third-party code including open source code, as we expand into new industry segments with our products, resulting in greater overlap in the functional scope of products, and as non-practicing entities that do not design, manufacture, or distribute products increasingly assert intellectual property infringement claims.

Any claims, with or without merit, and negotiations or litigation relating to such claims, could preclude us from utilizing certain technologies in our products, be time-consuming, result in costly litigation, and require us to pay damages to third parties, stop selling or reconfigure our products and, under certain circumstances, pay fines and indemnify our customers. They could also require us to enter into royalty and licensing arrangements on terms that are not favorable to us, cause product shipment delays, subject our products to injunctions, require a complete or partial redesign of products, result in delays to our customers' investment decisions, and damage our reputation.

Software includes many components or modules that provide different features and perform different functions. Some of these features or functions may be subject to third-party intellectual property rights. The rights of another party could encompass technical aspects that are similar to one or more technologies in one or more of our products. Intellectual property rights of third

parties could preclude us from using certain technologies in our products or require us to enter into royalty and licensing arrangements on unfavorable or expensive terms.

The software industry is making increasing use of open source software in its development work on solutions. We also integrate certain open source software components from third parties into our software. Open source licenses may require that the software code in those components or the software into which they are integrated be freely accessible under open source terms. Third-party claims may require us to make freely accessible under open source terms a product of ours or non-SAP software upon which we depend.

**Claims and lawsuits against us could have a material negative impact on our business, financial position, profit, cash flows, and reputation.**

Claims and lawsuits are brought against us, including claims and lawsuits involving businesses we have acquired. Adverse outcomes to some or all of the claims and lawsuits pending against us might result in the award of significant damages or injunctive relief against us that could hinder our ability to conduct our business.

The outcome of litigation and other claims or lawsuits is intrinsically uncertain. Management's view of the litigation may also change in the future. Actual outcomes of litigation and other claims or lawsuits could differ from the assessments made by management in prior periods.

**We might not acquire and integrate companies effectively or successfully and our strategic alliances might not be successful.**

To expand our business, we have in the past made acquisitions of businesses, products, and technologies. We expect to continue to make such acquisitions in the future. Management's negotiation of potential acquisitions and alliances and integration of acquired businesses, products, or

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technologies demands time, focus, and resources of management and of the workforce. Acquisitions of companies, businesses, and technology expose us to unpredictable operational difficulties, expenditures, and risks. These risks include, among others:

The selection of the wrong integration model for the acquired company

**Table of Contents**

Part I

Item 3

The failure to integrate the acquired business and its different business and licensing models

The failure to integrate the acquired technologies or products with our current products and technologies

The failure to integrate the acquired company's operations across SAP's different cultures, languages, and local protocols, all within the constraints of applicable local laws

The failure to meet the needs of the acquired company's customers and partners in the combined company

The diversion of management's time and attention from daily operations

The loss of key personnel of the acquired business

Material unknown liabilities and contingent liabilities of acquired companies, including legal, tax, accounting intellectual property, or other significant liabilities that may not be detected through the due diligence process

Legal and regulatory constraints (such as contract obligations, privacy frameworks and agreements, and so on)

Difficulties in implementing, restoring, or maintaining internal controls, procedures, and policies

Practices or policies of the acquired company that may be incompatible with our compliance requirements

Negative impact on relationships with existing customers, partners, or third-party providers of technology or products

Difficulties in integrating the acquired company's accounting, human resource, and other administrative systems and coordination of the acquired company's research and development (R & D), sales, and marketing functions

Debt incurrence or significant cash expenditures

In addition, acquired businesses might not perform as anticipated, resulting in charges for the impairment of goodwill and other intangible assets on our statements of financial position. Such charges may have a significant negative

impact on operating profit. We have entered into, and expect to continue to enter into, alliance arrangements for a variety of purposes, including the development of new products and services. There can be no assurance that any such products or services will be successfully developed or that we will not incur significant unanticipated liabilities in connection with such arrangements. We may not be successful in overcoming these risks and we may therefore not benefit as anticipated from acquisitions or alliances.

**We may not be able to obtain adequate title to or licenses in, or to enforce, intellectual property.**

Protecting and defending our intellectual property is crucial to our success. We use a variety of means to identify and monitor potential risks and to protect our intellectual property. These include applying for patents, registering trademarks and other marks and copyrights, implementing measures to stop copyright and trademark infringement, entering into licensing, confidentiality, and nondisclosure agreements, and deploying protection technology. Despite our efforts, we might not be able to prevent third parties from obtaining, using, or selling without authorization what we regard as our proprietary technology and information. All of these measures afford only limited protection, and our proprietary rights could be challenged, invalidated, held unenforceable, or otherwise affected. Some intellectual property might be vulnerable to disclosure or misappropriation by employees, partners, or other third parties. Also, third parties might independently develop technologies that are substantially equivalent or superior to our technology. Finally, third parties might reverse-engineer or otherwise obtain and use technology and information that we regard as proprietary. Accordingly, we might not be able to protect our proprietary rights against unauthorized third-party copying or utilization, which could have a material negative impact on our competitive position and our financial position, and result in reduced sales. Any legal action we bring to enforce our proprietary rights could also involve enforcement against a partner or other third party, which may have a material negative effect on our ability, and our customers' ability, to use that partner's or other third parties' products. In addition, the laws and courts of certain countries may not offer effective means to enforce our intellectual property rights.



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**Table of Contents**

Part I

Item 3, 4

**SAP's business strategy focuses on certain business models that are highly dependent on a working cyberspace. A cyber-security breach could have a significant negative impact on our customers, our reputation, and our business.**

The key cyber-security risks currently applicable to SAP include industrial espionage, leakage of confidential information and intellectual property, defective products, production downtimes, supply shortages, compromised data, and cyber-attacks against on-premise, hosted, and cloud services. A failure of SAP's cybersecurity measures could expose SAP's business operations and service delivery to the described risks, for example, virtual attack, disruption, damage and/or unauthorized access. Additionally, SAP could be subject to recovery costs, for example, as well as significant contractual and legal claims by customers, partners, authorities, and third-party service providers for damages against us.

**We may not be able to protect our critical information and assets or to safeguard our business operations against disruption.**

SAP is dependent on the exchange of a wide range of information across our global operations and on the availability of our infrastructure. There is a danger of industrial espionage, social engineering, misuse, or theft of information or assets, or damage to assets by trespassers in our facilities or by people who have gained unauthorized physical access to our facilities, systems, or information. Therefore, we are required to implement several protection measures designed to ensure the security of our information, IT and facility infrastructure, and other assets.

**Our insurance coverage might not be sufficient and uninsured losses may occur.**

We maintain insurance coverage to protect us against a broad number of risks, at levels we believe are appropriate and consistent with current industry practice. Our objective is to exclude or minimize risk of financial loss at reasonable cost. However, we may incur losses that are beyond the limits, or outside the scope of coverage of such insurance and that may limit or prevent indemnification under our insurance policies. In addition, we might not be able to maintain adequate insurance coverage on commercially reasonable terms in the future.

Further, certain categories of risks are currently not insurable at reasonable cost. Finally, there can be no assurance of the financial ability of the insurance companies to meet their claim payment obligations.

**We could incur significant losses in connection with venture capital investments.**

We plan to continue investing in technology businesses through our partnership with SAP Ventures. Many of these investments generate net losses and require additional capital outlay from their investors. Changes to planned business operations have in the past, and also may in the future, affect the performance of companies in which SAP Ventures holds investments, and that could negatively affect the value of our investments in SAP Ventures. Moreover, for tax purposes, the use of capital losses and impairments of equity securities is often restricted, which may adversely affect our effective tax rate.

#### **ITEM 4. INFORMATION ABOUT SAP**

Our legal corporate name is SAP AG. SAP AG is translated in English to SAP Corporation. SAP AG, formerly known as SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung, was incorporated under the laws of the Federal Republic of Germany in 1972. Where the context requires in the discussion below, SAP AG refers to our predecessors, Systemanalyse und Programmentwicklung GbR (1972-1976) and SAP Systeme, Anwendungen, Produkte in der Datenverarbeitung GmbH (1976-1988). SAP AG became a stock corporation (Aktiengesellschaft) in 1988. Our principal executive offices, headquarters and registered office are located at Dietmar-Hopp-Allee 16, 69190 Walldorf, Germany. Our telephone number is +49-6227-7-47474.

As part of our activities to reduce the number of legal entities in the SAP group, in 2012 we integrated certain subsidiaries into the following significant SAP subsidiaries: SAP America, Inc., SAP Deutschland AG & Co. KG and SAP (Schweiz) AG.

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For a (i) description of our principal capital expenditures and divestitures and the amount invested (including interests in other companies) since January 1, 2010 until the date of this report

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**Table of Contents**

Part I

Item 4

and (ii) information concerning our principal capital expenditures and divestitures currently in progress, including the distribution of these investments geographically and the method of financing, see Item 4. Information About SAP Description of Property Capital Expenditures.

**VISION, MISSION, AND STRATEGY**

SAP was founded in 1972 and is the world leader in enterprise applications in terms of software and software-related service revenue, and the world's third-largest independent software manufacturer based on market capitalization. With more than 232,000 customers in over 180 countries, the SAP Group includes subsidiaries in every major country and employs more than 64,000 people.

**Helping the World Run Better**

The world is experiencing dramatic shifts in the economy, technology, demographics, and the environment, and the rate of change is accelerating. The global middle class is expected to grow to five billion by 2030. This growing population is more connected than ever – an estimated 15 billion devices will be connected by 2015. There are more than one billion people engaged in social networks, and humankind is generating more data than ever. The rapid pace of change has brought wider availability of information, which has led to the consumerization of IT. These changes require companies to pay increasing attention to prudent management of resources and sustainable business models.

Around the globe, there is an ever growing need for people, organizations, institutions, and the world itself, to run better.

In a better-run world, businesses will anticipate and respond to sweeping changes, using knowledge as the key to competitiveness, profitability, and customer empowerment. Governments will be more responsive to their citizens and more transparent in their operations. Consumers will know more about the products they buy, so they can make decisions that fit their lifestyles and their values. And the environment will become a key decision factor.

**Our Vision and Mission**

SAP's vision is to help the world run better and improve people's lives. Our mission is to help

every customer become a best-run business. We do this by delivering new technology innovations that we believe address today's and tomorrow's challenges without disrupting our customers' business operations: Enterprise mobility will transform consumption of IT; in-memory technology will simplify the IT architecture in the enterprise and drive high-value applications; and the cloud delivery of IT solutions will simplify the consumption of technology and enable business networks. By leveraging our leadership in applications and analytics and combining them with new technology innovations, we can offer solutions that make our customers run better. To help our customers derive value from their SAP solutions in a fast, cost-effective, and predictable way, we also provide professional services and support.

**Our Goal: Sustained Business Success**

SAP has strong ambitions for sustained business success, both for itself and for its customers. By 2015, we expect to reach more than 20 billion in revenue, with a 35% non-IFRS operating margin. In addition, we aim to see one billion people interacting with our software. Our customers' IT requirements are complex and ever changing and SAP helps meet this challenge. Consequently, we aim to build a 2 billion Cloud business and remain the fastest-growing database company to complement our market leading on-premise business. Furthermore, in 2013, we aim to increase the indicator for customer success by eight percentage points and the employee engagement index to 82% (2012: 79%), all while minimizing our environmental impact and positively impacting society. These goals affirm our focus on innovation and sustainability and help us deliver on our vision and mission.

**Our Strategy: Innovative Solutions for Real-Time Business**

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SAP seeks to secure the growth of the company primarily through organic innovation of our portfolio product and solutions, focusing on market-leading innovation in five market categories – Applications, Analytics, Cloud, Mobile, and Database and Technology – powered by SAP HANA. We intend to increase SAP’s market leadership in the existing market categories of applications, analytics, and mobile, and to position SAP as a market leader in the new

**Table of Contents**

Part I

Item 4

categories of cloud and database and technology. Our SAP HANA platform allows our customers to take advantage of real-time in-memory technology across all five market categories. Expanding our partner network offers additional opportunities to develop innovative products and solutions and significantly increases our potential sales channels. Our growth strategy is also supported by mergers and acquisitions to accelerate our innovation strategy.

The world is undergoing a technology-driven revolution in which knowledge is the currency of success. Technology is both a cause and the answer to this change. We believe that we have the right team of highly qualified and motivated employees, the right portfolio of innovative products and solutions, and the right strategy to turn this technology revolution into business evolution for our customers. What's more, we believe we are well positioned to become known as a knowledge company. By providing end-to-end solutions to our customers, we continuously gain a great deal of business and technology knowledge as well as a deep understanding of industry best practices and value drivers. This knowledge is made available to our customers and partners to help generate business outcomes. The outcome of this strategy not only provides our customers a significant competitive advantage in this ever changing world, but it also helps them operate more sustainably.

For more information about SAP's vision, mission, and strategy, visit [www.sap.com/corporate-en/our-company](http://www.sap.com/corporate-en/our-company). For more information about SAP's goals, see the Medium-Term Prospects section of the SAP Integrated Report.

**BUSINESS ACTIVITY AND ORGANIZATION**

Our legal corporate name is SAP AG. SAP is headquartered in Walldorf, Germany. Our management reporting breaks our activities down into two divisions, On-Premise and Cloud, which are further divided into operating segments. Our On-Premise division is comprised of two operating segments, On-Premise Products and On-Premise Services. Our Cloud division is also comprised of two operating segments, Cloud Applications and Ariba. For more information about our segments, see the Notes to the Consolidated Financial Statements section, Note (28).

We derive our revenue from fees charged to our customers for licensing of our on-premise software products, solutions, and the use of our cloud subscription solutions. We also derive revenue from our support, consulting, development, training, and other services.

SAP markets and distributes its products, solutions, and services primarily through a worldwide network of local subsidiaries, which are licensed to distribute SAP products to customers in defined territories. Distributorship agreements are in place with independent resellers in some countries.

As of December 31, 2012, SAP AG controlled directly or indirectly 267 subsidiaries. Our subsidiaries perform various tasks on a local basis such as providing sales and marketing, consulting, research and development, customer support, training, and administration.

For a complete list of subsidiaries, associates, and other equity investments, see the Notes to the Consolidated Financial Statements section, Note (33).

**Table of Contents**

Part I

Item 4

The following table illustrates our most significant subsidiaries based on revenues as of December 31, 2012:

Name of Subsidiary	Ownership %	Country of Incorporation	Function
<b>Germany</b>			
SAP Deutschland AG & Co. KG, Walldorf	100	Germany	Sales & Marketing, Consulting, Training and Administration
<b>Rest of EMEA</b>			
SAP (UK) Limited, Feltham	100	Great Britain	Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration
SAP (Schweiz) AG, Biel	100	Switzerland	Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration
SAP France, Paris	100	France	Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration
<b>United States</b>			
SAP America, Inc., Newtown Square	100	USA	Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration
<b>Rest of Americas</b>			
SAP Canada Inc., Toronto	100	Canada	Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration
<b>Japan</b>			
SAP JAPAN Co., Ltd., Tokyo	100	Japan	Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration
<b>Rest of APJ</b>			
SAP Australia Pty Limited, Sydney	100	Australia	Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration

**PORTFOLIO OF PRODUCTS, SOLUTIONS, AND SERVICES****Innovative Solutions for Real-Time Business**

SAP's products and services are packaged into end-to-end solutions that include innovations from

five market categories. These solutions aim to help customers run better by addressing complex business problems or opportunities and helping customers gain a competitive advantage in an ever changing world.



**Table of Contents**

Part I

Item 4

**Products**

SAP develops innovative products in five market categories: Applications, Analytics, Cloud, Mobile, and Database and Technology.

***Applications***

SAP's leadership in enterprise applications has been the core competence of our company, and continues to fuel our growth for the future.

*SAP Business Suite* is a business process platform that helps companies run better and simpler every day.

The core software applications of SAP Business Suite are described below:

The *SAP ERP* application supports critical business processes, such as finance and human capital management.

The *SAP Customer Relationship Management (SAP CRM)* application improves streamlined interaction with customers with integrated social media and mobile device support.

The *SAP Product Lifecycle Management (SAP PLM)* application manages the product and asset lifecycle across the extended supply chain, freeing the product innovation process from organizational constraints.

The *SAP Supplier Relationship Management (SAP SRM)* application supports key procurement activities.

The *SAP Supply Chain Management (SAP SCM)* application helps adapt company-specific supply chain processes to the rapidly changing competitive environment.

*SAP Business Suite powered by SAP HANA* is the next generation of our business suite that captures and analyzes data in real time on a single in-memory platform. SAP Business Suite powered by SAP HANA empowers customers to run their business in real time within the window of opportunity to transact, analyze, and predict instantly and proactively in an unpredictable world. This gives companies the ability to translate real-time insights into action immediately, while removing the complexity of redundant system data. Customers can now manage all mission-critical business processes, such as planning, execution, reporting, and analysis, in real time using the same relevant live data.

***Analytics***



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Analytics solutions from SAP enable decision makers at all levels of the business to have a more profound impact on their organizations, and include the following categories:

*SAP BusinessObjects business intelligence (BI) solutions* enable users to interact with business information and obtain answers to ad hoc questions without advanced knowledge of the underlying data sources.

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**Table of Contents**

Part I

Item 4

*SAP solutions for enterprise performance management (EPM)* help companies improve performance, organizational agility, and decision making.

*SAP solutions for governance, risk, and compliance (GRC)* provide organizations with a real-time approach to managing governance, risk, and compliance across heterogeneous environments.

*Applied analytics solutions* address challenges in specific industries and lines of business.

*Edge solutions for small and midsize enterprises* are editions of business intelligence and enterprise performance management solutions for growing midsize companies.

*SAP Crystal solutions* are business intelligence solutions designed for small businesses, addressing essential BI requirements.

***Mobile***

With SAP Mobile, our customers can deliver secure, real-time, business-critical information to their ecosystems of employees, partners, and customers on mobile devices. Our mobile development platform creates many opportunities for our partners to develop their own applications for their employees and customers.

Our mobile solutions include:

*SAP Mobile Platform (includes Sybase Unwired Platform):* Provides the tools needed to support mobile initiatives across an enterprise. It provides a development platform (SDK) that is consistent, but adaptable, enabling customers to develop apps for various mobile devices deployed.

*SAP Afaria:* Enables companies to better manage and secure all critical data on, and transmitted by, mobile devices.

*Sybase 365:* Interoperability services that simplify the deployment and delivery of interoperator messaging over incompatible networks, protocol stacks, and handsets among mobile operators worldwide.

Additionally, SAP is innovating *consumer-facing applications* that help improve people's lives. These innovations include the Care Circles mobile app to improve how patients, healthcare providers, and family members optimize treatment strategies; the Recalls Plus mobile app to help parents monitor recalls on children's items via social media; the Charitable Transformation (ChariTra) online network to match volunteers with people and organizations in need for their time, skills, or resources; and the TwoGo by SAP service that connects people so they can share rides and carpool together.

***Cloud***

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SAP's 2012 acquisitions of SuccessFactors and Ariba have allowed us to combine powerful assets from all three companies including innovative solutions, content and analytics, process expertise, access to a robust business network, and enterprise mobility to build a comprehensive cloud computing portfolio.

*Our cloud applications* and suites are delivered as software-as-a-service (SaaS), in which customers pay a subscription fee to use our software. Our cloud offerings are designed to optimize a company's most critical assets:

*People:* The SuccessFactors Business Execution (BizX) suite enables companies to align employee performance with overall corporate objectives.

*Money:* SAP Financials OnDemand and SAP Travel OnDemand solutions manage key financial processes.

*Customers:* A suite of applications that manages all aspects of customer interaction sales, service, marketing while employing next-generation social capabilities.

*Suppliers:* The offering includes solutions for end-to-end strategic sourcing and procurement processes to enable efficient purchasing decisions.

*Suites:* *SAP Business ByDesign* and the *SAP Business One OnDemand* solution provide a full cloud suite for subsidiaries and small business, respectively.

*SAP HANA Cloud* is a platform-as-a-service (PaaS) designed to help customers, independent software vendors (ISVs), and partners rapidly create innovative software applications to succeed in a world increasingly characterized by enterprise mobility, and social and collaborative business networks. *SAP HANA Cloud* is powered by *SAP HANA*, which means it helps customers analyze

**Table of Contents**

Part I

Item 4

data at the speed necessary to sense and respond to changes in their business networks.

The *Ariba* portfolio combines cloud-based applications with the world's largest Web-based business-to-business commerce network, and is used by companies around the globe. Businesses of all sizes use the Ariba Network to connect to their trading partners from any Internet-connected computer or mobile device to buy, sell, and manage their cash efficiently and effectively.

***Database and Technology***

Our database and technology portfolio provides a comprehensive approach to the orchestration of business applications, no matter how the applications are deployed. Furthermore, SAP harnesses the power of in-memory databases with SAP HANA, which is the data foundation for the next generation of high-performance in-memory computing solutions. The portfolio includes:

*SAP HANA:* Deployable as an on-premise appliance or in the cloud, SAP HANA combines an in-memory database with an in-memory application server running on in-memory optimized hardware appliances. At the foundation of this product portfolio is SAP HANA, an in-memory computing technology that simplifies and streamlines complex and expensive IT architectures. SAP HANA helps customers process massive amounts of data, and delivers information at unprecedented speeds. SAP HANA is an open platform, adaptable and extensible, enabling customers to create previously unimaginable applications and to rethink and envision new ways to run their businesses. Furthermore, SAP HANA is a platform for applications developed by SAP ecosystem and partners.

*SAP NetWeaver:* Technology platform that integrates information and business processes across technologies and organizations. SAP NetWeaver facilitates the easy integration of SAP software with heterogeneous system environments, third-party solutions, and external business partners.

*SAP NetWeaver Business Warehouse:* Data warehouse that provides a complete view of a company and the tools needed to make the right decisions, optimize processes, and measure strategic success

*SAP Sybase IQ:* Analytics server designed specifically for advanced analytics, data warehousing, and BI environments

*SAP Sybase Event Stream Processor (SAP Sybase ESP):* High-performance, complex event processing engine designed to analyze streams of business event information in real time and used to create strategic advantage in low-latency applications for financial trading, smart grids, and telecommunications

*SAP Sybase Adaptive Server Enterprise (SAP Sybase ASE):* High-performance relational database management system for mission-critical, data-intensive transactional environments. It is optimized for use with SAP Business Suite.

*SAP Sybase SQL Anywhere:* Mobile, embedded, and cloud-enabled fully relational database that is embedded in more than 10 million installations worldwide, from laptops to tablets to smartphones

In addition, our *SAP virtualization and cloud management* offerings help SAP customers automate SAP systems and landscapes operation, improve business agility, and reduce the total cost of ownership (TCO).

## **Solutions**

We combine products into end-to-end industry and line-of-business solutions to enable our customers address their most pressing business issues. Our industry-specific solutions comprise products across all five market categories – Applications, Analytics, Cloud, Mobile, and Database and Technology. Our line-of-business solutions represent a complete offering across on-premise, on-demand, on-device, social, and analytics assets.

A prime example of the power of this combination is the new SAP 360 Customer solution. It harnesses the power of in-memory computing, cloud, enterprise mobility, analytics, and collaboration, and allows organizations to engage with their customers and end consumers beyond the traditional SAP CRM.

**Table of Contents**

Part I

Item 4

***Solutions for Lines of Business***

Our line-of-business solutions are relevant across all industries, and include the following 11 lines of business:

**Marketing****Sales****Customer service****Procurement****Supply chain management****Manufacturing****R & D and engineering****Information technology****Finance and controlling****Human resources****Corporate strategy and sustainability*****Solutions for Industries***

In 2012, SAP supported enterprises in 24 industries with solution portfolios that enable industry best-practice processes. In 2013, we will add sports and entertainment as another industry to our portfolio, and we are currently building up that portfolio of offerings, which includes the SAP Sports and Entertainment management solution, as well as an array of mobile apps used by athletes, coaches, and spectators for sailing, tennis, and professional team sports.

**Industry Sector**

Discrete manufacturing

**Industry Portfolio**

SAP for Aerospace &amp; Defense

SAP for Automotive

SAP for High Tech

SAP for Industrial Machinery &amp; Components

Process manufacturing

SAP for Chemicals

SAP for Mill Products

Consumer products

SAP for Consumer Products

Energy and natural resources

SAP for Oil &amp; Gas

SAP for Mining

SAP for Utilities

Retail and wholesale distribution

SAP for Retail

SAP for Wholesale Distribution

Public services

SAP for Defense &amp; Security

SAP for Higher Education &amp; Research

SAP for Public Sector

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Financial services	SAP for Banking SAP for Insurance
Services	SAP for Engineering, Construction & Operations SAP for Media SAP for Professional Services SAP for Telecommunications SAP for Transportation & Logistics
Health sciences	SAP for Healthcare SAP for Life Sciences

## **Table of Contents**

Part I

Item 4

### ***SAP Rapid Deployment Solutions***

To enable companies to adopt innovations more quickly, SAP Rapid Deployment solutions combine preconfigured software and predefined services with content, such as SAP best practices, templates, tools, and business user enablement.

By providing fixed price and scope implementation services, along with clear business outcomes based on proven best practices, SAP Rapid Deployment solutions deliver faster innovation to our customers and reduce implementation costs and risk.

### ***Solutions for Small Businesses and Midsize Companies***

SAP offers a number of targeted solutions for small businesses and midsize companies, including the SAP Business All-in-One solutions, the SAP Business One application, and Edge solutions, which combine business management and business intelligence software. For those who want the benefits of large-scale, integrated business management applications without a complex IT infrastructure, SAP Business ByDesign not only provides a cloud solution, but also a platform that customers can use to build their own solutions. SAP also offers solutions in the cloud, such as SuccessFactors Business Execution Suite, and Ariba's procurement solutions and Business Network that are relevant for companies of all sizes, including small and midsize enterprises. Additionally, small businesses and midsize companies now have a new option in SAP Business One OnDemand, which is comprehensive, easy to consume, and available with transparent, predictable costs.

For more information about SAP's portfolio of products, visit [www.sap.com/solutions](http://www.sap.com/solutions).

For more information related specifically to our solutions for sustainability, see the SAP Integrated Report online.

## **SAP Services**

SAP Services helps our customers maximize the value of their SAP investments by offering higher value realization, faster adoption of innovation, and higher efficiency in the implementation of our solutions. SAP Services covers the entire end-to-end application lifecycle, from a tight integration

with our development organization, to accelerating innovation and continuous improvement of our software solutions, to complete risk and quality management of a customer's current installations.

### ***Software-Related Services***

#### **SAP Custom Development**

SAP Custom Development specializes in building individualized software solutions that address the unique and mission-critical needs of our customers, and that fit seamlessly with existing SAP software. These offerings include custom development engagements, focused business solutions, and repeatable customer solutions – predefined solutions for niche business needs, as derived from best practices.

#### **Maintenance and Support**

We offer a comprehensive tiered maintenance and support model to on-premise customers on a global basis. This support offering primarily includes SAP Standard Support and SAP Enterprise Support. The vast majority of customers choose SAP Enterprise Support.



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*SAP Enterprise Support:* Our premier maintenance and support offering. Extending far beyond everyday technical support, this offering is designed as a strategic, long-term partnership with our customers – one that focuses on helping them succeed today and in the future.

*SAP Standard Support:* Our basic support offering, delivering knowledge, tools, and functions that help customers implement, maintain, and enhance their SAP solutions.

SAP's support portfolio also contains two additional premium maintenance offerings:

*SAP MaxAttention:* Highest level of engagement offered by our support organization, and a strategic engagement for continuous business and co-innovation with customers. SAP MaxAttention also provides support with custom solutions, specialized solution architectures, and engineering expertise.

*SAP ActiveEmbedded:* Enhanced engagement services for optimizing solutions and accelerating adoption of technologies (including SAP HANA and mobile solutions) without disrupting customer businesses.

## **Table of Contents**

Part I

Item 4

We offer standard support to every customer as part of their subscription to our cloud products. Standard support is designed to help our customers get real value out of SAP Cloud products. Furthermore, customers have the option of choosing premium and platinum support. In the premium and platinum offerings, customers have access to a dedicated support account manager who has an in-depth understanding of customer business processes and objectives.

### ***Professional Services***

#### **Consulting Services**

We offer consulting services for the planning, implementation, and optimization phase of our business solutions. We are able to provide our services with a strong industry focus and can also deliver solutions at functional or departmental levels. Our consultants engage in the following:

*Business transformation services*, such as executive advisory services, value partnerships, and business process and platform services

*IT transformation services* that seek to reduce customer TCO with tangible business value accompanied by reduced effort and costs

*Next-generation services* that provide specific expertise on the implementation and use of SAP HANA, mobile, analytics, and database and technology solutions. In total, we have more than 1,500 SAP HANA-trained consultants.

*Performance and insight optimization services* that provide analysis and modeling of business challenges to introduce innovative business processes

*Business applications services* that provide highly engineered solutions to our customers' application and analytics needs

*Project and program management and risk management*, as well as *quality assurance services* across the solution landscape, which include optimizing solutions following merger and acquisition activities or divestiture of business units

*Rapid-deployment solutions* and *engineered services* provide pre-defined outcomes services that speed the time to value for our customers.

#### **Education Services**

SAP Education offers a complete portfolio of multimodal learning that covers the learning needs of single individuals and organizations, including training-needs analysis, certification assessments, learning software, and tools. We provide a consistent curriculum for learners around the world and deliver these offerings through a number of delivery models, including online e-learning, virtual live classroom, learning on demand, and classroom training. Every year, more than 500,000 individuals are trained by SAP Education, making it one of the largest IT training organizations in the world.

For more information about SAP Services, visit [www.sap.com/services-and-support](http://www.sap.com/services-and-support).

For more information about how we handle security and privacy in our products and services, see the SAP Integrated Report online.

## **SALES, MARKETING, AND DISTRIBUTION**

SAP's primary engine of business development is our direct sales organizations. Sales go-to-market strategies are established at the global level and adapted and executed by the regional subsidiaries (see Business Activity and Organization) in a manner reflective of conditions in the individual countries. Customer-facing employees, in close collaboration with sales support and marketing employees, drive demand, build pipeline, and enhance relationships with customers within all of SAP's target industries. An extension of its own sales organization, SAP's extensive ecosystem of partners provides scalability to meet the demand for SAP innovation.

In addition, we have developed an independent sales and support force through independent value-added resellers. We have also entered into partnerships with major system integration firms, telecommunication firms, and computer hardware providers to offer certain SAP Business Suite applications.

We establish partnerships with hardware and software suppliers, systems integrators, and third-party consultants with the goal of providing customers with a wide selection of third-party competencies. The role of the partner ranges from presales consulting for business solutions to the implementation of our software products to project management and end-user training for customers and, in the case of certain hardware and software suppliers, to technology support.

## **Table of Contents**

Part I

Item 4

Beyond these partnerships, a significant amount of consulting and training regarding SAP solutions is handled by third-party organizations that have no formal relationship or partnership with SAP.

Traditionally, our sales model has been to charge a one-time, upfront license fee for a perpetual license to our software (without any rights to future products), which is typically installed at the customer site. We now also offer our solutions in the cloud under a subscription-based licensing model that entitles the customer to receive unspecified future software products.

Our marketing efforts cover large, multinational groups of companies as well as small and midsize enterprises. We believe our broad portfolio of solutions and services enables us to meet the needs of customers of all sizes and across industries.

## **RESEARCH AND DEVELOPMENT**

Nothing is more essential to innovation than research and development. It is the source of discoveries that we believe will shape the future for SAP and its customers. And it is a global effort that is highly collaborative, sharply focused on customer value, and led by the SAP Global Research and Development Network.

### **Research**

By exploring emerging IT trends, SAP Global Research is a driver of innovation for SAP and its ecosystem. The unit explores promising ideas and turns them into prototypes, with the ultimate goal of creating product enhancements and new solutions. In addition, it strives to co-innovate in new ways with our customers, partners, start-ups, and entrepreneurs around the world to leverage the diverse knowledge, ability, and expertise that exist outside SAP's internal organizations.

Based on recent findings, SAP Global Research developed scenarios that our customers will likely experience in the future, and derived several new research programs from those scenarios. Their immediate focus includes programs on digital manufacturing, the trillion node network, social business networks, and Big Data.

Contributing to talent development at SAP, SAP Global Research runs its own doctoral program, which is attracting top candidates who wish to work on their dissertations in a real-world business context. Following graduation, individuals with PhDs have the opportunity to work in

academia or within SAP. This program has resulted in a number of new patents for our company.

### ***Co-Innovation and Living Labs***

To meet future challenges, SAP Global Research engages in co-innovation and applied research through a network of SAP Co-Innovation Labs and SAP Living Labs locations on each continent.

SAP Co-Innovation Labs offer an innovative co-development platform for partners and customers to collaborate with SAP product and field teams. Through these labs, SAP and key partners offer the latest engineering and system landscapes, fostering a variety of joint ecosystem projects.

SAP Living Labs are showcase centers attached to research hubs, and seek to provide hands-on, real-life settings to expand on trends in the market.

### ***Initiatives and Results***

Significant initiatives by SAP Global Research in 2012 include the following:

*SAP Precision Retailing:* This cloud-based solution enables companies to influence consumer shopping behavior at the moment of decision by delivering individually personalized offers in real-time across multiple channels.

*SAP Screen Personas:* This solution offers a new approach to personalizing classic SAP screens to create a consumer-grade user experience. It allows IT professionals and business users to simplify business application screens quickly and easily. SAP Screen Personas enable customers without programming skills or ABAP knowledge to improve the visual appeal, end-user productivity, and performance of SAP applications.

*Smart Port Logistics:* Based on strong co-innovation with Hamburg Port Authority and Deutsche Telekom, this pilot project has resulted in a comprehensive IT platform designed to optimize both traffic and logistics in the Hamburg harbor. The Smart Port Logistics platform, based on cloud solutions, connects port-based companies, partners, and customers more closely. In addition, it incorporates mobile apps so that traffic information and port-related services may be accessed from mobile devices such as tablets and smartphones.

**Table of Contents**

Part I

Item 4

**Development**

***Global Development, Local Focus***

Most of SAP's development personnel are located in one of 14 SAP Labs located in 12 countries across the world. Each lab consists of main locations that coordinate the activities of the smaller locations within the region. SAP Labs are situated in the major technology hubs in the world, providing SAP a strategic advantage by enabling us to innovate, address the needs of the local markets, scale operations, and attract a rich diversity of talents. In total, SAP has more than 100 locations where development takes place.

In 2012, SAP focused on further using design thinking techniques as an iterative innovation approach that focuses on the customer and supports the project teams during the development process. Design thinking complements the lean methodology by offering frameworks for collaboration and innovation. As a

result, SAP continues to reduce development complexity and improve the development-to-market time for new products (from 13.8 months in 2010 to 7.8 months in 2012). During the development cycles, teams are in constant contact with customers through programs and special events, as well as through customer interactions at our Executive Briefing Centers. Customers come to the centers to talk directly with SAP's technology leaders and experts, who, in turn, learn how to better serve the needs of our customers.

The SAP Labs network organization fosters a healthy and meaningful communication channel for SAP's global management. Each lab is designed to function independently and act as a best-run business with a clear mission tailored to the local ecosystem. Labs in fast-growth markets have an additional focus on producing market-relevant solutions that readily meet the needs of the dynamically changing environments.

**Table of Contents**

Part I

Item 4

The following graphic depicts the SAP Global Research and Development Network and its main locations:

37

---

**Table of Contents**

Part I

Item 4

**Research and Development Expenditure**

SAP's strong commitment to research and development (R & D) is also reflected in our expenditures: In 2012, we increased our R & D expense (IFRS) by 314 million, or 16%, to

2,253 million (2011: 1,939 million). We spent 13.9% of total revenue on R & D in 2012 (2011: 13.6%). Our non-IFRS R & D expense as a portion of total operating expenses declined slightly from 19.9% to 19.2% year on year, which demonstrates an increase in our efficiency.

The importance of R & D was also reflected in the breakdown of employee profiles. At the end of 2012, our total full-time equivalent (FTE) count in development work was 18,012 (2011: 15,861). Measured in FTEs, our R & D headcount was 28% of total headcount (2011: 28%). Total R & D expense includes not only our own personnel costs but also the external cost of works and services from the providers and cooperation partners we work with to deliver and enhance our products. We also incur external costs for translating, localizing, and testing products, for obtaining certification for them in different markets, patent attorney services and fees, strategy consulting, and the professional development of our R & D workforce.

**Patents**

As a leader in enterprise applications, SAP actively seeks intellectual property protection for innovations and proprietary information. Our software innovations continue to strengthen our market position in enterprise solutions and services. Our investment in R & D has resulted in numerous patents. SAP holds a total of more than 4,400 validated patents worldwide. Of these, more than 750 were granted and validated in 2012. Our portfolio includes patent families covering products across all of our five market categories Applications, Analytics, Cloud, Mobile, and Database and Technology.

While our intellectual property is important to our success, we believe our business as a whole is not entirely dependent on any particular patent.

**PARTNER ECOSYSTEM**

The SAP partner ecosystem is a collaborative, innovative, and interactive network of partners, customers, and individuals.

Through our extensive global relationships, built over the course of four decades, customers have a wide range of providers and resources to choose from for software-related services and support. These include many of the largest names in technology consulting and implementation, as well as smaller firms that offer highly specialized applications and services.

In turn, SAP supports its partners through continual co-innovation, expansion of routes to market (channels), and services capacity.

With more than 12,000 partners as of the end of 2012, we are fueling innovation and providing choices to customers of all sizes, accelerating growth around our five key market categories. Recent examples of our interaction with the partner ecosystem include the following:



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*Applications:* SAP is now reselling the SAP IT Process Automation application by Cisco, which helps keep IT system outages to a minimum.

## **Table of Contents**

### Part I

#### Item 4

We also offer the SAP Convergent Mediation application by DigitalRoute, which supports key use cases for telecom, high-tech, banking, postal, and logistics companies around the globe.

*Analytics:* The SAP PartnerEdge authorized reseller program helps resellers accelerate profitability with select SAP BusinessObjects BI solutions, specifically designed for small and midsize enterprises. The program was introduced in the Asia-Pacific region, with ACA Pacific and China National Software & Service Co. Ltd. as the first distributors to join. The program is being made available to distributors and resellers on a global basis in a phased approach.

*Cloud:* With the acquisition of SuccessFactors and Ariba, SAP broadened its Cloud portfolio and now supports an additional 20 million users. Through the acquisition of Ariba, SAP expects to deliver comprehensive, end-to-end cloud procurement solution, becoming a leader in the fast-growing segment of interenterprise, cloud-based business networks. Additionally, SAP is teaming with companies such as Amazon Web Services, CloudShare, Dell, HP, Korea Telecom, Microsoft, Portugal Telecom, and Verizon to deliver enterprise solutions in the cloud.

*Mobile:* In 2012, SAP offered value-added resellers (VARs) the opportunity to sell mobile apps for development, device management, and security. Highlights include partnering with IT services providers Accenture, Capgemini, Fujitsu, and IBM GTS, and telecommunication providers Deutsche Telekom, Rogers Communications, and Verizon. In addition, SAP introduced a free mobile developer license and additional support for integrating SAP Mobile Platform with software development frameworks from Adobe, Appcelerator Titanium, and Sencha. SAP also announced plans to deliver mobile apps for Microsoft Windows 8, bringing new innovations to SAP customers.

*Database and Technology:* SAP HANA continues to gain strong adoption within our partner ecosystem, across all partner types. For example, more than 4,000 partner consultants have been trained on SAP HANA and more than 100 independent software vendors (ISVs) and partners have started to develop and deliver their own solutions on SAP HANA. In addition, the SAP Startup Focus Program was launched in 2012 for start-ups to spur innovation on the SAP HANA platform. The world's leading technology vendors have certified their solutions to run SAP HANA. These include Dell, Cisco, EMC, Fujitsu, HP, Hitachi, Huawei, IBM, and NEC.

## **Collaboration and Structure**

SAP offers a number of partner programs to enhance co-innovation and help partners grow their businesses in new ways, while reaching customers through creative new channels. These programs include the following:

*SAP PartnerEdge:* In 2012, SAP launched [www.sappartneredge.com](http://www.sappartneredge.com), a partner-only Web site that consolidates all the resources partners need to build, sell, and implement all SAP solutions in one secure, dedicated site. Currently, more than 60,000 people use the site each month.

*SAP Community Network:* With more than two million members in more than 230 countries, SAP Community Network is where customers, partners, employees, and experts go to collaborate and exchange news.

*SAP Store:* SAP's online e-commerce channel offers nearly 2,000 solutions, of which 1,500 are from partners. SAP Store offers customers access to information and insights, as well as the option to try applications before purchasing them.

## **ACQUISITIONS**

SAP views acquisitions as investments in people, technologies, and sustained growth. In 2012, SAP made the following acquisitions:

### **Cloud Acquisitions**

In February, we completed the acquisition of SuccessFactors, Inc., which delivers innovative solutions, content and analytics, process expertise, and best-practices knowledge to drive business alignment, team execution, people performance, and learning management to organizations of all sizes across various industries.

In October, we acquired Ariba, Inc., which combines industry-leading cloud-based applications with the world's largest Web-based

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**Table of Contents**

Part I

Item 4

trading community. Through this acquisition, SAP expects to deliver an industry-leading, end-to-end cloud procurement solution and become a leader in the fast-growing segment of interenterprise, cloud-based business networks. SAP customers can now connect to their trading partners anywhere, at any time, from any application or device so they can buy, sell, and manage their cash more efficiently and effectively than ever before.

**Other Acquisitions**

In February, we acquired software and relevant assets from datango AG, a leading provider of workforce performance support software. This acquisition broadens the SAP software portfolio in the education market, providing customers with powerful, easy-to-use software tools to help address their end-to-end user training, knowledge management, and performance support challenges. Together, SAP and datango plan to capitalize on a trend in education software toward creating applications that contain tools for authors, such as e-collaboration, along with self-help scenarios and auto-teaching functions.

In June, we acquired Syclo, L.L.C., a provider of enterprise mobile apps and technologies. The addition of Syclo's expertise in building and selling mobile solutions in industries such as utilities, oil and gas, life sciences, and manufacturing enhances SAP mobile solutions. It also accelerates the adoption and deployment of new mobile asset management and field service solutions on SAP Mobile Platform. Syclo offers mobile apps that help companies extend business systems to a wide range of mobile devices and users.

**Venture Activities**

For more than 15 years, SAP has partnered with renowned entrepreneurs worldwide to build industry-leading businesses and in doing so, we have supported more than one hundred companies on five continents. We seek proven companies and help fuel their growth by adding our expertise, relationships, geographic reach, and capital. We invest globally with a particular focus on emerging companies in Europe, India, and the United States, as well as in Brazil and China.

**ENERGY AND EMISSIONS**

As we create solutions for our customers to better manage resources, we must also look to ourselves and improve our own environmental performance. Doing so gives us critical insights into the challenges facing our customers as they navigate a resource-constrained world and helps us gain credibility in the market. To fulfill our vision to help the world run better, we must be at the forefront of reducing our emissions and creating new efficiencies.

Our efforts have already benefitted us. We are now providing our customers with a number of solutions to enhance their efficiency, as well as track their emissions and energy usage more effectively. We have also expanded our innovation to create new efficiencies that directly impact our bottom line: We calculated that, since the beginning of 2008, our sustainability initiatives have contributed to a cumulative cost avoidance of 220 million, compared to a business-as-usual extrapolation.

We assess our progress through four environmental performance indicators that reflect our adaptability, efficiency, and innovation. These indicators also reflect the success of our overall corporate strategy to solve business problems in a resource-constrained world.

**Greenhouse Gas Emissions**

SAP's goal is to reduce its total greenhouse gas emissions to levels of the year 2000 by 2020. This target includes direct emissions from our operations (scopes 1 and 2), as well as limited indirect (scope 3) emissions, such as those stemming from business travel. In addition to this long-term goal, SAP has set annual targets. In 2012, our total emissions decreased slightly to 485 kilotons (2011: 490 kilotons) despite

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significant growth in our business (revenue from software and software-related services increased 17%). Nonetheless, we narrowly missed our target to reduce our emissions to 480 kilotons. In addition to measuring our total emissions, we also track emissions per employee and emissions per euro revenue. We continued to increase our efficiency based on the emissions per euro revenue for the sixth year in a row. Specifically, our greenhouse gas emissions decreased from 34.4 grams per euro in 2011 to 30.0 grams per euro in 2012. We also reduced our carbon emissions per employee by more than 10% in 2012.

**Table of Contents**

## Part I

## Item 4

We also disclose our emissions along our entire value chain – meaning those that stem from the products and services that we buy and sell, in addition to those related to our own operations or business travel. We are actively working to reduce both our upstream and downstream emissions by collaborating with our suppliers and customers on new approaches to reducing greenhouse gas emissions.

**Total Energy Consumed**

The total energy consumed measure includes all energy that SAP produces or purchases – in other words, the energy whose production causes emissions that fall into scopes 1 and 2 of the Greenhouse Gas Protocol. Our total energy consumption remained stable at approximately 860 gigawatt hours in 2012 compared to 2011. This is especially noteworthy given that we experienced growth in our business. Our efficiency also improved. For example, although we have significantly expanded our employee base and thus the number of company cars, our corporate car fleet is not using proportionately more fuel because it has become more efficient, with less energy consumed per car. So while our car fleet grew by 9%, we had efficiency gains of 8% across the entire fleet, offsetting the resulting increase in energy usage and emissions. As a result, our energy consumption decreased from 15.7 megawatt hours per employee in 2011 to 14.0 megawatt hours per employee in 2012. We also reduced our energy consumption per euro revenue by about 13% compared to 2011. In 2012, we started to improve our data collection methods to monitor our energy usage worldwide.

**Data Center Energy**

We focus on making data centers more energy efficient even as demand for IT-services rises. SAP has a comprehensive sustainable IT strategy that includes working with customers and hardware providers. We measure and manage data center energy consumption per employee. (The energy we consume in our data centers is part of our total energy consumed.) While the development of SAP HANA led to an increase in our servers and energy consumption in our data centers, the growth in the number of employees at SAP resulted in increased efficiency. Our data center energy intensity decreased from 2,824 kilowatt hours per FTE (2011) to 2,598 kilowatt hours per FTE in 2012. Over the past year, we have improved our global data center management system to better track our

efficiency, which is also influenced by increasing the number of virtual servers (in 2012, 67% of our servers were virtual). In addition, we are working with our customers to devise solutions that would simplify their data centers, lower their costs, and reduce their energy consumption.

**Renewable Energy**

We continue to expand our use of renewable energy, both to decrease our reliance on fossil fuels and nuclear power and to support an emerging market that is crucial for both SAP and our customers. We purchase green electricity from local utility companies, buy renewable energy certificates on a global level, and produce our own energy using solar panels on our facilities. At the end of 2012, approximately 60% of our total electricity consumption stemmed from renewable sources, up from 47% in 2011. The shares of renewable energy used by SAP are calculated by adding the amount of renewable energy obtained through Renewable Energy Certificates (RECs) or via the grid (either through specific contracts or through the local energy mix).

For more information about the importance of energy and emissions to SAP's innovation strategy and to learn more about our performance in 2012, see the Greenhouse Gas Emissions, Total Energy Consumed, Data Center Energy, and Renewable Energy sections of the SAP Integrated Report online. For more information about how we manage waste and water, see the Waste and Water section of the SAP Integrated Report online.

**SEASONALITY**

Our business has historically experienced the highest revenue in the fourth quarter of each year, due primarily to year-end capital purchases by customers. Such factors have resulted in 2012, 2011, and 2010 first quarter revenue being lower than revenue in the prior year's fourth quarter. We believe that this trend will continue in the future and that our total revenue will continue to peak in the fourth quarter of each year and

decline from that level in the first quarter of the following year. Unlike our on-premise revenues, our revenues from cloud applications are not subject to seasonality.

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**Table of Contents**

Part I

Item 4

**INTELLECTUAL PROPERTY, PROPRIETARY RIGHTS AND LICENSES**

We rely on a combination of the protections provided by applicable statutory and common law rights, including trade secret, copyright, patent, and trademark laws, license and non-disclosure agreements, and technical measures to establish and protect our proprietary rights in our products. For further details on risks related to SAP's intellectual property rights, see Item 3 Key Information Risk Factors Other Operational Risks.

We may be dependent in the aggregate on technology that we license from third parties that is embedded into our products or that we resell to our customers. We have licensed and will continue to license numerous third-party software products that we incorporate into and/or distribute with our existing products. We endeavor to protect ourselves in the respective agreements by obtaining certain rights in case such agreements are terminated.

We are a party to certain patent cross-license agreements with certain third parties.

We are named as a defendant in various legal proceedings for alleged intellectual property infringements. See Note (23) to our Consolidated Financial Statements for a more detailed discussion relating to certain of these legal proceedings.

**DESCRIPTION OF PROPERTY**

Our principal office is located in Walldorf, Germany, where we own and occupy approximately 430,000 square meters of office and datacenter space including our facilities in neighboring St. Leon-Rot. We also own and lease office space in various other locations in Germany, totaling approximately 120,000 square meters. In approximately 65 countries worldwide, we occupy roughly 1,560,000 square meters. The space in most locations other than our principal office in Germany is leased. We also own certain real properties in Newtown Square and Palo Alto (United States); Bangalore (India); Sao Leopoldo (Brazil), London (UK) and a few other locations in and outside of Germany.

The office and datacenter space we occupy includes approximately 260,000 square meters in the EMEA region, excluding Germany, approximately 465,000 square meters in the

region North and Latin America, and approximately 285,000 square meters in the APJ Region.

With the two major acquisitions in 2012, SuccessFactors and Ariba, approximately 140,000 square meter were added to our real estate portfolio; 30,000 square meters from SuccessFactors and approximately 110,000 square meters from Ariba. Both portfolios, from Ariba and SuccessFactors, are included in the group portfolio outlined above.

The space is being utilized for various corporate functions including research and development, customer support, sales and marketing, consulting, training, administration and messaging. Substantially all our facilities are being fully used or sublet. For a discussion on our non-current assets by geographic region see Note (28) to our Consolidated Financial Statements. Also see, Item 6. Directors, Senior Management and Employees Employees, which discusses the numbers of our employees, in FTE's, by business area and by geographic region, which may be used to approximate the productive capacity of our workspace in each region.

We believe that our facilities are in good operating condition and adequate for our present usage. We do not have any significant encumbrances on our properties. We do not believe we are subject to any environmental issues that may affect our utilization of any of our material assets. We are currently undertaking construction activities in various locations to increase our capacity for future expansion of our business. Our significant construction activities are described below, under the heading Principal Capital Expenditures and Divestitures Currently in Progress.

**Capital Expenditures**



***Principal Capital Expenditures and Divestitures Currently in Progress***

In 2012, we commenced construction in certain of our office buildings in Palo Alto, California, United States. The construction aims at optimizing work space conditions to support line of business requirements and the improvement of general building conditions. We estimate the total cost of this project to be approximately 12 million, of which we had paid approximately 11 million as of December 31, 2012. We expect to complete the construction in these office buildings in 2013.

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**Table of Contents**

Part I

Item 4, 4A, 5

In 2011, we began construction of a new building for a research center in Potsdam, Germany. The new research center will collaborate closely with universities in the Berlin/Brandenburg area in Germany, creating a total of 100 new jobs. The focus will be on the deployment of the new in-memory computing technology introduced by SAP, including SAP HANA. For the construction of the building, we expect to invest approximately 17 million, of which we had paid approximately 6 million as of December 31, 2012. We expect to finish the construction of our new research center in the second half of 2013.

In 2011, we also began to expand our facilities for our research center in São Leopoldo, Brazil, to accommodate up to 500 employees. For the construction of the building, we expect to invest approximately 19 million, of which we had paid approximately 5 million as of December 31, 2012. We expect to finish the construction of the building in 2013.

We plan to cover all of these projects in full from operating cash flow.

For more information about planned capital expenditures, see the Investment Goals section.

There were no material divestitures within the reporting period.

***Principal Capital Expenditures and Divestitures for the Last Three Years***

Our principal capital expenditures for property, plant, and equipment amounted to 508 million for 2012 (2011: 372 million; 2010: 287 million). Principal capital expenditures in 2012 for property, plant, and equipment increased compared to 2011 mainly due to increased replacements and purchases of computer hardware and vehicles. The increase from 2010 to 2011 was mainly due to an increase in spending on IT hardware. Principal capital expenditures for property, plant and equipment for the period from January 1, 2013 to the date of this report were 70 million. For a related discussion on our property, plant, and equipment see Note (16) to our Consolidated Financial Statements.

Our capital expenditures for intangible assets such as acquired technologies and customer relationships amounted to 1,794 million in 2012

from 114 million in 2011 (2010: 1,814 million). The increase from 2011 to 2012 was primarily attributable to the acquisition of SuccessFactors and Ariba in 2012, whereas in 2011 we only had a few small business combinations. Our investments allocated to goodwill amounted to 4,639 million in 2012 from 170 million in 2011 (2010: 3,398 million). This significant increase was again due to the acquisition of SuccessFactors and Ariba in 2012 compared to the few small business combinations in 2011. The decrease from 2010 to 2011 (in the addition to goodwill and intangible assets) was primarily attributable to the acquisition of Sybase in 2010. For further details on acquisitions and related capital expenditures, see Note (4) and Note (15) to our Consolidated Financial Statements.

For further information regarding the principal markets in which SAP competes, including a breakdown of total revenues by category of activity and geographic market for each of the last three years, see Item 5. Operating and Financial Review and Prospects Operating Results of this report.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

**OVERVIEW**

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We derive our revenue from fees charged to our customers for (a) licenses to our on-premise software products, (b) the use of our cloud subscription software offerings and (c) support, consulting, development, training, and other services. The majority of our software arrangements include support services, and many also include professional services and other elements.

Depending on the product or service provided we classify our revenues either as software and software-related services revenue or professional services and other service revenue.

For more information on our principal sources of revenue and how the different types of revenue

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**Table of Contents**

Part I

Item 5

are classified in our income statement refer to Note (3b) to our Consolidated Financial Statements, section Revenue Recognition.

See Item 4. Information about SAP Portfolio of Software and Services for a more detailed description of the products and services we offer.

The following discussion is provided to enable a better understanding of our operating results for the periods covered, including:

the factors that we believe impacted our performance in 2012;

our outlook for 2012 compared to our actual performance (non-IFRS);

a discussion of our operating results for 2012 compared to 2011 and for 2011 compared to 2010;

the factors that we believe will impact our performance in 2013; and

our operational targets for 2013 (non-IFRS).

The preceding overview should be read in conjunction with the more detailed discussion and analysis of our financial condition and results of operations in this Item 5, Item 3. Key Information Risk Factors and Item 18. Financial Statements.

## **ECONOMIC CONDITIONS**

### **Global Economic Trends**

The global recovery lost some of its momentum in 2012 according to European Central Bank (ECB).<sup>1)</sup> Particularly, the sovereign debt crisis in Europe impacted the global economy, and as the year progressed, the economic slowdown in advanced economies spilled over into emerging markets. Tighter fiscal policies slowed gross domestic product growth even further. Nevertheless, the economies of the emerging countries performed much better in 2012 than those of industrialized countries.

In the EMEA region, gross domestic product in the euro area saw a slight decline in 2012, but managed to stabilize at a low level toward the end

of the year, boosting consumer and investor confidence in the financial markets. Given the positive developments in the labor market, Germany's economy according to the International Monetary Fund (IMF) grew faster than the euro area average. Yet here too, economic growth failed to reach the previous year's level. The European Union (EU) countries outside the euro area experienced relatively weak economic growth. By contrast, expansionary fiscal and monetary policies in Africa and the Middle East, as well as the private sector's high confidence in economic growth, strengthened the resilience of most economies.

The economy of the Americas region picked up in 2012. Although the U.S. economy continued to grow slowly overall, it managed to surpass its 2011 results toward year-end. This was mainly due to unexpectedly resilient foreign trade and a rise in consumer and government spending. Growth in Latin America, on the other hand, decelerated, particularly in the first half of the year, due to a drop in demand from abroad and weak domestic demand.

In the APJ region, economic growth rates were less contrary than in past years. Following the setbacks of 2011, the Japanese economy once again saw positive growth, although export levels and consumer spending remained low. In September, for the first time in more than 25 years, Japan even imported more than it exported. Economic activity in emerging countries, especially China, continued its positive trend in 2012 but grew slower than in previous years. A decrease in demand from Europe weakened export growth, and domestic demand, though robust, could offset this only partially. Growth rates remained considerably lower than in previous years, with China recording only single-digit growth.

### **The IT Market**

Based on IDC analyses, SAP estimated the market for enterprise software (Enterprise Application Market, EAM) to be approximately US\$110 billion in the fourth quarter of 2012 (on a rolling four-quarter basis). In 2012, SAP was able to further extend its lead over its closest competitors Oracle and Microsoft and to increase its market share.

<sup>1)</sup> Unless otherwise indicated, all economic information in this section is based on information from the European Central Bank (ECB).

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**Table of Contents**

Part I

Item 5

Global IT spending grew according to IDC in the middle single-digit percentage range in 2012 and thus twice as fast as the overall global economy. Spending on smartphones, tablet PCs, data storage devices, and application software was well above this average. In line with the global economic trend, the emerging countries spent more on IT in 2012 than did the industrialized countries.

The economic crisis in Europe had a negative impact on IT market growth in the EMEA region. The austerity measures of many governments had a detrimental effect, especially on corporate investments. As a result, IT spending in Western Europe only increased by values in the lower single-digit percentage range. This growth rate nevertheless surpassed the growth rate for the global economy in 2012. Spending remained stable for smartphones and tablet PCs only.

In the Americas region, the U.S. IT market grew at the same pace as in 2011. Spending figures, as well as the growth rate for the entire U.S. economy, were below the global average. But the remaining countries in this region were able to counterbalance this result, so that IT spending for the entire region exceeded the global average.

The IT market in the APJ region offered up a contradictory scenario. The Japanese IT market in particular proved to be weak. After gaining momentum from reconstruction efforts following the natural disasters in 2011, the economy began to slow as the year went on. As a result, IT spending in Japan only rose by values in the lower single-digit percentage range. The IT market in developing Asian countries, however, grew steadily. Even though China's gross domestic product grew less than 10% in 2012, its IT market once again recorded double-digit growth. However, this IT growth was considerably slower than in 2011. Drivers of the Chinese IT market were primarily software, services, and infrastructure.

## **Impact on SAP**

The overall economy and the IT industry were once again characterized by uncertainty and risks in 2012. SAP business, however, was not affected: In 2012, SAP's growth rate surpassed that of the IT industry and the global economy. We owe this success first and foremost to our innovations in our core areas Applications and Analytics as well as our three new categories

Mobile, Cloud, and Database and Technology (based on our in-memory platform SAP HANA).

In this volatile economic environment, companies find themselves forced to streamline their business processes which are now exposed more than ever to fluctuations and risks and to predict and analyze what-if scenarios. These companies had to deal with rapidly increasing and ever more complex data volumes, and needed to be able to access real-time evaluations at any time and from anywhere. SAP met this need with its comprehensive range of standard software offerings.

In the EMEA region, however, we were not able to withdraw from the effects of the euro crisis entirely. At the beginning of the year, our revenues in a number of European markets lagged behind the annual average, but picked up pace as the year progressed and even went on to outperform the global economy and the rest of the IT industry. Especially noteworthy was the double-digit growth in revenue from software and cloud subscriptions in the EMEA region.

Our Americas region likewise outperformed the global economy and IT market. The fact that we were able to win customers in key industries for our innovative solutions was a key factor to this success. This was mainly reflected in the growth rate of our software and cloud subscription revenues in the Americas region, which grew at a double-digit rate in 2012.

The APJ region reported record revenue results compared to the figures for the global economy and IT market. We benefited greatly from the fact that Asian companies, for example, in Japan, were very open-minded and interested in being early adopters of our new technologies and solution categories.

## **OUTLOOK FOR 2012**

**Performance Against Outlook for 2012 (Non-IFRS)**

Our 2012 operating profit-related internal management goals and published outlook were based on our non-IFRS financial measures. For this reason, in this section we discuss performance against our outlook referring solely to these non-IFRS financial measures. All discussion in the Operating Results (IFRS) section, however, is in terms of measures in accordance

**Table of Contents**

Part I

Item 5

with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and the numbers in that section are not explicitly identified as IFRS measures.

**Outlook for 2012 (Non-IFRS)**

At the beginning of 2012, we forecasted that our software and software-related service revenue (non-IFRS) for 2012 would increase by 10% to 12% on a constant currency basis (2011: 11,346 million). SuccessFactors was anticipated to account for two percentage points of this increase.

We also expected operating profit (non-IFRS) for 2012 to be in the range of 5.05 billion to 5.25 billion (2011: 4.71 billion) at constant currencies. We expected our operating profit (non-IFRS) excluding the SuccessFactors business to be in a similar range.

We anticipated an IFRS effective tax rate of between 26.5% and 27.5% in 2012 (2011: 27.9%) and a non-IFRS effective tax rate of between 27.0% and 28.0% (2011: 26.6%).

In July 2012, we confirmed the outlook we published in January 2012. In October 2012, we changed our forecast for revenue growth to take into account the acquisition of Ariba.

Provided that the economic environment did not deteriorate, we anticipated our software and software-related service revenue (non-IFRS) for 2012, including Ariba, would reach the upper end of the 10.5% to 12.5% range on a constant currency basis. This would include a total contribution from SuccessFactors and Ariba of around 2.5 percentage points. In line with our forecast at the beginning of 2012, we continued to expect our operating profit (non-IFRS) excluding the SuccessFactors and Ariba business to be in a similar range.

To assist in understanding our 2012 performance as compared to our 2012 outlook a reconciliation from our IFRS financial measures to our non-IFRS financial measures is provided below. These IFRS financial measures reconcile to the nearest non-IFRS equivalents as follows:

millions, except operating margin	IFRS Financial Measure	Support Revenue Not Recorded Under IFRS	Acquisition- Related Charges	Share- based compensation	Restruc- turing	Discon- tinued Activities	Non-IFRS Financial Measure	Currency Effect on the Non-IFRS Financial Measure	Non-IFRS Financial Measure at Constant Currency
Software and software-related service revenue	13,165	81	n.a.	n.a.	n.a.	n.a.	13,246	441	12,806
Total revenue <sup>(1)</sup>	16,223	81	n.a.	n.a.	n.a.	n.a.	16,304	553	15,751
Operating profit <sup>(1)</sup>	4,065	81	537	522	8	0	5,214	191	5,023
Operating margin in %	25.1	0.4	3.3	3.2	0	0	32.0	0.1	31.9

<sup>(1)</sup> Operating profit is the numerator and total revenue is the denominator in the calculation of our IFRS operating margin and the comparable non-IFRS operating margin, and are included in this table for the convenience of the reader.



***2012 Actual Performance Compared to Outlook (Non-IFRS)***

In 2012, we increased our software and software-related service revenue (non-IFRS) by 13% to 12,806 million on a constant currency basis (2011: 11,346 million), clearly exceeding our expectations of 10% to 12% as announced in January 2012 as well as our revised forecast in October.

**Table of Contents**

Part I

Item 5

**Target-Performance Comparison for 2012**

	Forecast 2012	Results 2012
Software- and Software-related service revenue (non-IFRS, at constant currency) <sup>(1)</sup>	+10.5% to 12.5% <sup>(2)</sup>	+13%
Operating profit (non-IFRS, at constant currency)	5.05 bn to 5.25 bn	5.02 bn
Effective tax rate (IFRS)	26.5% to 27.5%	26.2%
Effective tax rate (non-IFRS)	27.0% to 28.0%	27.5%

<sup>(1)</sup> Updated forecast as at October 2012. This includes a combined contribution of approximately 2.5 percentage points from SuccessFactors and Ariba.

<sup>(2)</sup> Forecast increased in the course of the fiscal year.

Despite the partially uncertain economic situation in 2012, our new and existing customers continued to show a high willingness to invest in our solutions:

The constant currency-based increase in software revenue was largely due to strong growth in the APJ and EMEA regions and steady growth in the Americas region. However, growth was slower in 2012 than in 2011. We also recorded a significant increase in cloud subscription and support revenue, thanks to the acquisitions of SuccessFactors and Ariba. As a result, our software and cloud subscription revenue for 2012 increased 21% (17% at constant currencies) to 5 billion. Our software and software-related service revenue increased 17% to 13.25 billion (2011: 11.35 billion). At constant currencies, this increase was 13%. SuccessFactors and Ariba contributed to the growth in software and software-related service revenue at 2.7% (on a constant currency basis).

In 2012, we achieved an operating profit (non-IFRS) of 5,023 million on a constant currency

basis. Thus, operating profit (non-IFRS) at constant currencies for 2012 was slightly lower than the range of 5.05 billion to 5.25 billion that SAP had projected. This reduction in operating profit is mainly due to the continued investment in key innovations, as well as the expansion of SAP's sales activities worldwide.

We achieved an effective tax rate of 26.2% (IFRS) and 27.5% (non-IFRS), which is lower than the effective tax rate of 26.5% to 27.5% (IFRS) but in the range of 27.0% to 28.0% (non-IFRS) projected for 2012. This decrease in the effective tax rate (IFRS) in comparison to the outlook mainly arises from the regional allocation of income.

**Operating Results (IFRS)**

This *Operating Results (IFRS)* section discusses results exclusively in terms of IFRS measures, so the IFRS financial measures are not explicitly identified as such.

**Our 2012 Results Compared to Our 2011 Results (IFRS)****Revenue****Revenue**

<b>millions</b>	<b>2012</b>	<b>2011</b>	<b>Change in % 2012 vs 2011</b>
Software	4,658	4,107	13%
Cloud subscriptions and support	270	18	1400%
Software and cloud subscriptions	4,928	4,125	19%
Support	8,237	7,194	14%
<b>Software and software-related service revenue</b>	<b>13,165</b>	<b>11,319</b>	<b>16%</b>
Consulting	2,442	2,341	4%
Other services	616	573	8%
<b>Professional services and other service revenue</b>	<b>3,058</b>	<b>2,914</b>	<b>5%</b>
<b>Total revenue</b>	<b>16,223</b>	<b>14,233</b>	<b>14%</b>

**Table of Contents**

Part I

Item 5

**Total Revenue**

Our revenue increased from 14,233 million in 2011 to 16,223 million in 2012, representing an increase of 1,990 million or 14%. This total revenue growth reflects a 10% increase from changes in volumes and prices and a 4% increase from currency effects. The revenue growth is due primarily to an increase in software revenue of 551 million, an increase in cloud subscriptions and support revenue of 252 million, and an increase in support revenue of 1,043 million. In 2012, software and software-related service revenue totaled 13,165 million as a result of this increase. Software and software-related service revenue represented 81% of total revenue in 2012 (2011: 80%). In 2012, professional services and other service revenue contributed 3,058 million to our total revenue, representing an increase of 5% compared to 2011.

For an analysis of our total revenue by region and industry, see the Revenue by Region and Revenue by Industry sections.

**Software and Software-Related Service Revenue**

Software revenue represents fees earned from the sale or license of software to customers. Cloud subscriptions and support revenue relates to contracts which permit the customer to use specific SAP-hosted software functions during the contract period, and which impose significant contractual penalty if the customer cancels the contract or permanently uses the software on the customer's own systems. Support revenue represents fees earned from providing customers with technical support services and unspecified software upgrades, updates, and enhancements.

Software and software-related service revenue increased from 11,319 million in 2011 to 13,165 million in 2012, representing an increase of 16%. The software and software-related service revenue growth reflects a 12% increase from changes in volumes and prices and a 4% increase from currency effects.

Software and cloud subscriptions revenue increased from 4,125 million in 2011 to 4,928 million in 2012, representing an increase of 803 million or 19%. This growth consists of a 16% increase from changes in volumes and prices and a 3% increase from currency effects.

Software revenue increased from 4,107 million in 2011 to 4,658 million in 2012, representing an increase of 551 million or 13%. This growth consists of a 10% increase from changes in volumes and prices and a 3% increase from currency effects. SAP HANA contributed 392 million to software revenue in 2012, while mobile solutions accounted for 222 million.

Cloud subscriptions and support revenue increased from 18 million in 2011 to 270 million in 2012. This growth is largely due to the acquisitions of SuccessFactors and Ariba.

Our customer base continued to expand in 2012. Based on the number of contracts concluded, 19% of the orders we received for software in 2012 were from new customers (2011: 19%). The total value of software orders received grew 20% year over year. The total number of contracts signed for new software decreased 4% to 59,289 contracts (2011: 61,474 contracts), whereas the average order value went up 25%.

Our stable customer base and the continued investment in software by new and existing customers throughout 2012 and the previous year resulted in an increase in support revenue from 7,194 million in 2011 to 8,237 million in 2012. The SAP Enterprise Support service was the largest contributor to our support revenue. The 1,043 million or 14% increase in support revenue reflects a 10% increase from changes in volumes and prices and a 4% increase from currency effects. This growth is primarily attributable to our premium offerings and SAP Enterprise Support. According to that, the SAP Enterprise Support acceptance rate for net-new customers increased from 88% in 2011 to 96% in 2012.

**Professional Services and Other Service Revenue**

Professional services and other service revenue consists primarily of consulting and other service revenue. We generate most of our consulting revenue from the implementation of our software products. Other service revenue consists mainly of revenue from the messaging services acquired from Sybase, as well as training revenue from providing educational services to customers and partners on the use of our software

products and related topics.

Professional services and other service revenue increased from 2,914 million in 2011 to

**Table of Contents**

## Part I

## Item 5

3,058 million in 2012, representing an increase of 144 million or 5%. This growth reflects a 1% increase from changes in volumes and prices and a 4% increase from currency effects.

Consulting revenue increased from 2,341 million in 2011 to 2,442 million in 2012, representing an increase of 101 million or 4%. The growth resulted entirely from currency effects. Consulting revenue contributed 80% of professional services

and other service revenue (2011: 80%). Consulting revenue contributed 15% of total revenue in 2012 (2011: 16%).

Other service revenue increased from 573 million in 2011 to 616 million in 2012, representing an increase of 8%. This growth reflects a 5% increase from changes in volumes and prices and a 3% increase from currency effects. The increase is due mainly to higher revenues from messaging services.

**Revenue by Region and Industry****Revenue by Region**

millions	2012	2011	Change in % 2012 vs 2011
Germany	2,380	2,347	1%
Rest of EMEA	5,106	4,644	10%
<b>EMEA</b>	<b>7,486</b>	<b>6,991</b>	<b>7%</b>
United States	4,461	3,699	21%
Rest of Americas	1,639	1,392	18%
<b>Americas</b>	<b>6,100</b>	<b>5,091</b>	<b>20%</b>
Japan	789	652	21%
Rest of APJ	1,848	1,499	23%
<b>APJ</b>	<b>2,637</b>	<b>2,151</b>	<b>23%</b>
<b>SAP Group</b>	<b>16,223</b>	<b>14,233</b>	<b>14%</b>

**Revenue by Industry**

millions	2012	2011	Change in % 2012 vs 2011
Discrete Manufacturing	3,110	2,617	19%
Process Manufacturing	1,684	1,461	15%
Consumer Products	1,516	1,433	6%
Energy & Natural Resources	2,241	2,001	12%
Services	2,484	2,190	13%
Financial Services	1,444	1,196	21%
Public Services	1,437	1,399	3%
Retail & Wholesale	1,541	1,300	19%

Healthcare & Life Sciences	766	636	20%
<b>Total revenue</b>	<b>16,223</b>	<b>14,233</b>	<b>14%</b>

### Revenue by Region

We break our operations down into three regions: the Europe, Middle East, and Africa (EMEA) region, the Americas region, and the Asia Pacific Japan (APJ) region. We allocate revenue amounts to

each region based on where the customer is located. For more information about revenue by geographic region, see the Notes to the Consolidated Financial Statements section, Note (28).

**Table of Contents**

## Part I

## Item 5

***The EMEA Region***

In 2012, the EMEA region generated 7,486 million in revenue (2011: 6,991 million) or 46% of total revenue (2011: 49%). This represents a year-over-year increase of 7%. Total revenue in Germany increased 1% to 2,380 million in 2012 (2011: 2,347 million). Germany contributed 32% (2011: 34%) of all EMEA region revenue. The remaining revenue in the EMEA region was primarily generated in France, Italy, the Netherlands, Russia, Switzerland, and the United Kingdom. Software and software-related service revenue generated in the EMEA region in 2012 totaled 6,106 million (2011: 5,529 million). Software and software-related service revenue represented 82% of total revenue in 2012 (2011: 79%). Software and cloud subscription revenue increased 13% in 2012 to 2,107 million (2011: 1,864 million). This growth reflects a 12% increase from changes in volumes and prices and a 1% increase from currency effects.

***The Americas Region***

In 2012, 38% of our total revenue was generated in the Americas region (2011: 36%). Total revenue in the Americas region increased 20% to 6,100 million; revenue generated in the United States increased 21% to 4,461 million. This growth reflects a 12% increase from changes in volumes and prices and a 9% increase from currency effects. The United States contributed 73% (2011: 73%) of all Americas region revenue. In the remaining countries of the Americas region, revenue increased 18% to 1,639 million. This growth reflects a 17% increase from changes in volumes and prices and a 1% increase from currency effects. This revenue was principally generated in Brazil, Canada, and Mexico. Software and software-related service revenue generated in the Americas region in 2012 totaled 4,820 million (2011: 3,958 million). Software and software-related service revenue represented 79% of all revenue in the Americas region in 2012 (2011: 78%). Software and cloud subscription revenue increased 25% in 2012 to 1,920 million (2011: 1,540 million). This growth reflects a 19% increase from changes in volumes and prices and a 6% increase from currency effects.

***The APJ Region***

In 2012, 16% (2011: 15%) of our total revenue was generated in the APJ region, with Japan recording the largest revenue increase. Total revenue in the APJ region increased 23% to 2,637 million. In Japan, total revenue increased 21% to 789 million in 2012, representing a 30% contribution to all revenue generated across the APJ region (2011: 30%). The revenue rise in Japan reflects a 13% increase due to changes in volumes and prices and an 8% increase from currency effects. In the remaining countries of the APJ region, revenue increased 23%. Revenue in the remaining countries of the APJ region was generated primarily in Australia, China, and India. Software and software-related service revenue generated in the APJ region in 2012 totaled 2,239 million (2011: 1,832 million). In 2012, as in the prior year, software and software-related service revenue represented 85% of all revenue. Software and cloud subscription revenue increased 25% in 2012 to 901 million (2011: 722 million). This growth reflects a 20% increase from changes in volumes and prices and a 5% increase from currency effects.

**Revenue by Industry**

We allocate our customers to one of our industries at the outset of an initial arrangement. All subsequent revenue from a particular customer is recorded under that industry sector.

In 2012, we achieved above-average growth in the following sectors, measured by changes in total revenue: Financial services (1,444 million, at a growth rate of 21%); healthcare and life sciences (766 million, at a growth rate of 20%); discrete manufacturing (3,110 million, at a growth rate of 19%); retail and wholesale (1,541 million, at a growth rate of 19%); and process manufacturing (1,684 million, at a growth rate of 15%).

Results from the other sectors were as follows: services (2,484 million, at a growth rate of 13%); energy and natural resources (2,241 million, at a growth rate of 12%); consumer products (1,516 million, at a growth rate of 6%); and public services (1,437 million, at a growth rate of 3%).





**Table of Contents**

Part I

Item 5

**Operating Profit and Margin****Total Operating Expenses**

millions	2012	% of total revenue <sup>(1)</sup>	2011	% of total revenue <sup>(2)</sup>	Change in % 2012 vs 2011
Cost of software and software-related services	2,551	16%	2,107	15%	21%
Cost of professional services and other services	2,514	15%	2,248	16%	12%
Research and development	2,253	14%	1,939	14%	16%
Sales and marketing	3,907	24%	3,081	22%	27%
General and administration	947	6%	715	5%	32%
Restructuring	8	0%	4	0%	n.a.
TomorrowNow litigation	0	0%	717	5%	n.a.
Other operating income/expense, net	23	0%	25	0%	8%
<b>Total operating expenses</b>	<b>12,158</b>	<b>75%</b>	<b>9,352</b>	<b>66%</b>	<b>30%</b>

<sup>(1)</sup> Total revenue for 2012: 16,223 million.

<sup>(2)</sup> Total revenue for 2011: 14,233 million.

**Operating Profit and Operating Margin**

millions, except for operating margin	2012	2011	Change in % 2012 vs 2011
Operating profit	4,065	4,881	17%
Operating margin in %	25.1%	34.3%	9.2pp

**Operating Profit and Operating Margin**

In 2012, our operating profit totaled 4,065 million (2011: 4,881 million), a significant year-over-year decrease. A year-on-year comparison of operating profit is only possible to a limited extent, because of the release of the TomorrowNow litigation provision in the amount of 717 million in 2011. Increased expenses relating to the share-based payments in the amount of 522 million (2011: 68 million) as well as acquisition-related expenses of 537 million (2011: 448 million) reduced our operating profit in 2012. Share-based payment expenses rose considerably in 2012 as a result of new plans and an increase in the price of SAP stock.

Our operating profit for 2012 was also impacted by continued investments in global sales activities and cloud computing. The number of SAP employees (expressed in full-time equivalents, or FTEs) rose year on year by almost 8,700 persons, including more than 4,800 employees from acquisitions.

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All of the above factors caused our operating margin in 2012 to drop 9.2 percentage points to 25.1% (2011: 34.3%).

In 2012, operating expenses increased 2,806 million or 30% to 12,158 million (2011: 9,352 million). This increase is due primarily to acquisition-related expenses, share-based payments, continued investments in sales activities, an increase in personnel costs as a result of acquisitions, and cloud computing activity.

The sections that follow discuss our costs of sales by line item.

### **Cost of Software and Software-Related Services**

Cost of software and software-related services consists primarily of customer support costs, cost of developing custom solutions that address customers' specific business requirements, costs for deploying and operating cloud solutions, amortization of intangible assets, and license fees and commissions paid to third parties for databases and the other complementary third-party products sublicensed by us to our customers.

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**Table of Contents**

Part I

Item 5

In 2012, our cost of software and software-related services grew 21% to 2,551 million (2011: 2,107 million). The main cost factors were increased customer support expenses totaling 184 million and an acquisition-related increase in expenses for providing and operating our cloud solutions. The license fees that we pay to third parties also rose in parallel with the increase in software revenue. The margin on our software and software-related services, defined as software and software-related services profit as a percentage of software and software-related services revenue, remained constant year over year in 2012 at 81% (2011: 81%).

**Cost of Professional Services and Other Services**

Cost of professional services and other services consists primarily of the cost of consulting and training personnel and the cost of bought-in third-party consulting and training resources. This item also includes sales and marketing expenses for our professional services and other services resulting from sales and marketing efforts where those efforts cannot be clearly distinguished from providing the professional services and other services.

Costs for professional and other services rose 12% from 2,248 million in 2011 to 2,514 million in 2012. The margin on our professional and other services, defined as professional and other services profit as a percentage of professional and other services revenue, decreased to 18% in 2012 (2011: 23%). The disproportionately high growth in spending compared to professional services and other service revenue is mainly due to increased costs in a limited number of customer projects.

**Research and Development Expense**

Our research and development (R & D) expense consists primarily of the personnel cost of our R & D employees, costs incurred for independent contractors we retain to assist in our R & D activities, and amortization of the computer hardware and software we use for our R & D activities.

In 2012, R & D costs rose 16% to 2,253 million. This increase primarily resulted from the increase in personnel costs related to the acquisitions of SuccessFactors and Ariba.

In 2012, R & D expense as a percentage of total revenue increased slightly to 13.9% (2011: 13.6%). Total revenue increased at the same rate as R & D expense, resulting in a nearly constant R & D ratio. For more information, see the Research and Development section.

**Sales and Marketing Expense**

Sales and marketing expense consists mainly of personnel costs and direct sales expense to support our sales and marketing teams in selling and marketing our products and services.

Sales and marketing costs rose 27% from 3,081 million in 2011 to 3,907 million in 2012. The increase was due primarily to the increased personnel costs of our expanded sales teams in new growth markets, among others, and to increased employee headcount as a result of acquisitions. Travel and marketing costs rose as a result of increased business operations. The ratio of sales and marketing costs to total revenue, expressed as a percentage, increased 24% year over year (2011: 22%). This was because expenses grew disproportionately to revenue.

**General and Administration Expense**

Our general and administration (G&A) expense consists mainly of personnel costs to support our finance and administration functions.

Our G&A expense rose from 715 million in 2011 to 947 million in 2012, representing an increase of 32%. This was due mainly to share-based payments and the increase in personnel costs as a result of the acquisition-related rise in headcount. The ratio of general and administration costs to total revenue in 2012 thus rose 1% year over year to 6%.

***Segment Results***

Following SAP's increased focus on the cloud business, in 2012 we changed both the structure of the components that the SAP management uses to make decisions about operating matters, and the main profit measure used for the purposes of allocating resources to these components and measuring their performance. The segment information for earlier periods has been restated to conform with these changes. A detailed description of segment information is included in Note (28) of our Notes to the Consolidated Financial Statements.

**Table of Contents**

Part I

Item 5

We have two divisions – On-Premise and Cloud, which are further divided into operating segments. Our On-Premise division is comprised of two operating segments: On-Premise Products and On-Premise Services. Our Cloud division is comprised of two operating segments: Cloud Applications and Ariba.

Total revenue and profit figures for each of our operating segments differ from the respective

revenue and profit figures classified in our Consolidated Statements of Income because of several differences between our internal management reporting and our external IFRS reporting. For more information about our segment reporting and a reconciliation from our internal management reporting to our external IFRS reporting, see the Notes to the Consolidated Financial Statements section, Note (28).

millions, unless otherwise stated	2012	2011	Change in % 2012 vs 2011
<b><u>On Premise Product Segment</u></b>			
External revenue	12,881	11,325	14
Cost of revenue	1,990	1,762	13
Gross profit	10,891	9,564	14
Sales and marketing costs	3,410	2,919	17
<b>Operating segment profit/loss</b>	<b>7,481</b>	<b>6,644</b>	<b>13</b>
<b>Segment profitability</b>	<b>58%</b>	<b>59%</b>	
<b><u>On Premise Services Segment</u></b>			
External revenue	2,967	2,901	2
Cost of revenue	2,298	2,201	4
Gross profit	669	700	4
Sales and marketing costs	0	0	0
<b>Operating segment profit/loss</b>	<b>669</b>	<b>700</b>	<b>4</b>
<b>Segment profitability</b>	<b>23%</b>	<b>24%</b>	
<b><u>Cloud Applications Segment</u></b>			
External revenue	336	29	>100
Cost of revenue	158	66	>100
Gross profit	178	37	< 100
Sales and marketing costs	231	32	>100
<b>Operating segment profit/loss</b>	<b>53</b>	<b>69</b>	<b>23</b>
<b>Segment profitability</b>	<b>16%</b>	<b>238%</b>	
<b><u>Ariba Segment</u></b>			
External revenue	120	4	>100
Cost of revenue	75	9	>100
Gross profit	45	5	< 100
Sales and marketing costs	43	2	>100
<b>Operating segment profit/loss</b>	<b>2</b>	<b>7</b>	<b>&lt; 100</b>
<b>Segment profitability</b>	<b>2%</b>	<b>175%</b>	

**On-Premise Division**

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The On-Premise division derives its revenue primarily from the sale of on-premise software (that is, software designed for use on hardware at the customer's premises) and mobile software (that is, software designed for use on mobile devices) as well as services relating to such software.

### *On-Premise Products Segment*

The On-Premise Products segment is primarily engaged in marketing and licensing our on-premise and mobile software products and providing support services for these software products.

**Table of Contents**

## Part I

## Item 5

In 2012, revenue in the On-Premise Products segment increased 14% to 12,881 million (2011: 11,325 million). This growth reflects a 10% increase from changes in volumes and prices and a 4% increase from currency effects. The reason for this growth was the rise in software license sales, which, in turn, led to an increase in support revenue. Software revenue, which is added to revenues in the On-Premise Products segment, rose by 13% to 4,656 million (2011: 4,105 million). This growth reflects a 10% increase from changes in volumes and prices and a 3% increase from currency effects. Support revenue increased by 14% to 8,226 million (2011: 7,220 million). This growth reflects a 10% increase from changes in volumes and prices and a 4% increase from currency effects.

In 2012, cost of revenue increased 13% to 1,990 million (2011: 1,762 million) and sales and marketing costs increased by 17% to 3,410 million (2011: 2,919 million). The increased expenses in the On-Premise Products segment are the result of increased business operations following the rise in demand in 2012.

The operating segment profit of the On-Premise Products segment rose by 13% to 7,481 million (2011: 6,644 million), representing segment profitability of 58% (2011: 59%).

***On-Premise Services Segment***

The On-Premise Services segment primarily performs various professional services, mainly implementation services of our software products and educational services on the use of our software products.

In 2012, revenue in the On-Premise Services segment increased 2% to 2,967 million (2011: 2,901 million). This growth reflects a 1% decrease from changes in volumes and prices and a 3% increase from currency effects.

In 2012, cost of revenue in the On-Premise Services segment increased 4% to 2,298 million (2011: 2,201 million). The increased expenses in the On-Premise Services segment are the result of constant business operations and increased costs in a limited number of customer projects.

The operating segment profit of the On-Premise Services segment decreased by 4% to 669 million (2011: 700 million), representing segment profitability of 23% (2011: 24%).

**Cloud Division**

The Cloud division derives its revenues primarily from the sale of cloud software (that is, software designed for delivery through the cloud) and services relating to such software.

Driven by the acquisition of SuccessFactors in the first quarter of 2012, SAP showed a strong cloud momentum in 2012: Derived from the total revenue of SAP's two Cloud segments (Cloud Applications and Ariba), the annual cloud revenue run rate in the fourth quarter approached 850 million. For the Cloud Applications segment alone, 12-month new and upsell subscription billings increased nineteenfold in the fourth quarter. Even when including SuccessFactors in SAP's 2011 numbers, the growth is triple digit at 102%. For SuccessFactors on a stand-alone basis, 12-month new and upsell subscription billings grew 95% compared to the previous year.

The annualized revenue run rate is derived from the total revenue of SAP's two Cloud segments (Cloud Applications and Ariba) in the fourth quarter of 2012 and includes Ariba (before any future growth). The annual run rate is calculated by multiplying the fourth-quarter Cloud division revenue by 4.

The year-over-year growth rate in 12-month new and upsell subscription billings relates to SAP's Cloud Applications business (excluding Ariba). The growth rate is a pro forma growth rate that assumes that the acquisition of SuccessFactors was completed as of January 1, 2011.

***Cloud Applications Segment***



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The Cloud Applications segment is primarily engaged in marketing and selling subscriptions to the cloud software offerings developed by SAP and SuccessFactors.

In 2012, revenue in the Cloud Applications segment increased to 336 million (2011: 29 million).

In 2012, cost of revenue increased to 158 million (2011: 66 million) and sales and marketing costs increased to 231 million (2011: 32 million). The increased expenses in the Cloud Applications segment were largely driven by the acquisition of SuccessFactors in the first quarter of 2012.

The operating segment loss of the Cloud Applications segment increased by 23% to

**Table of Contents**

Part I

Item 5

53 million (2011: 69 million), representing segment profitability of 16% (2011: 238%).

***Ariba Segment***

The Ariba segment primarily markets and sells the cloud software offerings developed by Ariba. While this segment is named Ariba, it is not identical to the acquired Ariba business since certain SAP activities are now in our Ariba segment. For 2011, the numbers for the Ariba segment reflect the SAP activities that were allocated to the Ariba segment upon its establishment.

In 2012, revenue in the Ariba segment increased to 120 million (2011: 4 million).

In 2012, cost of revenue increased to 75 million (2011: 9 million) and sales and marketing costs increased by 2150% to 43 million (2011: 2 million). The increased expenses in the Ariba segment were largely driven by the acquisition of Ariba at the end of 2012.

The operating segment loss of the Ariba segment turned into a segment profit of 2 million (2011: 7 million), representing segment profitability of 2% (2011: 175%).

***Financial Income***

Finance income, net, decreased to 68 million (2011: 38 million). Our finance income was 107 million (2011: 123 million) and our finance costs were 175 million (2011: 161 million).

Finance income mainly consists of interest income from loans and financial assets (cash, cash equivalents, and current investments), which was 50 million in 2012 (2011: 64 million). This decrease is attributable mainly to a lower average liquidity and lower interest rates than in 2011.

Finance costs mainly consist of interest expense on financial liabilities (130 million in 2012 compared to 123 million in 2011). This year-over-year increase resulted mainly from the financial debt incurred in connection with the SuccessFactors and Ariba acquisitions. For more information about these financing instruments, see the Notes to the Consolidated Financial Statements section, Note (17b).

Another factor in financial income in 2012 was the derivatives we utilize to execute our financial risk management strategy. The associated time value effects from derivatives were reflected in interest income of 27 million (2011: 37 million) and interest expenses of 28 million (2011: 37 million).

***Income Tax***

Our effective tax rate decreased to 26.2% in 2012 (2011: 27.9%). The increased effective tax rate 2011 mainly resulted from the reduction of the TomorrowNow litigation provision. For more information, see the Notes to the Consolidated Financial Statements section, Note (10).

**Our 2011 Results Compared to Our 2010 Results (IFRS)**

***Revenue***

Revenue

millions	2011	2010	Change in % 2011 vs 2010
Software	4,107	3,410	20%
Cloud subscriptions and support	18	14	29%
Software and cloud subscriptions	4,125	3,424	20%
Support	7,194	6,370	13%
<b>Software and software-related service revenue</b>	<b>11,319</b>	<b>9,794</b>	<b>16%</b>
Consulting	2,341	2,197	7%
Other services	573	473	21%
<b>Professional services and other service revenue</b>	<b>2,914</b>	<b>2,670</b>	<b>9%</b>
<b>Total revenue</b>	<b>14,233</b>	<b>12,464</b>	<b>14%</b>

**Table of Contents**

Part I

Item 5

**Total Revenue**

Total revenue increased from 12,464 million in 2010 to 14,233 million in 2011, representing an increase of 1,769 million or 14%. This total revenue growth reflects a 16% increase from changes in volumes and prices and a 2% decrease from currency effects. The revenue growth is due primarily to an increase in software revenue of 697 million and an increase in support revenue of 824 million. In 2011, software and software-related service revenue totaled 11,319 million as a result of this increase. Software and software-related service revenue represented 80% of all revenue in 2011 compared with 79% in 2010. In 2011, professional services and other service revenue contributed 2,914 million to our total revenue, representing an increase of 9% compared to 2010.

For an analysis of our total revenue by region and industry, see the Revenue by Region and Revenue by Industry sections.

**Software and Software-Related Service Revenue**

Software revenue represents fees earned from the sale or license of software to customers. Cloud subscriptions and support revenue represents revenues from our cloud offerings. Support revenue represents fees earned from providing customers with technical support services and unspecified software upgrades, updates, and enhancements.

Software and software-related service revenue increased from 9,794 million in 2010 to 11,319 million in 2011, representing an increase of 16%. The software and software-related service revenue growth reflects a 17% increase from changes in volumes and prices and a 2% decrease from currency effects.

Software revenue increased from 3,410 million in 2010 to 4,107 million in 2011, representing an increase of 697 million or 20%. This increase reflects growth of 23% from changes in volumes and prices and a 3% decrease from currency effects.

SAP Business Suite software contributed the greatest share of growth in software revenue, followed by SAP HANA and mobile solutions.

In 2011, our customer base again expanded. Based on the number of contracts concluded,

20% of the orders we received for software in 2011 were from new customers (2010: 23%). The value of orders received for software grew 16% year over year. The total number of contracts signed for new software increased 17% to 59,059 contracts (2010: 50,439 contracts).

Cloud subscriptions and support revenue increased by 4 million or 22% to 18 million (2010: 14 million). This increase reflects changes in volume and prices of 24% and a 2% decrease from currency effects.

Our stable customer base and the continued investment in software by new and existing customers throughout 2011 and the previous year resulted in an increase in support revenue from 6,370 million in 2010 to 7,194 million in 2011. Our SAP Enterprise Support offering generated most of the support revenue. The 824 million or 13% increase in support revenue reflects growth of 14% from changes in volumes and prices and a 1% decrease from currency effects. Our premium offerings and strong growth in revenue from SAP Enterprise Support were among the factors accounting for the increase in support revenue.

**Professional Services and Other Service Revenue**

Professional services and other service revenue consists primarily of consulting and other service revenue. We generate most of our consulting revenue from the implementation of our software products. Other service revenue consists mainly of training revenue from providing educational services to customers and partners on the use of our software products and related topics, and revenue from the messaging services business acquired from Sybase.

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Professional services and other service revenue increased from 2,670 million in 2010 to 2,914 million in 2011, representing an increase of 244 million or 9%. This growth reflects an 11% increase from changes in volumes and prices and a 2% decrease from currency effects.

Consulting revenue increased from 2,197 million in 2010 to 2,341 million in 2011, representing 8% growth from changes in volumes and prices and a 1% decrease from currency effects. Consulting revenue contributed 80% of professional services and other service revenue (2010: 82%). Consulting revenue contributed 16% of total revenue in 2011 (2010: 18%).

**Table of Contents**

Part I

Item 5

Other service revenue increased from 473 million in 2010 to 573 million in 2011, representing an increase of 21%. This growth reflects a 23% increase from changes in volumes

and prices and a 2% decrease from currency effects. The increase is due mainly to revenues from messaging services and training revenue.

**Revenue by Region and Industry****Revenue by Region**

millions	2011	2010	Change in % 2011 vs 2010
Germany	2,347	2,195	7%
Rest of EMEA	4,644	4,068	14%
<b>EMEA</b>	<b>6,991</b>	<b>6,263</b>	<b>12%</b>
United States	3,699	3,243	14%
Rest of Americas	1,392	1,192	17%
<b>Americas</b>	<b>5,091</b>	<b>4,435</b>	<b>15%</b>
Japan	652	513	27%
Rest of APJ	1,499	1,253	20%
<b>APJ</b>	<b>2,151</b>	<b>1,766</b>	<b>22%</b>
<b>SAP Group</b>	<b>14,233</b>	<b>12,464</b>	<b>14%</b>

**Revenue by Industry**

millions	2011	2010	Change in % 2011 vs 2010
Discrete Manufacturing	2,617	2,190	19%
Process Manufacturing	1,461	1,255	16%
Consumer Products	1,433	1,243	15%
Energy & Natural Resources	2,001	1,796	11%
Services	2,190	1,959	12%
Financial Services	1,196	1,058	13%
Public Services	1,399	1,246	12%
Retail & Wholesale	1,300	1,124	16%
Healthcare & Life Sciences	636	593	7%
<b>Total revenue</b>	<b>14,233</b>	<b>12,464</b>	<b>14%</b>

**Revenue by Region**

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We break our operations down into three regions: the Europe, Middle East, and Africa (EMEA) region; the Americas region, which comprises North and Latin America; and the Asia Pacific Japan (APJ) region, which includes Japan, Australia, and other parts of Asia. We allocate revenue amounts to each region based on customers' locations. For more information about revenue by geographic region, see the Notes to the Consolidated Financial Statements section, Note (28).

### **The EMEA Region**

In 2011, the EMEA region generated 6,991 million in revenue (2010: 6,263 million)

or 49% of total revenue (2010: 50%). This represents a year-over-year increase of 12%. Total revenue in Germany increased 7% to 2,347 million in 2011 (2010: 2,195 million). Germany contributed 34% of all EMEA region revenue (2010: 35%). The remaining revenue in the EMEA region was primarily generated in the UK, France, Switzerland, the Netherlands, Russia, and Italy. Software and software-related service revenue generated in the EMEA region in 2011 totaled 5,529 million (2010: 4,883 million). Software and software-related service revenue represented 79% of all revenue in 2011 compared with 78% in 2010.

**Table of Contents**

Part I

Item 5

**The Americas Region**

In 2011, 36% of our total revenue was generated in the Americas region (2010: 36%). Total revenue in the Americas region increased 15% to 5,091 million. Revenue generated in the United States increased 14% to 3,699 million. This growth reflects a 20% increase from changes in volumes and prices and a 6% decrease from currency effects. The United States contributed 73% of all Americas region revenue (2010: 73%). Revenue increased 17% to 1,392 million in the remaining countries of the Americas region. This growth reflects a 20% increase from changes in volumes and prices and a 3% decrease from currency effects. This revenue was principally generated in Canada, Brazil, and Mexico. Software and software-related service revenue generated in the Americas region in 2011 totaled 3,958 million (2010: 3,427 million). Software and software-related service revenue represented 78% of all revenue (2010: 77%).

**The APJ Region**

In 2011, 15% of our total revenue was generated in the APJ region (2010: 14%); most of the revenue was from Japan. Total revenue in the APJ region increased 22% to 2,151 million. In Japan, total revenue increased 27% to 652 million in 2011, representing a 30% contribution to all revenue generated across the APJ region (2010: 29%). This growth in revenue reflects a 22% increase from changes in volumes and prices and a 5% increase from currency effects. Revenue increased 20% in the remaining countries of the APJ region. Revenue in the remaining countries of the APJ region was generated primarily in Australia, India and China. Software and software-related service revenue generated in the APJ region in 2011 totaled 1,832 million (2010: 1,484 million). Software and software-related service revenue represented 85% of all revenue in 2011 compared with 84% in 2010.

***Revenue by Industry***

To help us better meet the requirements of existing and potential customers, we restructured

our industry groups in 2011, and now serve nine sectors rather than six as in 2010.

The first of our three new sectors, healthcare and life sciences, incorporates healthcare, medicine, and pharmaceuticals, which were previously distributed across our public services and manufacturing process industry groups. The new energy and natural resources sector combines our oil and gas, mining, utilities, and waste management segments. These were previously in our manufacturing process and services industry segments. We have defined our new retail and wholesale sector to focus more strongly on two areas that we had previously included in our consumer products industry sector. We restructured two further sub-areas to reflect changing customer needs. Engineering, construction, and operations, which previously belonged to our manufacturing discrete industry sector, is now included in our services sector. The postal industry has been assigned to the public services industry sector.

We allocate our customers to an industry sector at the outset of an initial arrangement. All subsequent revenue from a particular customer is recorded under that sector.

In 2011, we achieved above-average growth in the following sectors, measured by changes in total revenue: Manufacturing discrete ( 2,617 million, at a growth rate of 19%), manufacturing process ( 1,461 million, at a growth rate of 16%), retail and wholesale ( 1,300 million, at a growth rate of 16%) and consumer products ( 1,433 million, at a growth rate of 15%).

Results from the other sectors were as follows: Financial services: 1,196 million, at a growth rate of 13%; public services: 1,399 million, at a growth rate of 12%; services: 2,190 million, at a growth rate of 12%; energy and natural resources: 2,001 million, at a growth rate of 11%; and healthcare and life sciences: 636 million, at a growth rate of 7%.





**Table of Contents**

Part I

Item 5

**Operating Profit and Margin****Total Operating Expenses**

millions	2011	% of total revenue <sup>(1)</sup>	2010	% of total revenue <sup>(2)</sup>	Change in % 2011 vs 2010
Cost of software and software-related services	2,107	15%	1,823	15%	16%
Cost of professional services and other services	2,248	16%	2,071	17%	9%
Research and development	1,939	14%	1,729	14%	12%
Sales and marketing	3,081	22%	2,645	21%	16%
General and administration	715	5%	636	5%	12%
Restructuring	4	0%	3	0%	< 100%
TomorrowNow litigation	717	5%	981	8%	< 100%
Other operating income/expense, net	25	0%	9	0%	178%
<b>Total operating expenses</b>	<b>9,352</b>	<b>66%</b>	<b>9,873</b>	<b>79%</b>	<b>5%</b>

<sup>(1)</sup> Total revenue for 2011: 14,233 million.

<sup>(2)</sup> Total revenue for 2010: 12,464 million.

**Operating Profit and Operating Margin**

millions, except for operating margin	2011	2010	Change in % 2011 vs 2010
Operating profit	4,881	2,591	88%
Operating margin in %	34.3%	20.8%	13.5pp

**Operating Profit and Operating Margin**

In 2011, our operating profit totaled 4,881 million (2010: 2,591 million), a significant year-over-year improvement. A contributor to the increased operating profit in 2011 was a 717 million reduction of the TomorrowNow litigation provision. We had increased this provision in 2010, which resulted in a 981 million negative impact on operating profit in that year. For more information about the TomorrowNow litigation, see the Notes to the Consolidated Financial Statements section, Note (23). Overall, revenue increased in 2011 while operating expenses decreased.

Our operating margin widened 13.5 percentage points to 34.3% in 2011 (2010: 20.8%). The reduction of the TomorrowNow litigation provision had a 5.0 percentage point positive effect on operating margin in 2011; in 2010, we had significantly increased the provision, which had a negative impact of 7.9 percentage points on operating margin.

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In 2011, operating expenses decreased 521 million or 5% to 9,352 million (2010: 9,873 million). This reduction is due primarily to the reduction of the TomorrowNow litigation provision, which we had significantly increased in the previous year.

The sections that follow discuss our costs by line item.

### *Cost of Software and Software-Related Services*

Cost of software and software-related services consists primarily of various customer support costs, the cost of developing custom solutions to address individual customers' business requirements, and license fees and commissions we pay to third parties for database software and the other complementary third-party products that we sublicense to our customers.

In 2011, costs for software and software-related services rose 16% to 2,107 million (2010: 1,823 million). The main cost driver was an

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**Table of Contents**

## Part I

## Item 5

increase in personnel to cover the growing demand for SAP Enterprise Support in 2011, which in turn had a positive effect on support revenue. The license fees and the commissions that we pay to third parties for database software also rose in parallel with the increase in software revenue. The margin on our software and software-related services, defined as software and software-related services profit as a percentage of software and software-related services revenue, remained constant year over year in 2011 at 81% (2010: 81%).

***Cost of Professional Services and Other Services***

Cost of professional services and other services consists primarily of the cost of consulting and training personnel and the cost of bought-in third-party consulting and training resources. This item also includes sales and marketing expenses for our professional services and other services resulting from sales and marketing efforts where those efforts cannot be clearly distinguished from providing the professional services and other services.

Costs for professional and other services rose 9% from 2,071 million in 2010 to 2,248 million in 2011. The margin on our professional and other services, defined as professional and other services profit as a percentage of professional and other services revenue widened to 23% in 2011 (2010: 22%). The increase in profitability is due mainly to the positive trend in consulting.

***Research and Development Expense***

Our research and development (R&D) expense consists primarily of the personnel cost of our R&D employees, costs incurred for independent contractors we retain to assist in our R&D activities, and amortization of the computer hardware and software we use for our R&D activities.

In 2011, R&D costs rose 12% to 1,939 million. This increase primarily results from the increase in personnel costs.

In 2011, R&D expense as a percentage of total revenue was unchanged at 14% because R&D costs increased year over year at the same rate as sales.

***Sales and Marketing Expense***

Sales and marketing expense consists mainly of personnel costs and direct sales expense incurred to support our sales and marketing teams in selling and marketing our products and services.

Sales and marketing costs rose 16% from 2,645 million in 2010 to 3,081 million in 2011. The increase was due primarily to the increased personnel costs of our expanded sales teams in new growth markets among others and to increased variable remuneration as a result of surpassing our corporate goals. Travel and marketing costs rose as a result of increased business operations. The increase in the number of employees in sales and marketing led to accelerated revenue growth. At the same time, the ratio of sales and marketing costs to total revenue, expressed as a percentage, increased 22% year over year (2010: 21%). This was because expenses grew disproportionately to revenue.

***General and Administration Expense***

Our general and administration expense consists mainly of the cost of personnel working in our finance and administration functions.

Our general and administration expense rose from 636 million in 2010 to 715 million in 2011, representing a 12% increase. This was due mainly to the increase in personnel costs. The ratio of general and administration costs to total revenue in 2011 remained constant year over year at 5%.

***Segment Discussions***

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We have two divisions – On Premise and Cloud which are further divided into operating segments. Our On Premise division is comprised of two operating segments: On Premise Product and On Premise Services. Our Cloud division is comprised of two operating segments: Cloud Applications and Ariba.

Total revenue and profit figures for each of our operating segments differ from the respective revenue and profit figures classified in our Consolidated Statements of Income because of several differences between our internal management reporting and our external IFRS reporting. For further details of our segment reporting and a reconciliation from our internal management reporting to our external IFRS reporting, see the Notes to the Consolidated Financial Statements section, Note (28).

**Table of Contents**

Part I

Item 5

millions, unless otherwise stated	2011	2010	Change in % 2011 vs 2010
<b>On Premise Product Segment</b>			
External revenue	11,325	9,853	15
Cost of revenue	1,762	1,569	12
Gross profit	9,564	8,284	15
Sales and marketing costs	2,919	2,520	16
<b>Operating segment profit/loss</b>	<b>6,644</b>	<b>5,764</b>	<b>15</b>
<b>Segment profitability</b>	<b>59%</b>	<b>58%</b>	
<b>On Premise Services Segment</b>			
External revenue	2,901	2,663	9
Cost of revenue	2,201	2,041	8
Gross profit	700	622	13
Sales and marketing costs	0	0	0
<b>Operating segment profit/loss</b>	<b>700</b>	<b>622</b>	<b>13</b>
<b>Segment profitability</b>	<b>24%</b>	<b>23%</b>	
<b>Cloud Applications Segment</b>			
External revenue	29	21	38
Cost of revenue	66	60	10
Gross profit	37	39	5
Sales and marketing costs	32	29	10
<b>Operating segment profit/loss</b>	<b>69</b>	<b>68</b>	<b>1</b>
<b>Segment profitability</b>	<b>238%</b>	<b>324%</b>	
<b>Ariba Segment</b>			
External revenue	4	0	n.a.
Cost of revenue	9	4	>100
Gross profit	5	4	25
Sales and marketing costs	2	1	100
<b>Operating segment profit/loss</b>	<b>7</b>	<b>5</b>	<b>40</b>
<b>Segment profitability</b>	<b>175%</b>	<b>n.a.</b>	

**On Premise Division**

The On Premise division derives its revenues primarily from the sale of on premise software (i.e. software designed for use on hardware on the customer's premises) and mobile software (i.e. software designed for use on mobile devices) and services relating to such software.

**On Premise Product Segment**

The Product segment is primarily engaged in marketing and licensing our on premise and mobile software products and providing support services for these software products.

In 2011, revenue in the Product segment increased 15% to 11,325 million (2010: 9,853 million). This growth reflects a 17% increase from changes in volumes and prices and

a 2% decrease from currency effects. The reason for this growth was the rise in software license sales, which in turn led to an increase in support revenue. Software revenue, which is added to revenues in the Product segment, rose by 20% to 4,105 million (2010: 3,409 million). This growth reflects a 23% increase from changes in volumes and prices and a 3% decrease from currency effects. Support revenue increased by 12% to

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7,220 million (2010: 6,444 million). This growth reflects a 13% increase from changes in volumes and prices and a 1% decrease from currency effects.

In 2011, cost of revenue increased 12% to 1,762 million (2010: 1,569 million) and sales & marketing costs increased by 16% to 2,919 million (2010: 2,520 million). The increased expenses in the Product segment are the result of increased business operations following the rise in demand in 2011.

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**Table of Contents**

Part I

Item 5

The operating segment profit of the Product segment rose by 15% to 6,644 million (2010: 5,764 million), representing segment profitability of 59% (2010: 58%).

***On Premise Services Segment***

The Services segment primarily performs various professional services, mainly implementation services of our software products and educational services on the use of our software products.

In 2011, revenue in the Services segment increased 9% to 2,901 million (2010: 2,663 million). This growth reflects a 10% increase from changes in volumes and prices and a 1% decrease from currency effects.

In 2011, cost of revenue in the Services segment increased 8% to 2,201 million (2010: 2,041 million). The increased expenses in the Services segment are the result of increased business operations following the rise in demand in 2011.

The operating segment profit of the Services segment rose by 13% to 700 million (2010: 622 million), representing segment profitability of 24% (2010: 23%).

**Cloud Division**

The Cloud division derives its revenues primarily from the sale of cloud software (i.e. software designed for delivery through the Cloud) and services relating to such software.

***Cloud Applications Segment***

The Cloud Applications segment is primarily engaged in marketing and selling subscriptions to the cloud software offerings developed by SAP and Successfactors.

In 2011, revenue in the Cloud Applications segment increased 38% to 29 million (2010: 21 million). This growth reflects a 40% increase from changes in volumes and prices and a 2% increase from currency effects.

In 2011, cost of revenue increased 10% to 66 million (2010: 60 million) and sales & marketing costs increased by 10% to 32 million (2010: 29 million). The increased expenses in the Cloud Applications segment are the result of increased business operations following the rise in demand in 2011.

The operating segment loss of the Cloud Applications segment increased by 1% to 69 million (2010: 68 million), representing segment profitability of 238% (2010: 324%).

***Ariba Segment***

The Ariba segment primarily markets and sells the cloud software offerings developed by Ariba. While this segment is named Ariba, it is not identical to the acquired Ariba business since parts of the acquired business are now integrated with and thus reported in other segments, and certain SAP activities are now in our Ariba segment. For 2011, the numbers for the Ariba segment reflect the SAP activities that were allocated to the Ariba segment upon its establishment.

In 2011, revenue in the Ariba segment increased to 4 million (2010: 0 million).



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In 2011, cost of revenue increased to 9 million (2010: 4 million) and sales & marketing costs increased by 100% to 2 million (2010: 1 million). The increased expenses in the Ariba segment are largely driven by the acquisition of Crossgate at the end of 2011.

The operating segment loss of the Ariba segment decreased by 40% to 7 million (2010: 5 million), representing segment profitability of 175%.

### ***Financial Income***

In 2011, financial income improved to 38 million (2010: 67 million). Our finance income was 123 million (2010: 73 million) and our finance costs were 161 million (2010: 140 million).

Finance income mainly consists of interest income from loans and receivables (cash, cash equivalents, and current investments), which was 64 million in 2011 (2010: 34 million). This increase is attributable mainly to the higher average liquidity than in 2010.

Finance costs mainly consist of interest expense on financial liabilities (123 million in 2011 compared to 77 million in 2010). This year-over-year increase resulted mainly from the financial debt incurred in connection with the Sybase acquisition. We used bank loans, bonds, and private placements to finance this acquisition. For more information about these financing instruments, see the Notes to the Consolidated Financial Statements section, Note (17b).

**Table of Contents**

## Part I

## Item 5

Another factor in financial income in 2011 was the derivatives we utilize to execute our financial risk management strategy. The associated fair value effects were reflected in interest income of 37 million (2010: 25 million) and interest expenses of 37 million (2010: 31 million).

**Income Tax**

Our effective tax rate increased to 27.9% in 2011 (2010: 22.5%). The main reason for this significant year-over-year difference is the change in the measurement of the TomorrowNow litigation provision. While 2010 saw a tax rate reduction of almost 5 percentage points as a result of the significant increase of the TomorrowNow litigation provision, in 2011 we experienced an effective tax rate increase resulting from the reduction of the same provision. However, this increase was offset by tax effects related to intercompany financing. For more information, see the Notes to the Consolidated Financial Statements section, Note (10).

**FOREIGN CURRENCY EXCHANGE RATE EXPOSURE**

Although our reporting currency is the euro, a significant portion of our business is conducted in currencies other than the euro. Since the Group's entities usually conduct their business in their respective functional currencies, our risk of exchange rate fluctuations from ongoing ordinary operations is not considered significant. However, occasionally we generate foreign-currency-denominated receivables, payables, and other monetary items by transacting in a currency other than the functional currency; to mitigate the extent of the associated foreign currency exchange rate risk, the majority of these transactions are hedged as described in Note (25) to our Consolidated Financial Statements. Also see Notes (3) and (24) for additional information on foreign currencies.

Approximately 72% and 69% of our total revenue 2012 and 2011, respectively, was attributable to operations in non-euro participating countries. As a result, those revenues had to be translated into euros for financial reporting purposes. Fluctuations in the value of the euro had a

favorable impact on our total revenue of 548 million for 2012. Regarding 2011 the euro had an unfavorable impact on our total revenue of 195 million, while for 2010 the euro had a favorable impact of 705 million.

The impact of foreign currency exchange rate fluctuations discussed in the preceding paragraph is calculated by translating current period figures in local currency to euros at the monthly average exchange rate for the corresponding month in the prior year. Our revenue analysis, included within the Operating Results, section of this Item 5, discusses at times increases and decreases due to currency effects, which are calculated in the same manner.

**OUTLOOK****Future Trends in the Global Economy**

Given the growing demand and the financial markets' increasing confidence in a positive future, the global economy is expected to recover gradually in 2013 according to the European Central Bank (ECB).<sup>2)</sup> Growth momentum will nevertheless be moderate, with emerging countries expected to grow more strongly than industrialized countries.

In the Europe, Middle East, and Africa (EMEA) region, the economy of the euro area is expected to have a slow start to 2013, chiefly because of the ongoing debt crisis in southern European countries, a low level of investor and consumer confidence, and dampened export demand. A gradual recovery is expected later in the year if consumer spending and export demand are strong enough to restore confidence to the financial markets. Economic progress will be uneven in the Middle East and Africa because the political situation in the various countries is so different.

Looking at the Americas region, it is anticipated that the U.S. economy will continue its moderate recovery in 2013. Domestic demand is expected to bounce back and the situation in the labor market will brighten. Latin America is also expected to enjoy rapid growth again in 2013.

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It is likely to benefit from the gradual improvement in the global economic outlook as well as from the less stringent monetary policies applied by some governments.

2) Unless otherwise indicated, all economic information in this section is based on information from the European Central Bank (ECB).

## **Table of Contents**

### Part I

#### Item 5

In the Asia-Pacific-Japan (APJ) region, the Japanese economy is expected to continue to recover gradually in 2013, helped by rising global demand. China and other emerging economies will likewise see stronger markets, supported by stable domestic spending, various stimulus measures, and improving conditions for exporters.

### **IT Market: The Outlook for 2013**

The global IT market is expected to continue to expand in 2013 at about the same pace as in the previous year, according to IDC, outpacing growth in the global economy. Markets for PCs, servers, and IT services are expected to grow more strongly in 2013 than in 2012, and software spending is likely to remain stable. The IT market, like the economy, is expected to expand more in the emerging countries than in the industrialized countries.

Because the economy of the euro area is expected to be sluggish, in 2013 the IT market in the EMEA region is expected to grow relatively slowly in comparison with the world IT market but to outperform the region's economy as a whole once again. Expectations for the IT services segment in the EMEA region are modest, while software revenues are likely to outperform the IT market average.

The economic crisis in Europe is expected to have an effect in the Americas region in 2013 as well, and again impair growth in the market for IT. But growth rates in the market for IT are expected to still be higher in the Americas region than elsewhere. The U.S. IT market is expected to recover in 2013 and to achieve high single-digit percentage growth, driven by an upswing in the PC market and a continuing high level of demand for smartphones and software.

IT spending in the APJ region is expected to grow at a noticeably slower pace in 2013 than in 2012, but still faster than the economy as a whole. The IT market in Japan is expected to reach just positive growth rates, although the hardware segment is expected to contract by a percentage in the lower single-digit range. Spending on software, on the other hand, is expected to increase at a similar pace as in 2012, while spending on IT services is expected to grow more strongly. Growth in IT spending in China is expected to continue to slow in 2013. The software and services segments are expected to expand slightly quicker than in 2012.

### **Impact on SAP**

SAP expects to outperform the global economy and IT industry again in 2013. Thanks to the innovation strategy we have put in place and our clear customer focus, we are confident we can achieve the targets we have set short-term for 2013 and medium-term for 2015 as long as the economic environment and IT industry develop as currently forecast. Diversified in terms of regions as well as industries, we are well positioned to absorb the occasional minor fluctuation in the global economy and IT market.

A comparison of our planned performance with forecasts for the global economy and IT industry shows that with our five market categories Applications, Analytics, Cloud, Mobile, and Database and Technology we are successful in a tough economic environment. Our market, and thus the demands of our customers, are changing rapidly. We anticipated these changes at an early date, and realigned our business with our innovation strategy in time to meet the needs of our customers. In addition, SAP will continue to invest in countries in which we expect significant growth and we aim to expand our market share in those countries. Such countries include Brazil, China, India, Russia, as well as countries in Africa and the Middle East. We therefore expect to see further future growth potential helping us to reach our ambitious 2013 outlook and medium-term aspirations for 2015. For more information, see the Operational Targets for 2013 (Non-IFRS) section.

### **Forecast for SAP**

#### ***Strategy for Profitable Growth***

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SAP seeks profitable growth across its portfolio of products and services. Our goal is to double our addressable market to US\$230 billion and increase the number of people who use and benefit from SAP solutions to one billion by 2015. Our ability to deliver software-based innovation and value in target growth areas of applications, analytics, mobile, cloud, and database and technology, positions us favorably in segments of the enterprise market that offer a higher growth potential than is forecast for the overall IT market, or indeed the global gross domestic product (GDP) growth rates. SAP continues to invest and increase its presence and market share in countries experiencing higher than average growth, such as Brazil, China, India, and Russia, and in the Middle East and Africa.

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**Table of Contents**

Part I

Item 5

SAP's continued growth depends on our ability to deliver innovative solutions to market and drive ongoing value for our customers. We continue to improve our research and development effectiveness, working in leaner teams to accelerate innovation cycles and engage more closely with our customers. We are also investing in our go-to-market channels to expand capacity and drive greater volume sales, while expanding our technology partner ecosystem to foster co-innovation as a force multiplier for creating additional business value for our customers.

The success of SAP and our customers depends on our people whom we consider our most important asset. Our employees spark our innovation, deliver value to our customers, and drive our sustainable growth and profitability. The correlation between our continued business success and our ability to attract, retain, and engage top talent is so strong that the latter is a continuous focus area for improvement. Therefore, we continue to execute our people strategy to set us apart in vital areas such as leadership development, career advancement, workforce diversity, and human resources processes. These areas drive our employees to be at their very best. This high level of performance is essential if we are to realize our ambitious growth strategy and further enhance our ability to innovate.

***Go-to-Market Investment Delivers Customer Value***

SAP goes to market by region, customer segment, and industry. In each region, we concentrate our sales efforts on the fastest-growing markets with the most business and revenue potential. We evolve and invest in our go-to-market coverage model to effectively sell industry-specific solutions while increasing our engagement with customers in line-of-business functions (for example, human resources, sales, and marketing) and users of analytics. We continue to provide companies of any size small, midsize, and large with choice-offering new software solution options that align to their specific budgetary, resource, and deployment requirements.

***Greater Volume and Co-Innovation Through an Open Ecosystem***

SAP continues to engage an expanding partner ecosystem to increase market coverage, enhance

our solutions portfolio, and spur innovation. SAP and its vibrant partner ecosystem offer greater choice and business value through the power of co-innovation, appealing to customers that want to avoid being locked in to a single vendor. SAP channel partners offer customers knowledgeable local delivery of solutions across industries and lines of business. SAP technology partners continue to drive our research agenda, enhance the SAP solution portfolio, and monetize new technology breakthroughs.

***Organic Growth and Targeted Acquisitions***

Organic growth remains the primary driver of SAP's strategy. We continue to invest in our own product development and technology innovation, improving the speed, number of projects, and innovations brought to market. Our open ecosystem strategy enables us to better leverage our innovation by extending it to our partners to drive additional customer value, based on their own domain expertise. Also, we intend to continue to acquire targeted, strategic, and fill-in technology to add to our broad solution offerings and improve our coverage in key strategic markets to best support our customers' needs. From time to time we also consider larger acquisitions that expand our business into new markets. On that front, we will be concentrating on successfully integrating SuccessFactors and Ariba with the goal of accelerating our cloud business in 2013 and beyond.

**Operational Targets for 2013 (Non-IFRS)**

***Revenue and Operating Profit Outlook***

The Executive Board is providing the following outlook for the full year 2013 from today's perspective:

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The Company expects full-year 2013 non-IFRS software and cloud subscription revenue to increase in a range of 14% to 20% at constant currencies (2012: 5.00 billion). The full year 2013 non-IFRS cloud subscription and support revenue contributing to this growth is expected to be around 750 million at constant currencies (2012: 343 million).

**Table of Contents**

Part I

Item 5

The Company expects full-year 2013 non-IFRS software and software-related service revenue to increase in a range of 11% to 13% at constant currencies (2012: 13.25 billion).

The Company expects full-year 2013 non-IFRS operating profit to be in a range of 5.85 billion to 5.95 billion at constant currencies (2012: 5.21 billion).

The Company projects a full-year 2013 IFRS effective tax rate of 25.5% to 26.5% (2012: 26.2%) and a non-IFRS effective tax rate of 27.0% to 28.0% (2012: 27.5%).

We expect our professional services and other service revenue to grow in the low single-digit percentages range. But we also believe that the anticipated rise in software and software-related service revenue will bring about a significant increase in total revenue in 2013.

We expect that total revenue (non-IFRS) will continue to depend largely on the revenues from the On-Premise Products segment. The expected growth in revenue from this segment, however, is below the outlook provided for software and cloud subscription revenue (non-IFRS). Keeping in line

with the growth rate for professional services and other service revenue, we do not expect to see strong growth in the On-Premise Services segment.

Looking at our above forecast for cloud subscriptions and support revenue (non-IFRS, at constant currencies), we anticipate a similar level of growth for segment revenues in the Cloud division (combining the Cloud Applications and Ariba segments). Particularly strong growth results are expected in the Ariba segment, since we only began including Ariba figures in the 2012 segment revenues at the beginning of the fourth quarter following the first consolidation.

We expect an increase in segment profit in our On-Premise division with the On-Premise Products segment profit growing faster than the On-Premise Services segment which is expected to only experience a slight profit improvement. The Cloud division is expected to achieve, for the first time, a positive segment profit resulting from a reduced segment loss in the cloud application segment and a strong increase in the Ariba segment profit.

We expect that software revenue from SAP HANA will range between 650 million to 700 million (2012: 392 million) in 2013.

We present the following reconciliation from our 2012 IFRS software and cloud subscription revenue, IFRS software and software-related service revenue, IFRS total revenue, and IFRS operating profit to the non-IFRS equivalents to facilitate comparison between IFRS financial measures and the non-IFRS financial measures in our 2013 outlook:

**Reconciliations of IFRS to Non-IFRS Financial Measures for 2012**

millions, unless otherwise stated	IFRS Financial Measure	Support Revenue Not Recorded	Operating Expenses <sup>(1)</sup>	Discontinued Activities <sup>(3)</sup>	Non-IFRS Financial Measure
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		<b>Under IFRS</b>			
Software and cloud subscription revenue	4,928	73	n.a.	n.a.	5,001
Software and software-related service revenue	13,165	81	n.a.	n.a.	13,246
Total revenue <sup>(2)</sup>	16,223	81	n.a.	n.a.	16,304
Operating profit <sup>(2)</sup>	4,065	81	1,067	0	5,214

(1) Included in operating expenses are acquisition-related charges, share-based payment expenses, and restructuring charges.

(2) These financial measures are the numerator or the denominator in the calculation of our IFRS and non-IFRS operating margin, and are included in this table for transparency.

(3) The discontinued activities include the results of our discontinued TomorrowNow business.

**Table of Contents**

Part I

Item 5

**Non-IFRS Measures**

millions	Estimated Amounts for 2013	Actual Amounts for 2012
Deferred revenue write-down	65 to 75	81
Discontinued activities	<10	0
Share-based payment expenses	500 to 540	522
Acquisition-related charges	510 to 530	537
Restructuring charges	25 to 30	8

***Goals for Liquidity and Finance***

We believe that our liquid assets combined with our undrawn credit facilities are sufficient to meet our present operating financing needs in 2013 and, together with expected cash flows from operations, will support our currently planned capital expenditure requirements over the near term and medium term.

We intend to reduce our financial debt as and when the debt falls due. We will consider issuing new debt, such as bonds or U.S. private placements, on an as-needed basis only and if market conditions are advantageous. We currently have no concrete plans for future share buybacks.

***Investment Goals***

Excepting acquisitions, our planned capital expenditures for 2013 and 2014 can be covered in full by operating cash flow and will chiefly be spent on increasing data center capacity in our locations in Newtown Square, Pennsylvania, United States, and St. Leon-Rot, Germany, and on renovating our office building in Vancouver, Canada, with a planned investment of approximately 59 million.

As part of our growth and innovation strategy, we plan to spend around US\$2 billion in China by 2015. This demonstrates our long-term strategic commitment to China, the world's second-largest economy. SAP continues to invest and increase its presence and market share in countries experiencing high growth.

***Proposed Dividend***

We plan to continue our dividend policy, which is that the payout ratio should be more than 30%.

***Premises on Which Our Outlook Is Based***

In preparing our outlook, we have taken into account all events known to us at the time we prepared this report that could influence SAP's business going forward.

Among the premises on which this outlook is based are those presented concerning the economy and our expectation that we will not benefit from any effects in 2013 from a major acquisition.

**Medium-Term Prospects**

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We expect our business, our revenue, and our profit to grow, assuming there is a sustained recovery in the global economy. Our strategic objectives are focused on the following targets: Increasing customer success, employee motivation, software and software-related service revenue, and our operating profit through greater efficiency and employee productivity by utilizing lean and design-thinking principles.

From today's perspective, we are aiming to increase our total revenue to more than 20 billion by 2015. In the same period, we aim to widen our non-IFRS operating margin to 35%.

To achieve these goals, we want to further strengthen our position in our five market categories and have one billion users by 2015.

We want to extend our leadership in the applications segment.

We want to extend our market share in analytics.

We want to extend our leadership in mobile computing.

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**Table of Contents**

Part I

Item 5

We want to become a profitable market leader in cloud computing, generating around 2 billion total revenue in this segment by 2015. Our plan is for indirect sales (partner revenue) to contribute up to 40% of software revenue by 2015.

In addition to our financial goals, we are focusing on two non-financial targets: Customer success and employee engagement. We believe it is essential that our employees are engaged, drive our success, and support our strategy. Therefore, we plan to increase our employee engagement index score to 82% by 2015 (2012: 79%). In addition, we can only be successful if our customers are successful. Their satisfaction with the solutions we offer them builds trust in our innovation capabilities. We measure customer loyalty with the Net Promoter Score (NPS). For 2013, we have set a target for increasing the NPS by 8 percentage points (2012: 8.9%). As we have been measuring our NPS since 2012 only, we have not yet defined a target for 2015.

SAP's vision to help the world run better and improve people's lives comes to life in product innovation that drives business value for our customers. By delivering on our product road map, SAP is powering a market-wide transformation in how people and organizations work together and run better. Building on a track record of innovation, SAP is again at the forefront of a major shift in the IT sector, away from commoditized hardware and lower value services, toward renewed investment in differentiating IT business software that drives efficiency and business transformation.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

#### *Global Financial Management*

We use global centralized financial management to control liquid assets and monitor exposure to interest rates and currencies. The primary aim of our financial management is to maintain liquidity in the Group at a level that is adequate to meet our obligations. Most SAP companies have their liquidity managed by the Group, so that liquid assets across the Group can be consolidated, monitored, and invested in accordance with Group policy. High levels of liquid assets help keep SAP

flexible, sound, and independent. In addition, various credit facilities are currently available for additional liquidity, if required. For more information about these facilities, see the Credit Facilities section.

We manage credit, liquidity, interest rate, equity price, and foreign exchange rate risks on a Group-wide basis. We use selected derivatives exclusively for this purpose and not for speculation, which is defined as entering into a derivative instrument for which we do not have a corresponding underlying transaction. The rules for the use of derivatives and other rules and processes concerning the management of financial risks are collected in our treasury guideline document, which applies globally to all companies in the Group. For more information about the management of each financial risk and about our risk exposure, see the Notes to the Consolidated Financial Statements section, Notes (24) to (26).

#### *Liquidity Management*

Our primary source of cash, cash equivalents, and current investments is funds generated from our business operations. Over the past several years, our principal use of cash has been to support operations and our capital expenditure requirements resulting from our growth, to acquire businesses, to pay dividends on our shares, and to buy back SAP shares on the open market. On December 31, 2012, our cash, cash equivalents, and current investments were primarily held in euros and U.S. dollars. We generally invest only in the financial assets of issuers or funds with a minimum credit rating of BBB, and pursue a policy of cautious investment characterized by wide portfolio diversification with a variety of counterparties, predominantly short-term investments, and standard investment instruments. We rarely invest in the financial assets of issuers with a credit rating lower than BBB, and such investments were not material in 2012.

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We believe that our liquid assets combined with our undrawn credit facilities are sufficient to meet our present operating needs and, together with expected cash flows from operations, will support our currently planned capital expenditure requirements over the near term and medium term. It may also be necessary to enter into financing transactions when additional funds are required that cannot be wholly sourced from free cash flow (for example, to finance large acquisitions).

**Table of Contents**

Part I

Item 5

The persistently strong free cash flow of recent years enabled us to pay back additional debts within a short period of time. Furthermore, a balanced maturity profile prevents repayment peaks from occurring in any particular year.

To expand our business, we have made acquisitions of businesses, products, and technologies. For more information about our financial debt, mainly in connection with the acquisitions of SuccessFactors and Ariba, see the Cash Flows and Liquidity section. Depending on our future cash position and future market conditions, we might issue additional debt instruments to fund acquisitions, maintain financial flexibility, and limit repayment risk. Therefore, we continuously monitor funding options available in the capital markets and trends in the availability of funds, as well as the cost of such funding.

**Capital Structure Management**

The primary objective of our capital structure management is to maintain a strong financial

profile for investor, creditor, and customer confidence and to support the growth of our business. We seek to maintain a capital structure that will allow us to cover our funding requirements through the capital markets at reasonable conditions, and in doing so, ensure a high level of independence, confidence, and financial flexibility.

We currently do not have a credit rating with any agency. We do not believe that a rating would have a substantial effect on our borrowing conditions and financing options.

Our general intention is to remain in a position to return excess liquidity to our shareholders by distributing annual dividends and repurchasing shares. The amount of future dividends and the extent of future purchases of treasury shares are closely aligned to the development of our liquid assets and further liquidity planning.

**Capital Structure**

	2012		2011		
	millions	% of Equity and liabilities	millions	% of Equity and liabilities	% Change
Equity	14,171	53	12,707	55	12
Current liabilities	6,641	25	6,266	27	6
Non-current liabilities	6,023	22	4,254	18	42
Liabilities	12,664	47	10,520	45	20
<b>Equity and liabilities</b>	<b>26,835</b>	<b>100</b>	<b>23,227</b>	<b>100</b>	<b>16</b>

In 2012, we took out short-term bank loans to finance the acquisitions of SuccessFactors and Ariba. Additionally, we issued a two-tranche Eurobond and a U.S. private placement consisting of several tranches with maturities of three to 15 years which further optimized and extended

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our existing maturity profile. We used inflows from the newly issued bonds and private placement to repay the short-term bank loans.

These financing activities changed our debt ratio (defined as the ratio of total liabilities to equity and liabilities) to 47% at the end of 2012 (as compared to 45% at the end of 2011). These financing activities were partially offset by the operating cash flow in 2012. As far as financing

activities in 2013 are concerned, a 600 million bond that will mature in August 2013 is intended to be repaid. We currently do not plan to refinance this bond at maturity.

Total liabilities on December 31, 2012, mainly comprised financial liabilities of 5,248 million (of which 4,446 million are non-current). Financial liabilities on December 31, 2012, consisted largely of financial debt, which included amounts in euros ( 2,986 million) and U.S. dollars ( 2,008 million). Financial debt is held at fixed interest rates only. For more information about financial liabilities, see the Notes to the Consolidated Financial Statements section, Note (17).

**Table of Contents**

Part I

Item 5

**Cash Flows and Liquidity**

Group liquidity on December 31, 2012, primarily comprised amounts in U.S. dollars ( 941 million) and euros ( 473 million). Current investments are included in other financial assets in the statement of financial position. Bank loans, private placement transactions, and bonds are included within financial liabilities in the statement of financial position.

**Analysis of Net Liquidity**

millions	2012	2011	Change
Cash and cash equivalents	2,477	4,965	2,488
Current investments	15	636	621
<b>Group liquidity</b>	<b>2,492</b>	<b>5,601</b>	<b>3,109</b>
Current bank loans	0	101	101
Current private placement transaction	0	423	423
Current bond	600	600	0
<b>Net liquidity 1</b>	<b>1,892</b>	<b>4,477</b>	<b>2,585</b>
Non-current bank loans	0	1	1
Non-current private placement transaction	2,094	1,240	854
Non-current bond	2,300	1,600	700
<b>Net liquidity 2</b>	<b>2,502</b>	<b>1,636</b>	<b>4,138</b>

Group liquidity consists of cash and cash equivalents (for example, cash at banks, money market funds, and time deposits with original maturity of three months or less) and current investments (for example, investments with

original maturities of greater than three months and remaining maturities of less than one year) as reported in our IFRS Consolidated Financial Statements.

Total financial debt consists of current financial liabilities (for example, overdrafts, current bank loans, bonds or private placements) and non-current financial liabilities (for example, bonds, or private placements) as reported in our IFRS Consolidated Financial Statements. For more information about our financial debt, see the Notes to the Consolidated Financial Statements section, Note (17).



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Net liquidity is Group liquidity less total financial debt as defined above. Net liquidity should be

considered in addition to, and not as a substitute for, cash and cash equivalents, other financial assets, and financial liabilities included in our IFRS Consolidated Financial Statements.

The decrease in Group liquidity from 2011 was mainly due to cash outflows for the acquisition of SuccessFactors and Ariba, as well as dividend payments, which were partly offset by positive cash inflows from our operations.

**Table of Contents**

Part I

Item 5

For information about the impact of cash, cash equivalents, current investments, and our financial liabilities on our income statements, see the analysis of our finance income, net, in the Operating Results (IFRS) section.

**Analysis of Consolidated Statements of Cash Flows**

millions	Years ended December 31,			Change in % 2012 vs. 2011	Change in % 2011 vs. 2010
	2012	2011	2010		
Net cash flows from operating activities	3,822	3,775	2,922	1	29
Net cash flows from investing activities	5,964	1,226	3,994	>100	69
Net cash flows from financing activities	194	1,176	2,520	84	< 100

***Analysis of Consolidated Statements of Cash Flow: 2012 compared to 2011***

Net cash provided by operating activities increased slightly by 47 million or 1% to 3,822 million in 2012 (2011: 3,775 million). In 2012, days sales outstanding (DSO) for receivables, defined as average number of days from the raised invoice to cash receipt from the customer, was 59 days, a one-day decrease compared to 2011 (60 days).

Cash outflows from investment activities totaled 5,964 million in 2012, much increased from the 2011 figure of 1,226 million. In 2012, cash outflows were mainly driven by acquisitions of consolidated companies such as SuccessFactors and Ariba, for which we paid 6,094 million in total. For more information about current and planned capital expenditures, see the Assets and Investment Goals sections. In contrast, the 2011 figure was mainly driven by investments in time deposits and German government bonds.

Cash outflows from financing activities totaled 194 million in 2012, compared to 1,176 million in 2011. In 2012, cash inflows were mainly driven by a successfully placed two-tranche Eurobond transaction totaling 1.3 billion and a U.S. private placement transaction of US\$1.4 billion consisting of several tranches. This was partly offset by repayments of a Eurobond tranche (600 million) and several tranches (611 million) of the promissory notes we issued in 2009. In the previous year, cash outflows were driven mainly by repayments of a credit facility we drew on in connection with our acquisition of Sybase.

The increase in total dividends paid to 1,310 million was due to an increase in the dividend from 0.60 per share in the previous year to 1.10 per share, of which 0.35 per share was an extraordinary payout to celebrate our 40<sup>th</sup> anniversary in the reporting year (total dividend payout in 2011: 713 million). In 2012, we repurchased shares in the amount of 53 million (2011: 246 million) in connection with our share-based payments.

***Analysis of Consolidated Statements of Cash Flow: 2011 Compared to 2010***

Net cash provided by operating activities improved 853 million or 29% to 3,775 million in 2011 (2010: 2,922 million). The year's good sales figures were the factor with the greatest effect on operating cash flow in 2011. By effective management of working capital, we were again able to reduce the days sales outstanding (DSO) for receivables, defined as average number of days from revenue recognition to cash receipt from the customer. In 2011, we reduced DSO by five days to 60 days (2010: 65 days).

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Cash outflows from investment activities totaled 1,226 million in 2011, much reduced from the 2010 figure of 3,994 million. In 2011, cash outflows were mainly driven by investments in time deposits and German government bonds, and also by our business and infrastructure following the acquisition of tangible and intangible assets. In 2011, we paid 188 million for the acquisition of consolidated companies compared to 4,194 million in 2010. Much of the 2010 outflow was attributable to the purchase price paid for the acquisition of Sybase.

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**Table of Contents**

Part I

Item 5

Cash outflows from financing activities totaled 1,176 million in 2011, compared to cash inflows of 2,520 million in 2010. Our 2011 cash outflows were mainly due to the repayment of a credit facility we entered into in connection with our acquisition of Sybase. This was partly offset by a private placement completed in the United States on June 1, 2011, which led to a cash inflow of US\$750 million. In the previous year, cash inflows were driven mainly by the incoming payments from our financing activities related to the acquisition of Sybase.

The increase in total dividend to 713 million was due to an increase in the dividend paid from 0.50 per share in the previous year to 0.60 in the reporting year (total dividend payout in 2010: 594 million). In 2011, we repurchased shares for treasury in the amount of 246 million (2010: 220 million).

**Credit Facilities**

Other sources of capital are available to us through various credit facilities, if required.

We are party to a revolving 1.5 billion syndicated credit facility agreement with an initial term of five years ending in December 2015. The use of the facility is not restricted by any financial covenants. Potential proceeds are for general corporate purposes. Borrowings under the facility bear interest at the euro interbank offered rate (EURIBOR) or London interbank offered rate (LIBOR) for the respective currency plus a margin

ranging from 0.45% to 0.75% that depends on the amount drawn. We pay a commitment fee of 0.1575% per annum on unused amounts of the available credit facility. So far, we have not used and do not currently foresee any need to use this credit facility.

As at December 31, 2012, SAP AG had additional available credit facilities totaling approximately 489 million. As at December 31, 2012, there were no borrowings outstanding under these credit facilities. Several of our foreign subsidiaries have credit facilities available that allow them to borrow funds in their local currencies at prevailing interest rates, generally to the extent SAP AG has guaranteed such amounts. As at December 31, 2012, approximately 48 million was available through such arrangements. There were no borrowings outstanding under these credit facilities from any of our foreign subsidiaries as at December 31, 2012.

**OFF-BALANCE SHEET ARRANGEMENTS**

Several SAP entities have entered into operating leases for office space, hardware, cars and certain other equipment. These arrangements are sometimes referred to as a form of off-balance sheet financing. Rental expenses under these operating leases are set forth below under

Contractual Obligations. We believe we do not have forms of material off-balance sheet arrangements that would require disclosure other than those already disclosed.

**Table of Contents**

Part I

Item 5

**CONTRACTUAL OBLIGATIONS**

The table below presents our on- and off-balance sheet contractual obligations as of December 31, 2012:

Contractual obligations millions	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt obligations <sup>(1)</sup>	5,885	881	1,599	1,457	1,948
Other non-current obligations on the statement of financial position <sup>(2)</sup>	98	3	9	3	83
Operating lease obligations <sup>(3)</sup>	923	238	356	171	158
Purchase obligations <sup>(3)</sup>	588	317	144	74	53
<b>Total</b>	<b>7,494</b>	<b>1,439</b>	<b>2,108</b>	<b>1,705</b>	<b>2,242</b>

(1) This represents bank loans, private placement transactions, bonds, other financial liabilities and interest thereon.

(2) Amounts mainly consist of employee-related liabilities. Not included in the table are non-current tax liabilities of 388 million, which include provisions for uncertainties in income taxes.

(3) See Note (22) to our Consolidated Financial Statements for additional information about operating lease and purchase obligations. Our expected contributions to our pension and other post employment benefit plans are not included in the table above. We expect to contribute in 2013 statutory minimum and discretionary amounts of 1 million to our German defined benefit plans and 16 million to our foreign defined benefit plans, all of which are expected to be paid as cash contributions. Our contributions to our German and foreign defined contribution plans have ranged from 136 million to 173 million in 2010 through 2012; we expect similar contributions to be made in 2013.

We expect to meet these contractual obligations with our existing cash, our cash flows from operations and our financing activities. The timing of payments for the above contractual obligations is based on payment schedules for those obligations where set payments exist. For other obligations with no set payment schedules, estimates as to the most likely timing of cash payments have been made. The ultimate timing of these future cash flows may differ from these estimates.

**Obligations under Indemnifications and Guarantees**

Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe a third party's intellectual property rights. In addition, we occasionally provide function or performance guarantees in routine consulting contracts and development arrangements. We also generally provide a six to twelve month warranty on our software. Our warranty liability is included in other provisions. For more information on other provisions see Note (18b) to our Consolidated Financial Statements. For more information on obligations and contingent liabilities refer to Note (3) and Note (22) in our Consolidated Financial Statements.

## **RESEARCH AND DEVELOPMENT**

For information on our R&D activities see Item 4. Information about SAP Research and Development. For information on our R&D costs see Item 5. Operating and Financial Review and Prospects Operating Results and for information related to our R&D employees see Item 6. Directors, Senior Management and Employees Employees.

## **CRITICAL ACCOUNTING ESTIMATES**

Our Consolidated Financial Statements are prepared based on the accounting policies described in Note (3) to our Consolidated Financial Statements in this report. The application of such policies requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, revenues and expenses in our Consolidated Financial Statements. We base our judgments, estimates and assumptions on historical and forecast information, as well as regional and industry economic conditions in which we or our customers operate, changes to which could adversely affect our estimates. Although we believe we have made reasonable estimates about the ultimate resolution of the

**Table of Contents**

Part I

Item 5

underlying uncertainties, no assurance can be given that the final outcome of these matters will be consistent with what is reflected in our assets, liabilities, revenues and expenses. Actual results could differ from original estimates.

The accounting policies that most frequently require us to make judgments, estimates, and assumptions, and therefore are critical to understanding our results of operations, include the following:

revenue recognition;

valuation of trade receivables;

accounting for share-based payment;

accounting for income tax;

accounting for business combinations;  
subsequent accounting for goodwill and other intangibles;

accounting for legal contingencies; and

recognition of internally generated intangible assets from development.

Our management periodically discusses these critical accounting policies with the Audit Committee of the Supervisory Board. See Note (3c) to our Consolidated Financial Statements for further discussion on our critical accounting estimates and critical accounting policies.

**NEW ACCOUNTING STANDARDS NOT YET ADOPTED**

See Note (3e) to our Consolidated Financial Statements for our discussion on new accounting standards not yet adopted.

**Table of Contents**

Part I

Item 6

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****SUPERVISORY BOARD**

The current members of the Supervisory Board of SAP AG, each member's principal occupation, the year in which each was first elected and the year in which the term of each expires, respectively, are as follows:

Name	Age	Principal Occupation	Year First Elected	Year Term Expires
Prof. Dr. h.c. mult. Hasso Plattner, Chairman <sup>(1)(2)(5)(6)(7)(10)</sup>	69	Chairman of the Supervisory Board	2003	2017
Pekka Ala-Pietilä <sup>(1)(6)(7)(10)</sup>	56	Chairman of the Board of Directors, SolidiumOy	2002	2017
Prof. Anja Feldmann <sup>(1)(6)</sup>	47	Professor at the Electrical Engineering and Computer Science Faculty at the Technische Universität Berlin	2012	2017
Prof. Dr. Wilhelm Haarmann <sup>(1)(2)(4)(10)</sup>	62	Attorney at Law, Certified Public Auditor and Certified Tax Advisor; HAARMANN Partnerschaftsgesellschaft, Rechtsanwälte, Steuerberater, Wirtschaftsprüfer	1988	2017
Bernard Liautaud <sup>(1)(2)(6)(7)</sup>	50	General Partner, Balderton Capital	2008	2017
Dr. h.c. Hartmut Mehdorn <sup>(1)(4)(5)</sup>	70	Independent Management Consultant	1998	2017
Dr. Erhard Schipporeit <sup>(1)(3)(9)(10)</sup>	64	Independent Management Consultant	2005	2017
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer <sup>(1)(3)(6)</sup>	68	Managing Director of Dr. Klaus Wucherer Innovations- und Technologieberatung GmbH	2007	2017
Christiane Kuntz-Mayr, Vice Chairperson <sup>(2)(5)(8)(10)</sup>	50	Employee, Deputy Chairperson of the Works Council of SAP AG	2009	2017
Panagiotis Bissiritsas <sup>(2)(4)(8)</sup>	44	Employee, Support Expert	2007	2017
Margret Klein-Magar <sup>(2)(8)(10)</sup>	48	Employee, Vice President SAP Transformation	2012	2017
Lars Lamadé <sup>(2)(8)(10)</sup>	41	Employee, Project Manager OPD COO	2002	2017
Dr. Kurt Reiner <sup>(4)(6)(8)</sup>	54	Employee, Development Expert	2012	2017
Mario Rosa-Bian <sup>(5)(6)(8)</sup>	56	Employee, Project Principal Consultant	2012	2017
Stefan Schulz <sup>(3)(6)(8)</sup>	43	Employee, Development Manager	2002	2017
Inga Wiele <sup>(3)(6)(8)</sup>	42	Employee, Senior Internal Strategic Consultant	2012	2017

(1) Elected by SAP AG's shareholders on May 23, 2012.

(2) Member of the General and Compensation Committee.

(3) Member of the Audit Committee.

(4) Member of the Finance and Investment Committee.



- (5) Member of the Mediation Committee.
- (6) Member of the Technology and Strategy Committee.
- (7) Member of the Nomination Committee.
- (8) Elected by SAP AG's employees on April 25, 2012.
- (9) Audit Committee financial expert.
- (10) Member of the Special Committee.

**Table of Contents**

## Part I

## Item 6

For detailed information on the Supervisory Board committees and their tasks, including the Audit Committee and the General and Compensation Committee, please refer to Item 10 Additional Information Corporate Governance.

Pursuant to the German Co-determination Act of 1976 (Mitbestimmungsgesetz), members of the Supervisory Board of SAP AG consist of eight representatives of the shareholders and eight representatives of the employees. Of the eight employee representatives, two must be nominated by the trade unions. The elected employees must be at least 18 years of age and must have been in the employment of SAP AG or one of its German subsidiaries for at least one year. They must also fulfill the other qualifications for election codified in Section 8 of the German Works Council Constitution Act. These qualifications include, among other things, not having been declared ineligible or debarred from holding public office by a court.

Certain current members of the Supervisory Board of SAP AG were members of supervisory boards and comparable governing bodies of enterprises other than SAP AG in Germany and other countries as of December 31, 2012. See Note (29) to our Consolidated Financial Statements for more detail. Apart from pension obligations towards employees, SAP AG has not entered into contracts with any member of the Supervisory Board that provide for benefits upon a termination of the employment or service of the member.

**EXECUTIVE BOARD**

The current members of the Executive Board, the year in which each member was first appointed and the year in which the term of each expires, respectively, are as follows:

<b>Name</b>	<b>Year First Appointed</b>	<b>Year Current Term Expires</b>
Bill McDermott, Co-CEO	2008	2017
Jim Hagemann Snabe, Co-CEO	2008	2017
Dr. Werner Brandt	2001	2014
Lars Dalgaard	2012	2015
Luisa Deplazes Delgado	2012	2015
Gerhard Oswald	1996	2014
Dr. Vishal Sikka	2010	2017

The following changes occurred in the Executive Board in 2012:

In April 2012, Lars Dalgaard became a member of the Executive Board.

In September 2012, Luisa Deplazes Delgado became a member of the Executive Board.

A description of the management responsibilities and backgrounds of the current members of the Executive Board are as follows:

**Bill McDermott, Co-CEO** (Vorstandssprecher), 51 years old, holds a master's degree in business administration from Northwestern University's Kellogg School of Management. He joined SAP in 2002 and became a member of the Executive Board on July 1, 2008. On February 7, 2010 he became Co-CEO alongside Jim Hagemann Snabe. Besides the duties as Co-CEO, he is responsible for strategy and business development, corporate development, marketing, communications, corporate audit, board governance, sustainability, solutions, global sales and global partner and channel management. Prior to joining SAP, he served as a global executive in several technology companies.

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**Jim Hagemann Snabe, Co-CEO** (Vorstandssprecher), 47 years old, holds a master's degree in operational research. He joined SAP in 1990 and became a member of the Executive Board on July 1, 2008. On February 7, 2010 he became Co-CEO alongside Bill McDermott. Besides the duties as Co-CEO, he is responsible for strategy and business development, corporate development, marketing, communications, corporate audit, board governance, sustainability, solutions, global R&D portfolio, processes, and IT.

**Werner Brandt**, 59 years old, business administration graduate. Werner Brandt joined SAP in early 2001 as the Chief Financial Officer and member of the Executive Board. He is responsible for finance and administration including investor relations and data protection and privacy. Prior to joining SAP, Werner Brandt was CFO and member of the Executive Board of Fresenius Medical Care AG since 1999. In this role, he was also responsible for labor relations. Before joining Fresenius Medical Care AG, Werner Brandt headed the finance function of the European operations of Baxter International Inc.

**Table of Contents**

## Part I

## Item 6

**Lars Dalgaard**, 45 years old, holds a master's degree from Stanford Graduate School of Business and a Bsc. (Ha) from Copenhagen Business School. Lars is CEO of SuccessFactors, the company he founded in 2001 which went public in 2007, and joined SAP in 2012 when SAP acquired SuccessFactors. He became a member of SAP's Executive Board on April 12, 2012. Lars is responsible for SAP's cloud business including strategy, product development, and all go-to-market related capabilities.

**Luisa Deplazes Delgado**, 46 years old, holds a master's degree in law from the University of London's King's College and London School of Economics and a licence en droit from the University of Geneva. On September 1, 2012 Luisa joined SAP as the Chief Human Resources Officer and member of the Executive Board. She also serves as Labor Relations Director of SAP AG. She is responsible for all human resources activities at SAP globally. Prior to joining SAP, she spent 22 years with Procter and Gamble, the last five as CEO of Procter and Gamble Nordic based in Stockholm, Sweden, previously as VP of HR for Western Europe based in Geneva, Switzerland, and before in diverse roles in Belgium, UK, and Portugal.

**Gerhard Oswald**, 59 years old, economics graduate. Gerhard Oswald joined SAP in 1981 and became a member of the Executive Board in 1996. He is responsible for the On Premise Delivery Board area including application development, installed base maintenance and support, end to end services, active global support, and onpremise delivery COO.

**Vishal Sikka**, 45 years old, holds a PH. D. degree in computer science from Stanford University. He joined SAP in 2002 and became a member of the Executive Board on February 7, 2010 leading technology and innovation. He is responsible for technology and platform products development including SAP HANA, analytics, mobile, application platform and middleware, as well as SAP Research, SAP Labs Network and SAP Ventures. Before joining the Executive Board, he has been the first Chief Technology Officer at SAP since 2007, and prior to that was SAP's Chief Software Architect. Before joining SAP, he was area vice president for platform technologies at Peregrine Systems, and prior to that he founded and led two start-ups – Bodha, Inc. and IBrain Software.

The members of the Executive Board of SAP AG as of December 31, 2012 that are members on other supervisory boards and comparable

governing bodies of enterprises, other than SAP, in Germany and other countries, are set forth in Note (29) to our Consolidated Financial Statements. SAP AG has not entered into contracts with any member of the Executive Board that provide for benefits upon a termination of the employment of service of the member, apart from pensions, benefits payable in the event of an early termination of service, and abstention compensation for the postcontractual noncomplete period.

To our knowledge, there are no family relationships among the Supervisory Board and Executive Board members.

**COMPENSATION REPORT****Compensation for Executive and Supervisory Board Members**

This compensation report outlines the criteria that we applied for the year 2012 to determine compensation for Executive Board and Supervisory Board members, discloses the amount of compensation paid, and describes the compensation systems. It also contains information about Executive Board members' share-based payment plans, shares held by Executive Board and Supervisory Board members, and the directors dealings required to be disclosed in accordance with the German Securities Trading Act.

**Compensation for Executive Board Members*****Compensation System for 2012***

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Executive Board members' compensation for 2012 is intended to reflect SAP's size and global presence as well as our economic and financial standing. The compensation level is internationally competitive to reward committed, successful work in a dynamic environment.

The Executive Board compensation package is performance-based. In 2012, it had three elements:

A fixed annual salary

A variable short-term incentive (STI) plan to reward performance in the plan year

A Restricted Share Unit-based long-term incentive (LTI) plan tied to the price of SAP shares (RSU Milestone Plan 2015)

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**Table of Contents**

Part I

Item 6

The Supervisory Board set a compensation target for the sum of the fixed and the variable elements. It reviews, and if appropriate revises, this compensation target every year. The review takes into account SAP's business performance and the compensation paid to board members at comparable companies on the international stage. The amount of variable compensation depends on SAP's performance against performance targets that the Supervisory Board sets for each plan year. The performance targets are key performance indicator (KPI) values aligned to the SAP budget for the plan year.

The following criteria apply to the elements of Executive Board compensation for 2012:

The fixed element is paid as a monthly salary.

The variable compensation under the STI 2012 plan depends on the SAP Group's performance against the KPI target values for constant currency software revenue growth and non-IFRS constant currency operating margin as well as non-IFRS constant currency cloud subscription and support revenue. In addition, the STI element has a discretionary component that allows the Supervisory Board, at the end of the period in question, to address not only an Executive Board member's individual performance, but also SAP's performance in terms of market position, innovative power, customer satisfaction, employee satisfaction, and attractiveness as an employer. Moreover, if there has been any extraordinary and unforeseeable event the Supervisory Board can, at its reasonable discretion, retroactively adjust payouts up or down in the interest of SAP. On February 14, 2013, the Supervisory Board assessed SAP's performance against the agreed targets and determined the amount of STI payable. The STI pays out after the Annual General Meeting of Shareholders in June 2013.

The long-term incentive element is called the RSU Milestone Plan 2015. RSU stands for restricted share unit. This four-year plan focuses on the SAP share price and on certain objectives derived from our Company strategy for the years through 2015. For each of the four years, the members of the Executive Board are allocated a certain number of SAP RSUs for the respective year based on a budget amount that was granted and paid out to each Executive Board member in 2012 already for the years 2012 through 2015. The number of RSUs allocated to each member for a given year is his or her target amount (an amount in euros) for that year divided by the SAP share price over a reference period (defined in the RSU Milestone Plan 2015 terms) at the beginning of the year in question. If the Executive Board member leaves before the end of a financial year, the RSUs for the respective year as well as the subsequent years are forfeited.

The number of RSUs an Executive Board member actually earns in respect of a given year could be greater or smaller than the initial allocation. It depends on Company performance against the objectives for that year (a year is a performance period in the plan). The objectives derive from SAP's strategy for the period to 2015. The plan objectives relate to two key performance indicators (KPIs): Our non-IFRS total revenue and our non-IFRS operating profit. The KPI targets have already been set for the entire life of the RSU Milestone Plan 2015 for the years 2012 to 2015 and will merely be adjusted for the effects of key acquisitions.

After the end of each fiscal year, the Supervisory Board assesses the Company's performance against the objectives set for that year and determines the number of RSUs to be finally allocated to (and which then vest in) each Executive Board member. There are objective-based performance hurdles to clear each year before any RSUs can vest. There is also a cap: Normally, the quantity of vested RSUs a member can attain in respect of a plan year is capped at 150% of his or her initial RSU allocation for that year.

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The Company strategy underlying the RSU Milestone Plan 2015 focuses on where SAP aims to be by 2015, so the plan gives greater weight to performance against the KPI targets for 2015 (the final year of the plan) than against the targets for 2012 through 2014. After the end of 2015, the number of vested RSUs a member of the Executive Board actually receives for that year is revised. In circumstances where the targets for the individual years are not achieved but the 2015 targets are achieved, the outcome of this revision would be that a member would receive as many vested RSUs for 2015 as would make up for any that he or she did not receive in the earlier years by reason of failure to achieve targets. On the other hand, if the Company underachieves against the 2015 objectives, Executive Board members may in the worst case lose all of the vested RSUs allocated to them for 2015.

**Table of Contents**

## Part I

## Item 6

All vested RSUs are subject to a three-year holding period. The holding period commences at the end of the year for which the RSUs were allocated. The amount an RSU eventually pays out depends on the SAP share price at the end of the holding period. A member who leaves the Executive Board before the end of the plan retains his or her vested RSUs for completed plan years but does not retain any allocated but unvested RSUs for the year during which he or she leaves. If a member leaves the Executive Board before the beginning of the subsequent year, no RSUs are finally allocated.

Each vested RSU entitles its holder to a (gross) payout corresponding to the price of one SAP share after the end of the three-year holding period. The applicable share price is measured over a reference period defined in the RSU Milestone Plan 2015 terms.

Subject to the requirements in the German Stock Corporation Act, section 87 (1), the Supervisory Board is entitled to revise the STI and the LTI in extraordinary and unforeseeable circumstances.

The LTI component consists of the issue of RSUs under the terms of the RSU Milestone Plan 2015. For the terms and details of the RSU Milestone Plan 2015, see the Notes to Consolidated Financial Statements section, Note (27). The number of RSUs to be issued to each member of the Executive Board in 2012 by way of long-term incentive was decided by the Supervisory Board on February 16, 2012.

The contracts of Executive Board members Bill McDermott, Lars Dalgaard, and Vishal Sikka include clauses that determine the exchange rates for the translation of euro-denominated compensation into U.S. dollars.

In prior years, the Executive Board members were granted a variable medium-term incentive (MTI) plan to reward performance in the plan year and the two subsequent years. The variable compensation under the MTI 2010 granted for the fiscal year 2010 depends on the SAP Group's performance over the three years 2010 to 2012 against the KPI target values for software and software-related service revenue growth and earnings per share (both of which are non-IFRS, constant currency values). In addition, the MTI element has a discretionary component that is assessed by the Supervisory Board at the end of the plan period. The close of the fiscal year 2012 represents the end of the plan period for the MTI 2010, and therefore the corresponding entitlement under the MTI 2010 is included in the compensation for the fiscal year 2012. The payment will be due after the Annual General Meeting of Shareholders in June 2013. MTI 2011 will pay out in 2014 respectively.

**Executive Board Members Compensation for the Financial Year 2012**

thousands	Fixed Elements		Performance-Related Elements		Compensation for 2012 <sup>(1)</sup>
	Salary	Other <sup>(2)</sup>	Short-Term and Medium-Term Incentive Elements	Long-Term Incentive Element Share-Based Payment (RSU Milestone Plan 2015) <sup>(1),(3)</sup>	
			STI	MTI 2010	



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Bill McDermott (co-CEO) <sup>(4)</sup>	1,203.3	415.9	1,581.5	1,259.6	4,318.4	8,778.7
Jim Hagemann Snabe (co-CEO)	1,150.0	163.8	1,545.7	1,067.6	4,318.4	8,245.5
Dr. Werner Brandt	700.0	26.7	935.5	645.1	1,549.1	3,856.4
Lars Dalgaard (from April 12, 2012) <sup>(6)</sup>	528.9	0	690.4	0	1,156.2	2,375.5
Luisa Deplazes Delgado (from September 1, 2012)	233.3	96.4	193.9	0	414.4	938.0
Gerhard Oswald	700.0	16.5	935.5	645.1	1,549.1	3,846.2
Dr. Vishal Sikka <sup>(5)</sup>	733.4	143.9	957.2	635.1	1,549.1	4,018.7
<b>Total</b>	<b>5,248.9</b>	<b>863.2</b>	<b>6,839.7</b>	<b>4,252.5</b>	<b>14,854.7</b>	<b>32,059.0</b>

<sup>(1)</sup> Compensation attributable to Executive Board members for the financial year 2012 including the plan tranche 2012 of LTI 2015 based on the grant value at time of grant.

**Table of Contents**

Part I

Item 6

- (2) Insurance contributions, benefits in kind, expenses for maintenance of two households, relocation costs, non-recurring payments, use of aircraft, tax
- (3) Fair value at the time of grant.
- (4) Includes discrete payments arising through application of the fixed exchange-rate clause to the following items: Salary for 2012: 53,300; profit-sharing bonus for 2012: 35,800; MTI 2010: 192,000.
- (5) Includes discrete payments arising through application of the fixed exchange-rate clause to the following items: Salary for 2012: 33,400; profit-sharing bonus for 2012: 21,700; MTI 2010: 57,200.
- (6) Includes discrete payments arising through application of the fixed exchange-rate clause to the following items: Salary for 2012: 24,900; profit-sharing bonus for 2012: 15,600.

In 2012, in addition to the LTI grant for 2012, Executive Board members have already received the LTI grants for the years 2013 to 2015, which are dependent on their uninterrupted tenure as Executive Board member in the years in question. Although these allocations are tied to the respective years and thus from an economic perspective represent compensation for the Executive Board members in the respective years, for the purpose of disclosure in the Compensation Report the grants must be included in the total compensation for Executive Board members for the year in which the grants were allocated pursuant to section 314 of the German Commercial Code. Vesting of a plan tranche is dependent on the respective Executive Board member's continuous service for the Company in the respective fiscal year. The contracts of Werner Brandt and Gerhard Oswald are currently set to expire in mid-2014, while the contracts of Lars Dalgaard and Luisa Deplazes Delgado are set to expire in mid-2015. As a result, the LTI allocations for the years 2014 to 2015 (for Werner Brandt

and Gerhard Oswald) and the LTI allocations for the year 2015 (for Lars Dalgaard and Luisa Deplazes Delgado) had not yet been allocated with legally binding force in 2012.

Assuming uninterrupted service on the Executive Board during the period in question, additional grants for Executive Board members for future years shall be 4,390,000 for each co-CEO and 1,574,800 for each regular Executive Board member, in each of 2013, 2014, and 2015 (except Luisa Deplazes Delgado, who shall receive 1,291,600 for the year 2013). The total compensation for 2012 pursuant to section 314 of the German Commercial Code, in other words, including this additional compensation as well as the long-term compensation tranches granted but not yet earned, amounts to 72,288,800, thereof: Bill McDermott: 21,948,700, Jim Hagemann Snabe 21,415,500, Werner Brandt 5,431,200, Lars Dalgaard 5,524,900, Luisa Deplazes Delgado 3,804,400, Gerhard Oswald 5,421,000, Vishal Sikka 8,743,100.

Assuming 100% target achievement, the amounts the MTI 2011 will pay out in 2014 are as follows:

**MTI Target Payouts**

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<b>thousands</b>	<b>MTI 2011 Target Payouts 2014</b>
Bill McDermott (co-CEO)	820.0
Jim Hagemann Snabe (co-CEO)	820.0
Dr. Werner Brandt	495.5
Gerhard Oswald	495.5
Dr. Vishal Sikka	495.5
Total	3,126.5

**Table of Contents**

Part I

Item 6

The share-based payment amounts in 2012 result from the following RSUs under the RSU Milestone Plan 2015.

**Share-Based Payment Under RSU Milestone Plan 2015**

	Quantity	Grants for 2012 Grant Value per Unit at Time of Grant	Total Grant Value at Time of Grant thousands
Bill McDermott (co-CEO)	95,414	45.26	4,318.4
Jim Hagemann Snabe (co-CEO)	95,414	45.26	4,318.4
Dr. Werner Brandt	34,226	45.26	1,549.1
Lars Dalgaard (from April 12, 2012)	24,594	47.01	1,156.2
Luisa Deplazes Delgado (from September 1, 2012)	8,332	49.73	414.4
Gerhard Oswald	34,226	45.26	1,549.1
Dr. Vishal Sikka	34,226	45.26	1,549.1
<b>Total</b>	<b>326,432</b>		<b>14,854.7</b>

**Total Executive Board Payment in 2011**

thousands	Fixed Elements		Performance- Related Element Short-Term Incentive (STI)	Long-Term Incentive Elements Share-Based Payment (SAP SOP 2010) <sup>(2)</sup>	Total
	Salary	Other <sup>(1)</sup>			
Bill McDermott (co-CEO) <sup>(3)</sup>	1,279.9	408.0	3,935.5	950.0	6,573.4
Jim Hagemann Snabe (co-CEO)	1,150.0	107.6	3,271.2	950.0	5,478.8
Dr. Werner Brandt	700.0	29.7	1,979.6	577.0	3,286.3
Gerhard Oswald	700.0	34.5	1,979.6	577.0	3,291.1
Dr. Vishal Sikka <sup>(4)</sup>	700.0	120.5	2,103.7	577.0	3,501.2
Dr. Angelika Dammann (member until July 8, 2011) <sup>(5)</sup>	466.7	45.9	1,163.1	384.7	2,060.4
<b>Total</b>	<b>4,996.6</b>	<b>746.2</b>	<b>14,432.7</b>	<b>4,015.7</b>	<b>24,191.2</b>

(1) Insurance contributions, benefits in kind, expenses for maintenance of two households due to work abroad, reimbursement of legal and tax advice fees, non-recurring payments, use of aircraft, tax.

(2) Fair value at the time of grant.

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- (3) Includes discrete payments arising through application of the fixed exchange-rate clause to the following items: Salary for 2011: 129,900; profit-sharing bonus for 2011: 664,300.
- (4) Includes a discrete payment arising through application of the fixed exchange-rate clause to the following item: Profit-sharing bonus for 2011: 124,100.
- (5) Angelika Dammann's appointment as member of the Executive Board ended on July 8, 2011. Her contract with SAP AG ended on August 31, 2011. Due to the end of her contract on August 31, 2011, the number of virtual options issued to her in 2011 was reduced. The amount of the Short-Term Incentive includes pro rata temporis amounts of the STI 2011 ( 585,000), the MTI 2011 ( 330,300), and the MTI 2010 ( 247,800).

**Table of Contents**

Part I

Item 6

**Share-Based Payment Under SAP SOP 2010 (2011 Grants)**

	Quantity	2011 Grants Fair Value per Right at Time of Grant	Total Fair Value at Time of Grant thousands
Bill McDermott (co-CEO)	112,426	8.45	950.0
Jim Hagemann Snabe (co-CEO)	112,426	8.45	950.0
Dr. Werner Brandt	68,284	8.45	577.0
Gerhard Oswald	68,284	8.45	577.0
Dr. Vishal Sikka	68,284	8.45	577.0
<b>Total</b>	<b>429,704</b>		<b>3,631.0</b>

**End-of-Service Benefits*****Regular End-of-Service Undertakings*****Retirement Pension Plan**

Members of the Executive Board receive a retirement pension when they reach the retirement age of 60 and vacate their Executive Board seat, or a disability pension if, before reaching the regular retirement age, they become subject to occupational disability or permanent incapacity. A surviving dependent's pension is paid on the death of a former member of the Executive Board. The disability pension is 100% of the vested retirement pension entitlement and is payable until the beneficiary's 60th birthday, after which it is replaced by a retirement pension. The surviving dependent's pension is 60% of the retirement pension or vested disability pension entitlement at death. Entitlements are enforceable against SAP AG. Current pension payments are reviewed annually for adjustments and, if applicable, increased according to the surplus in the pension liability insurance.

If service is ended before the retirement age of 60 is reached, pension entitlement is reduced in proportion as the actual length of service stands in relation to the maximum possible length of service.

The applied retirement pension plan is contributory. The contribution is 4% of applicable compensation up to the applicable income threshold plus 14% of applicable compensation above the applicable income threshold. For this purpose, applicable compensation is 180% of annual base salary. The applicable income threshold is the statutory annual income threshold

for the state pension plan in Germany (West), as amended from time to time.

Exceptional retirement pension agreements apply to the following Executive Board members:

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Prior to May 18, 2012, Bill McDermott and Vishal Sikka had rights to future benefits under the pension plan of SAP America. The pension plan of SAP America was a cash balance plan that on retirement provided either monthly pension payments or a lump sum. The pension became available from the beneficiary's 65th birthday. Subject to certain conditions, the plan also provided earlier payment or invalidity benefits. The portion of the SAP America pension plan classified as Qualified Retirement Plan according to the U.S. Employee Retirement Income Security Act (ERISA) was terminated and all account balances were liquidated from the plan on May 18, 2012. Bill McDermott and Vishal Sikka transferred their account balance into their third-party pension accounts.

Bill McDermott still has rights to future benefits under the portion of the SAP America pension plan classified as Non-Qualified Retirement Plan according to ERISA. The Non-Qualified pension plan of SAP America is a cash balance plan that on retirement provides either monthly pension payments or a lump sum. The pension becomes available from the beneficiary's 65th birthday. Subject to certain conditions, the plan also provides earlier payment or invalidity benefits. The Non-Qualified pension plan closed with effect from January 1, 2009. Interest continues to be paid on the earned rights to benefits within this plan.

**Table of Contents**

## Part I

## Item 6

SAP also made contributions to a third-party pension plan for Bill McDermott and Vishal Sikka. SAP's contributions are based on Bill McDermott's and Vishal Sikka's payments into this pension plan. Additionally, in view of the close of the SAP America pension plan, SAP adjusted its payments to this non-SAP pension plan. In 2012, SAP paid contributions for Bill McDermott totaling 1,053,600 (2011: 470,800) and for Vishal Sikka totaling 215,300 (2011: 95,700).

Instead of paying for entitlements under the pension plan for Executive Board members, SAP pays equivalent amounts to a non-SAP pension plan for Jim Hagemann Snabe. In 2012, SAP paid contributions totaling 283,400 (2011: 283,800). Gerhard Oswald's performance-based retirement plan was discontinued when SAP introduced a contributory retirement pension plan in 2000. His pension benefits are derived from any accrued entitlements on December 31, 1999, under performance-based pension agreements and a salary-linked contribution for the period commencing January 1, 2000. Gerhard Oswald's rights to retirement pension benefits will increase by further annual contributions because he will remain a member of the Executive Board after his 60th birthday until his retirement on June 30, 2014.

Lars Dalgaard has no entitlements under the pension plan for Executive Board members. SAP made no retirement pension plan contributions to a third-party pension plan with respect to Lars Dalgaard in 2012.

**Total Projected Benefit Obligation (PBO) and the Total Accruals for Pension Obligations to Executive Board Members**

	Bill McDermott (co-CEO) <sup>(1)</sup>	Dr. Werner Brandt	Luisa Deplazes Delgado (from September 1, 2012)	Gerhard Oswald	Dr. Vishal Sikka <sup>(1)</sup>	Total
thousands						
PBO January 1, 2011	1,073.2	1,284.3	n.a.	4,127.4	46.7	6,531.6
Less plan assets market value January 1, 2011	52.6	921.7	n.a.	3,374.9	45.0	4,394.2
<b>Accrued January 1, 2011</b>	<b>1,020.6</b>	<b>362.6</b>	n.a.	<b>752.5</b>	<b>1.7</b>	<b>2,137.4</b>
PBO change in 2011	66.3	215.4	n.a.	358.1	6.4	646.2
Plan assets change in 2011	4.0	209.3	n.a.	436.3	3.5	653.1
PBO December 31, 2011	1,139.5	1,499.7	n.a.	4,485.5	53.1	7,177.8
Less plan assets market value December 31, 2011	56.6	1,131.0	n.a.	3,811.2	48.5	5,047.3
<b>Accrued December 31, 2011</b>	<b>1,082.9</b>	<b>368.7</b>	n.a.	<b>674.3</b>	<b>4.6</b>	<b>2,130.5</b>
PBO change in 2012	64.4	541.8	55.1	1,231.3	53.1	1,710.7
Plan assets change in 2012	56.6	217.0	48.3	383.3	48.5	543.5
PBO December 31, 2012	1,075.1	2,041.5	55.1	5,716.8	0	8,888.5
Less plan assets market value December 31, 2012	0	1,348.0	48.3	4,194.5	0	5,590.8
<b>Accrued December 31, 2012</b>	<b>1,075.1</b>	<b>693.5</b>	<b>6.8</b>	<b>1,522.3</b>	<b>0</b>	<b>3,297.7</b>

<sup>(1)</sup> Prior to May 18, 2012 the qualified portion of the SAP America pension plan was terminated and account balances transferred to third-party pension accounts.





**Table of Contents**

Part I

Item 6

The table below shows the annual pension entitlement of each member of the Executive Board on reaching age 60 based on entitlements from SAP under performance-based and salary-linked plans vested on December 31, 2012.

**Annual Pension Entitlement**

thousands	Vested on December 31, 2012	Vested on December 31, 2011
Bill McDermott (co-CEO) <sup>(1)</sup>	78.1	98.3
Dr. Werner Brandt	88.2	80.6
Luisa Deplazes Delgado (from September 1, 2012) <sup>(3)</sup>	2.3	n.a.
Gerhard Oswald <sup>(2)</sup>	259.9	243.7
Dr. Vishal Sikka <sup>(1)</sup>	n.a.	6.5

(1) The rights shown here for Bill McDermott and Vishal Sikka refer solely to rights under the SAP America pension plan. Prior to May 18, 2012, the qualified portion of the SAP America, Inc., pension plan was terminated and accounts were transferred to third-party pension accounts.

(2) Due to the extension of Gerhard Oswald's contract beyond his 60th birthday, this value represents the retirement pension entitlement that he would receive after his current Executive Board contract expires on June 30, 2014, based on the entitlements vested on December 31, 2012.

(3) Due to changes in tax regulations in Germany, for commitments after January 1, 2012, the minimum age to receive pension payments increased to age 62. The value shown for Luisa Deplazes Delgado represents the retirement pension entitlement that she would receive at the age of 62 based on the entitlements vested on December 31, 2012.

These are vested entitlements. To the extent that members continue to serve on the Executive Board and that therefore more contributions are made for them in the future, pensions actually payable at the age of 60 will be higher than the amounts shown in the table.

**Postcontractual Noncompete Provisions**

During the agreed 12-month postcontractual noncompete period, each Executive Board member receives abstention payments corresponding to 50% of his or her final average contractual compensation as agreed in the respective contract on an individual basis.

The following table presents the net present values of the postcontractual noncompete abstention payments. The net present values in the table reflect the discounted present value of the amounts that would be paid in the fictitious scenario in which the Executive Board members leave SAP at the end of their respective current contract terms and their final average contractual compensation prior to their departure equals the compensation in 2012. Actual postcontractual noncompete payments will likely differ from these amounts depending on the time of departure and the compensation levels and target achievements at the time of departure.

## Net Present Values of the Postcontractual Noncompete Abstention Payments

<b>thousands</b>	<b>Contract Term Expires</b>	<b>Net Present Value of Postcontractual Noncompete Abstention Payment</b>
Bill McDermott (co-CEO)	June 30, 2017	4,165.9
Jim Hagemann Snabe (co-CEO)	June 30, 2017	3,912.9
Dr. Werner Brandt	June 30, 2014	1,898.2
Lars Dalgaard (from April 12, 2012)	April 11, 2015	1,163.4
Luisa Deplazes Delgado (from September 1, 2012)	August 31, 2015	464.6
Gerhard Oswald	June 30, 2014	1,905.3
Dr. Vishal Sikka	December 31, 2017	1,880.9
<b>Total</b>		<b>15,391.2</b>

**Table of Contents**

Part I

Item 6

**Early End-of-Service Undertakings*****Severance Payments***

The standard contract for all Executive Board members provides that on termination before full term (for example, where the member's appointment is revoked, where the member becomes occupationally disabled, or in connection with a change of control), SAP AG will pay to the member the outstanding part of the compensation target for the entire remainder of the term, appropriately discounted for early payment. A member has no claim to that payment if he or she has not served SAP as a member of its Executive Board for at least one year or if he or she leaves SAP AG for reasons for which he or she is responsible.

If an Executive Board member's appointment to the Executive Board expires or ceases to exist because of, or as a consequence of, change or restructuring, or due to a change of control, SAP AG and each Executive Board member has the right to terminate the employment contract within eight weeks of the occurrence by giving six months' notice. A change of control is deemed to occur when a third party is required to make a mandatory takeover offer to the shareholders of SAP AG under the German Securities Acquisition and Takeover Act, when SAP AG merges with another company and becomes the subsumed entity, or when a control or profit transfer agreement is concluded with SAP AG as the dependent company. An Executive Board member's contract can also be terminated before full term if his or her appointment as an SAP AG Executive Board member is revoked in connection with a change of control.

***Postcontractual Noncompete Provisions***

Abstention compensation for the postcontractual noncompete period as described above is also payable on early contract termination.

***Permanent Disability***

In case of permanent disability, the contract will end at the end of the quarter in which the permanent inability to work was determined. The Executive Board member receives the monthly basic salary for a further 12 months starting from the date the permanent disability is determined.

***Payments to Former Executive Board Members***

In 2012, we paid pension benefits of 1,360,000 to Executive Board members who had retired before January 1, 2012 (2011: 1,346,000). At the end of the year, the PBO for former Executive Board members was 30,551,000 (2011: 25,267,000). Plan assets of 26,054,000 are available to service these obligations (2011: 25,788,000).

***Executive Board Members Long-Term Incentives***

Members of the Executive Board hold or held throughout the year share-based payment rights under the RSU Milestone Plan 2015 (which was granted in 2012) as well as the SAP SOP 2010, SOP Performance Plan 2009, and SAP SOP 2007 programs (which were granted in previous years). For information about the terms and details of these programs, see the Notes to the Consolidated Financial Statements section, Note (27).

**Table of Contents**

Part I

Item 6

**RSU Milestone Plan 2015**

The table below shows Executive Board members' holdings, on December 31, 2012, of restricted share units issued to them under the RSU Milestone Plan 2015. The plan is a cash-settled long-term incentive scheme with a payout subsequent to a performance period of one year and an additional holding period of three years. The RSU Milestone Plan 2015 consists of four plan tranches to be issued with respect to the calendar years 2012 through 2015.

**RSU Milestone Plan 2015**

	Year Granted	Holding on January 1, 2012 Quantity	Grants in 2012 Remaining Term in Years Quantity	Units Vested Quantity of RSUs	Forfeited Units Quantity of RSUs	Holding on December 31, 2012 Quantity of RSUs	Remaining Term in Years
Bill McDermott (co-CEO)	2012		95,414	3.98	127,425	127,425	3.08
Jim Hagemann Snabe (co-CEO)	2012		95,414	3.98	127,425	127,425	3.08
Dr. Werner Brandt	2012		34,226	3.98	45,709	45,709	3.08
Lars Dalgaard (from April 12, 2012)	2012		24,594	3.81	32,845	32,845	3.08
Luisa Deplazes Delgado (from September 1, 2012)	2012		8,332	3.42	11,127	11,127	3.08
Gerhard Oswald	2012		34,226	3.98	45,709	45,709	3.08
Dr. Vishal Sikka	2012		34,226	3.98	45,709	45,709	3.08
<b>Total</b>			<b>326,432</b>		<b>435,950</b>	<b>435,950</b>	

The holding on December 31, 2012, reflects the number of RSUs issued in 2012 multiplied by the 133.55% target achievement.

**Table of Contents**

Part I

Item 6

**SAP SOP 2010**

The table below shows Executive Board members' holdings, on December 31, 2012, of virtual share options issued to them under the SAP SOP 2010 since its inception. The strike price for an option is 115% of the base price. The issued options have a term of seven years and can only be exercised on specified dates after the vesting period. The options issued in 2010 are exercisable beginning in September 2014 and the options issued in 2011 are exercisable beginning in June 2015.

**SAP SOP 2010 Virtual Share Options**

	Year Granted	Strike Price per Option	Holding on January 1, 2012		Rights Exercised in 2012	Price on Exercise Date	Exercisable Rights of Retired Members of the Board	Forfeited Rights Quantity of Options	Holding on December 31, 2012	
			Quantity of Options	Remaining Term in Years	Quantity of Options		Quantity of Options	Quantity of Options	Quantity of Options	Remaining Term in Years
Bill McDermott (co-CEO)	2010	40.80	135,714	5.69					135,714	4.69
	2011	48.33	112,426	6.44					112,426	5.44
Jim Hagemann Snabe (co-CEO)	2010	40.80	135,714	5.69					135,714	4.69
	2011	48.33	112,426	6.44					112,426	5.44
Dr. Werner Brandt	2010	40.80	82,428	5.69					82,428	4.69
	2011	48.33	68,284	6.44					68,284	5.44
Gerhard Oswald	2010	40.80	82,428	5.69					82,428	4.69
	2011	48.33	68,284	6.44					68,284	5.44
Dr. Vishal Sikka	2010	40.80	82,428	5.69					82,428	4.69
	2011	48.33	68,284	6.44					68,284	5.44
<b>Total</b>			<b>948,416</b>						<b>948,416</b>	

**Table of Contents**

Part I

Item 6

**SOP Performance Plan 2009**

The table below shows the current Executive Board members' holdings, on December 31, 2012, of virtual share options issued under the SOP Performance Plan 2009.

The strike price for an option varies with the performance of SAP shares over time against the TechPGI index. The gross profit per option is limited to 30.80, corresponding to 110% of the SAP share price on the date of issue.

The issued options have a term of five years and can only be exercised on specified dates after the two-year vesting period. In this case, the options have been exercisable since May 2011.

**SOP Performance Plan 2009 Virtual Share Options**

	Year Granted	Strike Price per Option	Holding on January 1, 2012		Rights Exercised in 2012	Price on Exercise Date	Exercisable Rights of Retired Members of the Executive Board	Forfeited Rights	Holding on December 31, 2012	
			Quantity of Options	Remaining Term in Years	Quantity of Options		Quantity of Options	Quantity of Options	Quantity of Options	Remaining Term in Years
Bill McDermott (co-CEO)	2009	variable	102,670	2.35	102,670	60.40				
Jim Hagemann Snabe (co-CEO)	2009	variable	102,670	2.35	102,670	60.40				
Dr. Werner Brandt	2009	variable	102,670	2.35	102,670	60.40				
Gerhard Oswald	2009	variable	102,670	2.35	102,670	60.40				
Dr. Vishal Sikka <sup>(1)</sup>	2009	variable	35,588	2.35	35,588	60.40				
<b>Total</b>			<b>446,268</b>		<b>446,268</b>					

<sup>(1)</sup> The holding was allocated before appointment to the Executive Board in 2010. The share options had a value of 3.47 per option on their exercise date in 2012.

**Table of Contents**

Part I

Item 6

**SAP SOP 2007**

The table below shows Executive Board members' holdings, on December 31, 2012, of virtual share options issued to them under the SAP SOP 2007 plan since its inception, including virtual share options issued to them both during and before their respective membership of the Executive Board.

The strike price for an option is 110% of the base price. The issued options have a term of five years and can only be exercised on specified dates after the two-year vesting period. The options issued in 2007 could be exercised with effect from June 2009, following expiration of the two-year vesting period. The options issued in 2008 have been exercisable since March 2010, following expiration of the two-year vesting period.

**SAP SOP 2007 Virtual Share Options**

	Year Granted	Strike Price per Option	Holding on January 1, 2012		Rights Exercised in 2012	Price on Exercise Date	Exercisable Rights of Retired Members of the Executive Board	Forfeited Rights	Holding on December 31, 2012			
			Quantity of Options	Remaining Term in Years	Quantity of Options		Quantity of Options		Quantity of Options	Quantity of Options	Quantity of Options	Term in Years
Dr. Vishal Sikka <sup>(1)</sup>	2008	35.96	17,571	1.18	17,571	48.43						
<b>Total</b>			<b>17,571</b>		<b>17,571</b>							

<sup>(1)</sup> The holding was allocated before appointment to the Executive Board in 2010.

**Total Expense for Share-Based Payment**

In the report year and the prior year, total expense for the share-based payment plans of Executive Board members was recorded as follows.

**Total Expense for Share-Based Payment**

thousands	2012	2011
Bill McDermott (co-CEO)	16,239.0	1,053.5
Jim Hagemann Snabe (co-CEO)	16,239.0	1,052.9
Dr. Werner Brandt	4,998.1	621.9
Lars Dalgaard (from April 12, 2012)	4,239.6	n.a.
Luisa Deplazes Delgado (from September 1, 2012)	2,795.6	n.a.



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Gerhard Oswald	6,417.0	621.9
Dr. Vishal Sikka	6,500.3	652.8
<b>Total</b>	<b>57,428.6</b>	<b>4,003.0</b>

The expense recognition follows the regulations as set under IFRS 2 Share Based Payments . Because the RSU Milestone Plan 2015 tranches for 2013 to 2015 were already allocated at the beginning of 2012, a portion of this expense is already included in the expenses for the financial year 2012, even though these future tranches depend on the achievement of specific financial targets in future periods.

**Table of Contents**

Part I

Item 6

***Shareholdings and Transactions of Executive Board Members***

No member of the Executive Board holds more than 1% of the ordinary shares of SAP AG. Members of the Executive Board held a total of 35,271 SAP shares on December 31, 2012 (2011: 20,569 shares).

The table below shows transactions by Executive Board members and persons closely associated with them notified to SAP pursuant to the German Securities Trading Act, section 15a, in 2012.

**Transactions in SAP Shares**

	<b>Transaction Date</b>	<b>Transaction</b>	<b>Quantity</b>	<b>Unit Price</b>
Bill McDermott (co-CEO)	May 23, 2012	Purchase of ADRs	3,000	US\$58.0000
	May 24, 2012	Purchase of ADRs	1,000	US\$57.5000
Dr. Werner Brandt	May 24, 2012	Share purchase	2,300	46.3555
Gerhard Oswald	May 24, 2012	Share purchase	2,112	46.8892
Jim Hagemann Snabe (co-CEO)	May 24, 2012	Share purchase	4,290	46.7000
Dr. Vishal Sikka	September 11, 2012	Purchase of ADRs	2,000	US\$69.3984

**Executive Board: Other Information**

We did not grant any compensation advance or credit to, or enter into any commitment for the benefit of, any member of our Executive Board in 2012 or the previous year.

As far as the law permits, SAP AG and its affiliated companies in Germany and elsewhere indemnify and hold harmless their respective directors and officers against and from the claims of third parties. To this end, we maintain directors' and officers' (D&O) group liability insurance. The policy is annual and is renewed from year to year. The insurance covers the personal liability of the insured group for financial loss caused by its managerial acts and omissions. The current D&O policy includes an individual deductible for Executive Board members of SAP AG as required by section 93 (2) of the German Stock Corporation Act.

**Compensation for Supervisory Board Members*****Compensation System***

Supervisory Board members' compensation is governed by our Articles of Incorporation, section 16. Each member of the Supervisory Board receives, in addition to the reimbursement of his or her expenses, compensation composed of fixed elements and a variable element. The variable element depends on the dividend paid by SAP on its shares.

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The fixed element is 100,000 for the chairperson, 70,000 for the deputy chairperson, and 50,000 for other members. For membership of the Audit Committee, Supervisory Board members receive additional fixed annual remuneration of 15,000, and for membership of any other Supervisory Board committee 10,000, provided that the committee concerned has met in the year. The chairperson of the audit committee receives 25,000, and the chairpersons of the other committees receive 20,000. The fixed remuneration is payable after the end of the year.

The variable compensation element is 10,000 for the chairperson, 8,000 for the deputy chairperson, and 6,000 for the other members of the Supervisory Board for each 0.01 by which the dividend distributed per share exceeds 0.40. The variable remuneration is payable after the end of the Annual General Meeting of Shareholders that resolves on the dividend for the relevant year.

However, the aggregate compensation excluding compensation for committee memberships must not exceed 250,000 for the chairperson, 200,000 for the deputy chairperson, and 150,000 for other members of the Supervisory Board.

Any members of the Supervisory Board having served for less than the entire year receive one-twelfth of the annual remuneration for each month of service commenced. This also applies to the increased compensation of the chairperson and the deputy chairperson and to the remuneration for the chairperson and the members of a committee.

**Table of Contents**

Part I

Item 6

**Amount of Compensation**

Subject to the resolution on the appropriation of retained earnings by the Annual General Meeting of Shareholders on June 4, 2013, the compensation paid to Supervisory Board members in respect of 2012 will be as set out in the table below.

**Supervisory Board Members Compensation in 2012**

thousands	2012				2011			
	Fixed Compensation	Compensation for Committee Work	Variable Compensation	Total	Fixed Compensation	Compensation for Committee Work	Variable Compensation	Total
Prof. Dr. h.c. mult. Hasso Plattner (chairperson)	100.0	60.0	150.0	310.0	100.0	100.0	150.0	350.0
Christiane Kuntz-Mayr (deputy chairperson from May 23, 2012)	67.5	10.0	128.3	205.8	50.0	10.0	100.0	160.0
Pekka Ala-Pietilä	50.0	20.0	100.0	170.0	50.0	30.0	100.0	180.0
Thomas Bamberger (until May 23, 2012)	20.8	6.3	41.7	68.8	50.0	15.0	100.0	165.0
Panagiotis Bissiritsas	50.0	24.2	100.0	174.2	50.0	20.0	100.0	170.0
Prof. Anja Feldmann (from May 23, 2012)	33.3	6.7	66.7	106.7	n.a.	n.a.	n.a.	n.a.
Prof. Dr. Wilhelm Haarmann	50.0	30.0	100.0	180.0	50.0	50.0	100.0	200.0
Margret Klein-Magar (from May 23, 2012)	33.3	6.7	66.7	106.7	n.a.	n.a.	n.a.	n.a.
Peter Koop (until May 23, 2012)	20.8	4.2	41.7	66.7	50.0	20.0	100.0	170.0
Lars Lamadé (deputy chairperson until May 23, 2012)	62.5	10.0	120.8	193.3	70.0	28.3	130.0	228.3
Bernard Liautaud	50.0	16.7	100.0	166.7	50.0	10.0	100.0	160.0
Dr. Gerhard Maier (until May 23, 2012)	20.8	10.4	41.7	72.9	50.0	25.0	100.0	175.0
Dr. h. c. Hartmut Mehdorn	50.0	10.0	100.0	160.0	50.0	10.0	100.0	160.0
Dr. Hans-Bernd Meier (until May 23, 2012)	20.8	0	41.7	62.5	20.8	0	41.7	62.5
Prof. Dr.-Ing. Dr. h.c. Dr.-Ing. E.h. Joachim Milberg (until May 23, 2012)	20.8	18.8	41.7	81.3	50.0	55.0	100.0	205.0
Dr. Kurt Reiner (from May 23, 2012)	33.3	13.3	66.7	113.3	n.a.	n.a.	n.a.	n.a.
Mario Rosa-Bian (from May 23, 2012)	33.3	6.7	66.7	106.7	n.a.	n.a.	n.a.	n.a.
Dr. Erhard Schipporeit	50.0	25.0	100.0	175.0	50.0	35.0	100.0	185.0
Stefan Schulz	50.0	24.2	100.0	174.2	50.0	30.0	100.0	180.0
Inga Wiele (from May 23, 2012)	33.3	16.7	66.7	116.7	n.a.	n.a.	n.a.	n.a.
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer	50.0	20.0	100.0	170.0	50.0	10.0	100.0	160.0
Compensation for former Supervisory Board Members	n.a.	n.a.	n.a.	n.a.	33.3	16.7	66.7	116.7
<b>Total</b>	<b>900.8</b>	<b>339.6</b>	<b>1,740.8</b>	<b>2,981.3</b>	<b>874.1</b>	<b>465.0</b>	<b>1,688.3</b>	<b>3,027.5</b>



**Table of Contents**

## Part I

## Item 6

In addition, we reimburse to members of the Supervisory Board their expenses and the value-added tax payable on their compensation.

The total compensation of all Supervisory Board members in 2012 for work for SAP excluding compensation relating to the office of Supervisory Board member was 1,083,500 (2011: 1,688,300). Those amounts are composed entirely of remuneration received by employee representatives on the Supervisory Board relating to their position as SAP employees in 2012 and 2011 respectively.

Supervisory Board member Wilhelm Haarmann is an attorney at the German bar and a partner at HAARMANN Partnerschaftsgesellschaft in Frankfurt am Main, Germany. Wilhelm Haarmann and HAARMANN Partnerschaftsgesellschaft occasionally advise SAP on particular projects, tax matters, and questions of law. In 2012, the fees for such services totaled 9,400 (2011: 358,800).

**Long-Term Incentives for the Supervisory Board**

We do not offer members share options or other share-based payment for their Supervisory Board work. Any share options or other share-based payment received by employee-elected members relate to their position as SAP employees and not to their work on the Supervisory Board.

***Shareholdings and Transactions of Supervisory Board Members***

Supervisory Board chairperson Hasso Plattner and the companies he controlled held 121,348,807 SAP shares on December 31, 2012 (December 31, 2011: 121,515,102 SAP shares), representing 9.878% (2011: 9.895%) of SAP's share capital. No other member of the Supervisory Board held more than 1% of the SAP AG share capital at the end of 2012 or of the previous year. Members of the Supervisory Board held a total of 121,363,858 SAP shares on December 31, 2012 (December 31, 2011: 121,524,139 SAP shares).

The table below shows transactions by Supervisory Board members and persons closely associated with them notified to SAP pursuant to the German Securities Trading Act, section 15a, in 2012:

**Transactions in SAP Shares**

	Transaction Date	Transaction	Quantity	Unit Price in
Christiane Kuntz-Mayr	February 15, 2012	Share sale <sup>(1)</sup>	7,700	48.6107
Hasso Plattner	November 7, 2012	Share purchase	3,029,994	57.3400
	November 8, 2012	Share sale	3,029,994	56.1600
	November 8, 2012	Share purchase	3,029,994	56.1600
	November 28, 2012	Share sale	(2)	(2)

<sup>(1)</sup> Sale of shares in line with the LTI Plan 2000.

<sup>(2)</sup> The notifying party (Hasso Plattner GmbH & Co. Beteiligungs-KG) concluded a contract with a bank acting as commission agent for the monthly sale of SAP shares with a fair value of 10,000,000 per month. The sale will be carried out at the bank's own discretion in the stock market or over the counter, for the first time in November 2012 and then again in the months January through November 2013. Price: Targeted is the volume-weighted average (stock market) price

of the SAP share on the relevant day of sale. No. of items: Total amount traded divided by the relevant sale price of the sold shares.

### **Supervisory Board: Other Information**

We did not grant any compensation advance or credit to, or enter into any commitment for the benefit of, any member of our Supervisory Board in 2012 or the previous year.

Hasso Plattner, the chairperson of the Supervisory Board, entered into a consulting contract with SAP after he joined the Supervisory Board in May 2003. The contract does not provide for any compensation. The only cost we incurred under the contract was the reimbursement of expenses.

**Table of Contents**

Part I

Item 6

As far as the law permits, we indemnify Supervisory Board members against, and hold them harmless from, claims brought by third parties. To this end, we maintain directors' and

officers' group liability insurance. The current D&O policy does not include an individual deductible for Supervisory Board members as envisaged in the German Corporate Governance Code.

**EMPLOYEES****Headcount**

The following tables set forth the number of employees, measured in full-time equivalents by functional area and by geographic region:

Full-time equivalents	December 31, 2012				December 31, 2011				December 31, 2010			
	EMEA <sup>(1)</sup>	Americas	Asia Pacific Japan	Total	EMEA <sup>(1)</sup>	Americas	Asia Pacific Japan	Total	EMEA <sup>(1)</sup>	Americas	Asia Pacific Japan	Total
Software and software-related services	4,559	2,628	3,364	10,551	4,068	2,079	2,816	8,963	3,804	1,827	2,254	7,885
Professional services and other services	7,020	4,399	2,840	14,259	6,808	3,963	2,497	13,268	6,787	3,955	2,410	13,152
Research and development	8,952	3,672	5,388	18,012	8,713	3,028	4,120	15,861	8,617	3,154	4,113	15,884
Sales and marketing	5,697	6,220	2,982	14,899	4,856	4,581	2,343	11,780	4,593	4,214	2,180	10,987
General and administration	2,243	1,383	660	4,286	2,073	1,120	542	3,735	2,053	1,005	518	3,576
Infrastructure	1,286	821	308	2,415	1,182	702	274	2,158	1,135	628	266	2,029
<b>SAP Group (December 31)</b>	<b>29,757</b>	<b>19,123</b>	<b>15,542</b>	<b>64,422</b>	<b>27,700</b>	<b>15,473</b>	<b>12,592</b>	<b>55,765</b>	<b>26,989</b>	<b>14,783</b>	<b>11,741</b>	<b>53,513</b>
Thereof acquisitions	791	2,987	1,038	4,816	264	49	90	403	1,174	1,975	1,084	4,233
<b>SAP Group (months end average)</b>	<b>29,009</b>	<b>17,619</b>	<b>14,506</b>	<b>61,134</b>	<b>27,296</b>	<b>15,010</b>	<b>12,040</b>	<b>54,346</b>	<b>25,929</b>	<b>13,164</b>	<b>10,877</b>	<b>49,970</b>

<sup>(1)</sup> Europe, Middle East, Africa

On December 31, 2012, we had 64,422 full-time equivalent (FTE) employees worldwide (December 31, 2011: 55,765). This represents an increase in headcount of 8,657 FTEs in comparison to 2011. Of the overall headcount increase in 2012, 4,816 resulted from acquisitions. The average number of employees in 2012 was 61,134 (2011: 54,346).

We define the FTE headcount as the number of people we would employ if we only employed people on full-time employment contracts. Students employed part-time and certain individuals who are employed by SAP but who for various reasons are not currently working are excluded from our figures. Also, temporary employees are not included in the above figures. The number of such temporary employees is not material.



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On December 31, 2012, the largest number of SAP employees (46%) were employed in the EMEA region (including 26% in Germany and 20% in other countries in the region), while 30% were employed in the Americas region (including 21% in the United States and 9% in other countries in the region) and 24% in the Asia Pacific Japan (APJ) region.

Because we invested in support and cloud computing in 2012, our support headcount increased in all regions. Our worldwide headcount in the field of software and software-related services grew 18% to 10,551 (2011: 8,963). Professional services and other services counted 14,259 employees at the end of 2012 – an increase of 7% (2011: 13,268). Our R & D headcount saw a relatively strong year-over-year increase of 14% to 18,012 FTEs (2011: 15,861). This growth stemmed from our acquisitions and greater investment in the APJ region. Sales and marketing headcount grew significantly by 26% to 14,899 at the end of the year (2011: 11,780), because we invested very heavily in the sales and marketing of our products and services in 2012 and employed more sales staff in all regions with a strong focus on the emerging markets. Our general and administration headcount rose 15% to 4,286 FTEs at the end of the year (2011: 3,735). Our acquisitions were the main reason for this increase. Our infrastructure employees, who provide IT and facility management services, numbered 2,415 – an increase of 12% (2011: 2,158) that mainly resulted from our acquisitions and investments in our company IT.

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**Table of Contents**

Part I

Item 6

In the Americas region, headcount increased by 3,650, or 24%; in the EMEA region, the increase was 2,057, or 7%; and in the APJ region, it was 2,950, or 23%.

Our personnel expense per employee was approximately 119,000 in 2012 (2011: approximately 108,000). This rise in expense is primarily attributable to an increase in salaries and share-based payments prompted by the new plans and significant rise in the share price in 2012. The personnel expense per employee is defined as the personnel expense divided by the average number of employees. For more information about employee compensation and a detailed overview of the number of people we employed, see the Notes to the Consolidated Financial Statements section, Note (7).

### **Employee Relations and Labor Unions**

On a worldwide basis, we believe that our employee relations are excellent. Employees of SAP France S.A. and SAP Labs France S.A. are subject to a collective bargaining agreement.

On the legal entity level, the SAP AG works council represents the employees of SAP AG with 39 members; the employees of SAP Deutschland AG & Co. KG (SAP Germany) are represented by a works council with 31 members. For different areas of co-determination the entity-level works councils have elected committees. By law the works councils are entitled to consultation and, in some areas, to co-determination rights concerning labor conditions at SAP AG and SAP Germany. Other employee representatives include the group works council currently having seven members (members of the works councils of SAP AG and SAP Germany), the representatives of severely disabled persons in all entities and on group level (Germany) and the spokespersons committee as the representation of the executives.

Each of SAP France S.A., SAP Labs France S.A. and Sybase France SARL are represented by a French works council. A French works council is responsible for protecting the employees' collective interests by ensuring that management considers the interests of employees in making decisions on behalf of the company. A French works council is entitled to certain company

information and to consult with management on matters that are expected to have an impact on company structure or on the employees it represents. The union negotiates agreements with SAP France S.A. and SAP Labs France S.A. Some negotiations are compulsory under law. The staff representatives are obligated to present all individual or collective complaints regarding salary, policies or agreements between the employees and the company in question.

In addition, the employees of our subsidiaries SAP Espana S.A., SAP Belgium N.V., SAP Nederland B.V., Sybase Iberia, S.L. and SAP Italia S.p.A. are also represented by works councils. Each of SAP (UK) Limited and SAP Ireland Limited has an employee consultation forum which represents the employees' interests.

In September 2012 the SAP European Works Council (EWC) was established and held its constituent meeting. The EWC represents all employees of SAP within the European Union. By law and SAP agreement the EWC is entitled to receive information and consult on transnational matters.

### **SHARE OWNERSHIP**

#### **Beneficial Ownership of Shares**

The ordinary shares beneficially owned by the persons listed in Item 6. Directors, Senior Management and Employees Compensation Report is disclosed in Item 7. Major Shareholders and Related-Party Transactions Major Shareholders.

### **SHARE-BASED COMPENSATION PLANS**

## **Share-Based Compensation**

We maintain certain share-based compensation plans. The share-based compensation from these plans result from cash-settled and equity-settled awards issued to employees. For more information on our share-based compensation plans refer to Item 6. Directory, Senior Management and Employees Compensation Report and Note (27) to our Consolidated Financial Statements.

**Table of Contents**

Part I

Item 7

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS****MAJOR SHAREHOLDERS**

The share capital of SAP AG consists of ordinary shares, which are issued only in bearer form. Accordingly, SAP AG generally has no way of determining who its shareholders are or how many shares a particular shareholder owns. SAP's

ordinary shares are traded in the United States by means of ADRs. Each ADR currently represents one SAP AG ordinary share. On March 7, 2013, based on information provided by the Depository there were 47,405,453 ADRs held of record by 1,117 registered holders. The ordinary shares underlying such ADRs represented 3.86% of the then-outstanding ordinary shares (including treasury stock). Because SAP's ordinary shares are issued in bearer form only, we are unable to determine the number of ordinary shares directly held by persons with U.S. addresses.

The following table sets forth certain information regarding the beneficial ownership of the ordinary shares to the extent known to SAP as of March 7, 2013 of: (i) each person or group known by SAP AG to own beneficially 5% or more of the outstanding ordinary shares; and (ii) the beneficial ownership of all members of the Supervisory Board and all members of the Executive Board, individually and as a group, in each case as reported to SAP AG by such persons. There was, as far as we are able to tell given the nature of our shares, no significant change in the percentage ownership held by any major shareholder during the past three years. None of the major shareholders have special voting rights.

Major Shareholders	Ordinary Shares Beneficially Owned	
	Number	% of Outstanding
<b>Dietmar Hopp, collectively<sup>(1)</sup></b>	65,273,200	5.313%
<b>Hasso Plattner, Chairperson Supervisory Board, collectively<sup>(2)</sup></b>	120,857,498	9.838%
<b>Klaus Tschira, collectively<sup>(3)</sup></b>	92,079,595	7.495%
Executive Board Members as a group (7 persons)	35,271	0.003%
Supervisory Board Members as a group (16 persons)	120,872,438	9.839%
<b>Executive Board Members and Supervisory Board Members as a group (23 persons)<sup>(4)</sup></b>	120,907,709	9.842%
Options and convertible bonds that are vested and exercisable within 60 days of March 7, 2013, held by Executive Board Members and Supervisory Board Members, collectively	0	n.a.
<b>BlackRock, Inc.<sup>(5)</sup></b>	n.a.	>5%

(1) Represents 65,273,200 ordinary shares beneficially owned by Dietmar Hopp, including 3,404,000 ordinary shares owned by DH Besitzgesellschaft mbH & Co. KG (formerly known as Golf Club St. Leon-Rot GmbH & Co. Betriebs-oHG) of which DH Verwaltungs-GmbH is the general partner and 61,869,200 ordinary shares owned by Dietmar Hopp Stiftung, GmbH. Mr. Hopp exercises voting and dispositive powers of the ordinary shares held by such entities. The foregoing information is based solely on a Schedule 13G filed by Dietmar Hopp and Dietmar Hopp Stiftung, GmbH on February 8, 2013.

(2) Includes Hasso Plattner Förderstiftung GmbH and Hasso Plattner GmbH & Co. Beteiligungs-KG in which Hasso Plattner exercises sole voting and dispositive power.

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- (3) Includes Klaus Tschira Stiftung gGmbH and Dr. h. c. Tschira Beteiligungs GmbH & Co. KG in which Klaus Tschira exercises sole voting and dispositive power.
- (4) We believe each of the other members of the Supervisory Board and the Executive Board beneficially owns less than 1% of SAP AG's ordinary shares as of March 7, 2013.
- (5) As required under German law, BlackRock, Inc. informed SAP that they own more than 5% of SAP's outstanding ordinary shares. BlackRock, Inc. is not required to provide SAP with the number of shares owned and has not provided such information.

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**Table of Contents**

Part I

Item 7, 8, 9

We at present have no knowledge about any arrangements, the operation of which may at a subsequent date result in a change in control of the company.

**RELATED-PARTY TRANSACTIONS**

For further information on related-party transactions see Note (30) to our Consolidated Financial Statements.

**ITEM 8. FINANCIAL INFORMATION**

**CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE**

See Item 18. Financial Statements and pages F-1 through F-99.

**OTHER FINANCIAL INFORMATION**

**Legal Proceedings**

We are subject to a variety of legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business, including claims and lawsuits involving businesses we have acquired. In 2010, we recorded a provision of US\$1.3 billion for the TomorrowNow litigation. When the trial judge set aside the 2010 verdict and offered Oracle a remittitur of US\$272 million, we subsequently reduced the provision to US\$272 million. Oracle did not accept the remittitur; rather, Oracle opted for a second trial. Prior to the second trial, the parties stipulated to a final judgment of US\$306 million with each party reserving all appeal rights. Both parties have filed their respective notice of appeal. On appeal, Oracle is seeking three forms of relief: (1) reinstatement of the November 2010 \$1.3 billion verdict; (2) as a first alternative, a new trial at which Oracle may again seek hypothetical license damages (based in part on evidence of alleged saved development costs) plus SAP's alleged infringer's profits without any deduction of expenses (Oracle does not put a number on its claim for the requested new trial); and (3) as a second alternative, increase of the remittitur (alternative to new trial) to \$408.7 million (vs. the \$272 million Oracle had previously rejected). SAP has dismissed its cross-appeal. Consequently, we increased the provision to US\$306 million. Although the outcome of such proceedings and

claims cannot be predicted with certainty, management does not believe that the outcome of all other matters currently pending against us has had or will have a material adverse effect on our business, financial position, profit or cash flows. Any litigation, however, involves potential risk and potentially significant litigation costs, and therefore there can be no assurance that any litigation which is now pending or which may arise in the future will not have such a material adverse effect on our business, financial position, profit, cash flows or reputation.

See a detailed discussion of our legal proceedings in Note (23) to our Consolidated Financial Statements.

**Dividend Policy**

For more information on dividend policy see the disclosure in Item 3. Key Information Dividends .

**Significant Changes**

*Conversion of Legal Form to a European Company – a Societas Europaea*

## Edgar Filing: SAP AG - Form 20-F

On March 21, 2013 the Supervisory Board of SAP AG approved the proposal of the Executive Board to prepare the conversion of SAP AG into a European Company, otherwise referred to as a Societas Europaea, or SE. This conversion of legal form requires shareholder approval, which is currently scheduled for the Annual General Meeting of the Shareholders in 2014. The Supervisory Board and the Executive Board believe that the planned change of legal form reflects SAP's position as an internationally-oriented company with European roots. In addition, this legal form offers the possibility to optimize both the corporate governance structure and the work of the corporate bodies of SAP AG. With the conversion into an SE, the shareholders of SAP AG will automatically become shareholders of SAP SE and shareholders' rights will remain unchanged.

### **ITEM 9. THE OFFER AND LISTING**

#### **GENERAL**

Our ordinary shares are officially listed on the Frankfurt Stock Exchange, the Berlin Stock Exchange and the Stuttgart Stock Exchange. The

**Table of Contents**

## Part I

## Item 9

principal trading market for the ordinary shares is Xetra, the electronic dealing platform of Deutsche Boerse AG. The ordinary shares are issued only in bearer form.

ADRs representing SAP AG ordinary shares are listed on the New York Stock Exchange (NYSE) under the symbol SAP, and currently each ADR represents one ordinary share.

**TRADING ON THE FRANKFURT STOCK EXCHANGE AND THE NYSE**

The table below sets forth, for the periods indicated, the high and low closing sales prices for the ordinary shares on the Xetra trading System of the Frankfurt Stock Exchange together with the closing highs and lows of the DAX, and the high and low closing sales prices for the ADRs on the NYSE (information is provided by Reuters):

	Price per Ordinary Share in		DAX <sup>(1)</sup> in points		Price per ADR in US\$	
	High	Low	High	Low	High	Low
<b>Annual Highs and Lows</b>						
2008	39.93	23.45	7,949.11	4,127.41	58.98	29.70
2009	35.26	25.00	6,011.55	3,666.41	52.37	31.69
2010	38.40	31.12	7,077.99	5,434.34	54.08	41.59
2011	45.90	34.26	7,527.64	5,072.33	68.31	48.39
2012	61.43	41.45	7,672.10	5,969.40	81.21	53.25
<b>Quarterly Highs and Lows</b>						
<b>2011</b>						
First Quarter	44.67	37.45	7,426.81	6,513.84	61.67	48.76
Second Quarter	45.90	41.07	7,527.64	7,026.85	68.31	58.19
Third Quarter	44.02	34.26	7,471.44	5,072.33	64.50	48.71
Fourth Quarter	44.72	36.87	6,346.19	5,216.71	62.72	48.39
<b>2012</b>						
First Quarter	54.51	41.45	7,157.82	6,017.23	72.31	53.25
Second Quarter	53.21	44.16	7,056.65	5,969.40	70.97	55.24
Third Quarter	56.69	44.71	7,451.62	6,387.57	72.90	55.50
Fourth Quarter	61.43	52.86	7,672.10	6,950.53	81.21	69.05
<b>Monthly Highs and Lows</b>						
<b>2012</b>						
July	52.30	44.71	6,774.06	6,387.57	65.11	55.50
August	52.90	51.26	7,089.32	6,606.09	65.66	62.18
September	56.69	52.38	7,451.62	6,932.58	72.90	66.13
October	56.27	52.86	7,437.23	7,173.69	72.90	69.05
November	60.18	55.35	7,405.50	6,950.53	78.43	70.93
December	61.43	60.34	7,672.10	7,435.12	81.21	78.91



## Edgar Filing: SAP AG - Form 20-F

### 2013

January	62.08	57.82	7,857.97	7,675.91	82.40	77.38
February	60.91	58.99	7,833.39	7,581.18	83.57	77.86
March (through March 7, 2013)	63.80	60.35	7,939.77	7,691.68	83.44	78.68

<sup>(1)</sup> The DAX is a continuously updated, capital-weighted performance index of 30 German blue chip companies. In principle, the shares included in the DAX are selected on the basis of their stock exchange turnover and the issuer's free-float market capitalization. Adjustments to the DAX are made for capital changes, subscription rights and dividends.

On March 7, 2013, the closing sales price per ordinary share on the Frankfurt Stock Exchange (Xetra Trading System) was 63.80 and the closing sales price per ADR on the NYSE was US\$83.44, as reported by Reuters.

**Table of Contents**

Part I

Item 10

**ITEM 10. ADDITIONAL INFORMATION**

**ARTICLES OF INCORPORATION**

**Organization and Register**

SAP AG is a stock corporation organized in the Federal Republic of Germany under the Stock Corporation Act (Aktiengesetz). SAP AG is registered in the Commercial Register (Handelsregister) at the Lower Court of Mannheim, Germany, under the entry number HRB 350269. SAP AG publishes its official notices in the Federal Gazette ([www.bundesanzeiger.de](http://www.bundesanzeiger.de)).

**Objects and Purposes**

SAP's Articles of Incorporation state that our objects involve, directly or indirectly, the development, production and marketing of products and the provision of services in the field of information technology, including:

developing and marketing integrated product and service solutions for e-commerce;

developing software for information technology and the licensing of its use to others;

organization and deployment consulting, as well as user training, for e-commerce and other software solutions;

selling, leasing, renting and arranging the procurement and provision of all other forms of use of information technology systems and related equipment; and

making capital investments in enterprises active in the field of information technology to promote the opening and advancement of international markets in the field of information technology.

SAP is authorized to act in all the business areas listed above and to delegate such activities to affiliated entities within the meaning of the German Stock Corporation Act; in particular SAP is authorized to delegate its business in whole or in part to such entities. SAP AG is authorized to establish branch offices in Germany and other countries, as well as to form, acquire or invest in other companies of the same or related kind and

to enter into collaboration and joint venture agreements. SAP is further authorized to invest in enterprises of all kinds principally for the purpose of placing financial resources. SAP is authorized to dispose of investments, to consolidate the management of enterprises in which it participates, to enter into affiliation agreements with such entities, or to limit its activities to manage its shareholdings.

**CORPORATE GOVERNANCE**

**Introduction**

SAP AG, as a German stock corporation, is governed by three separate bodies: the Supervisory Board, the Executive Board and the Annual General Meeting of Shareholders. Their rules are defined by German law, by the German Corporate Governance Code and by SAP's Articles of Incorporation (Satzung) and are summarized below. See Item 16G. Differences in Corporate Governance Practices for additional information on our corporate governance practices.

## **The Supervisory Board**

The Supervisory Board appoints and removes the members of the Executive Board and oversees and advises the management of the corporation. At regular intervals it meets to discuss current business as well as business development and planning. The SAP Executive Board must consult with the Supervisory Board concerning the corporate strategy, which is developed by the Executive Board. The Supervisory Board maintains a list of transactions for which the Executive Board requires the Supervisory Board's consent. Accordingly, the Supervisory Board must also approve the annual budget of SAP upon submission by the Executive Board and certain subsequent deviations from the approved budget. The Supervisory Board is also responsible for representing SAP AG in transactions between SAP AG and Executive Board members.

The Supervisory Board, based on a recommendation by its Audit Committee, provides its proposal for the election of the external independent auditor to the Annual General Meeting of Shareholders. The Supervisory Board is also responsible for monitoring the auditor's independence, a task it has delegated to its audit committee.

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**Table of Contents**

## Part I

## Item 10

The German Co-determination Act of 1976 (Mitbestimmungsgesetz) requires supervisory boards of corporations with more than 2,000 employees to consist of an equal number of representatives of the shareholders and representatives of the employees. The minimum total number of supervisory board members, and thus the minimum number of shareholder representatives and employee representatives, is legally fixed and depends on the number of employees employed by the corporation and its German subsidiaries. Our Supervisory Board currently consists of sixteen members, of which eight members have been elected by SAP AG's shareholders at the Annual General Meeting of Shareholders and eight members which have been elected by the employees of the German SAP entities (i.e. entities of the SAP Group having their registered office in Germany).

Any Supervisory Board member elected by the shareholders at the Annual General Meeting of Shareholders may be removed by three-quarters of the votes cast at the Annual General Meeting of Shareholders. Any Supervisory Board member elected by the employees may be removed by three quarters of the votes cast by the employees of the German SAP entities.

The Supervisory Board elects a chairperson and a deputy chairperson among its members by a majority of vote of its members. If such majority is not reached on the first vote, the chairperson will be chosen solely by the members elected by the shareholders and the deputy chairperson will be chosen solely by the members elected by the employees. Unless otherwise provided by law, the Supervisory Board acts by simple majority. In the case of any deadlock the chairperson has the deciding vote.

The members of the Supervisory Board cannot be elected for a term longer than approximately five years. The term expires at the close of the Annual General Meeting of Shareholders giving its formal approval of the acts of the Supervisory Board and the Executive Board in the fourth fiscal year following the year in which the Supervisory Board was elected unless the Annual General Meeting of Shareholders specifies a shorter term of office when electing individual members of the Supervisory Board or the entire Supervisory Board. Re-election is possible. Our Supervisory Board normally meets four times a year. The remuneration of the members of the Supervisory Board is determined by the Articles of Incorporation.

As stipulated in the German Corporate Governance Code (GCGC), an adequate number of our Supervisory Board members are independent. To be considered for appointment to the Supervisory Board and for as long as they serve, members must comply with certain criteria concerning independence, conflicts of interest and multiple memberships of management, supervisory and other governing bodies. They must be loyal to SAP in their conduct and must not accept any position in companies that are in competition with SAP. Members are subject to insider trading prohibitions and the respective directors' dealing rules of the German Securities Trading Act. A member of the Supervisory Board may not vote on matters relating to certain contractual agreements between such member and SAP AG. Further, as the compensation of the Supervisory Board members is laid down in the Articles of Incorporation, Supervisory Board members are unable to vote on their own compensation, with the exception that they are able to exercise voting rights in a General Meeting of Shareholders in connection with a resolution amending the Articles of Incorporation.

The Supervisory Board may appoint committees from among its members and may, to the extent permitted by law, entrust such committees with the authority to make decisions on behalf of the Supervisory Board. Currently the Supervisory Board maintains the following committees:

The focus of the Audit Committee (Prüfungsausschuss) is the oversight of SAP's external financial reporting as well as SAP's risk management, internal controls (including internal controls over the effectiveness of the financial reporting process), corporate audit and compliance matters. According to German Law SAP's Audit Committee includes at least one independent member with specialist expertise in the fields of financial reporting or auditing. Among the tasks of the Audit Committee are the discussion of SAP's quarterly and year end financial reporting prepared under German and U.S. regulations, including this report. The Audit Committee proposes the appointment of the external independent auditor to the Supervisory Board, determines focus audit areas, discusses critical accounting policies and estimates with and reviews the audit reports issued and audit issues identified by the auditor. The audit committee also negotiates the audit fees with the auditor and monitors the auditor's independence. SAP's Corporate Audit (CA), SAP's Global Compliance Office (GCO) and SAP's Risk Management Office



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**Table of Contents**

Part I

Item 10

(RMO) report upon request or at the occurrence of certain findings, but in any case at least once a year (GCO and RMO) or twice a year (CA), directly to the Audit Committee.

The Audit Committee has established procedures regarding the prior approval of all audit and non-audit services provided by our external independent auditor. See Item 16C. Principal Accountant Fees and Services for details. Furthermore the Audit Committee monitors the effectiveness of our internal risk management and other monitoring processes that are or need to be established.

The Supervisory Board has determined Erhard Schipporeit to be an audit committee financial expert as defined by the regulations of the SEC issued under Section 407 of the Sarbanes-Oxley Act as well as an independent financial expert as defined by the German Stock Corporation Act. See Item 16A. Audit Committee Financial Expert for details. He is also the chairperson of the Audit Committee.

The General and Compensation Committee (Präsidential und Personalausschuss) coordinates the work of the Supervisory Board, prepares its meetings and deals with corporate governance issues. In addition, it carries out the preparatory work necessary for the personnel decisions made by the Supervisory Board, notably those concerning compensation for the Executive Board members and the conclusion, amendment and termination of the Executive Board members' contracts of appointment.

The German Stock Corporation Act prohibits the Compensation Committee from deciding on the remuneration of the Executive Board members on behalf of the Supervisory Board and requires that such decision is made by the entire Supervisory Board. This Act also provides the General Meeting of Shareholders with the right to vote on the system for the remuneration of Executive Board members, such vote not being legally binding for the Supervisory Board.

The Finance and Investment Committee (Finanz- und Investitionsausschuss) addresses general financing issues. Furthermore, it regularly discusses acquisitions of intellectual property and companies, venture capital investments and other investments with the Executive Board and reports

to the Supervisory Board on such investments. It is also responsible for the approval of such investments if the individual investment amount exceeds certain specified limits.

Required by the German Co-determination Act of 1976 (Mitbestimmungsgesetz), the Mediation Committee (Vermittlungsausschuss) convenes only if the two-thirds majority required for appointing/revoking the appointment of Executive Board members is not attained. This committee has never held a meeting in SAP AG's history.

The Strategy and Technology Committee (Strategie- und Technologieausschuss) monitors technology transactions and provides the Supervisory Board with in-depth technical advice.

The Nomination Committee (Nominierungsausschuss) is exclusively composed of shareholder representatives and is responsible for identifying suitable candidates for membership of the Supervisory Board for recommendation to the Annual General Meeting of Shareholders.

The Special Committee (Sonderausschuss) is tasked with coordinating and managing the Supervisory Board's external legal advisors concerned with the investigation and analysis of the facts in connection with the legal action brought by Oracle Corporation.

The duties, procedures and committees of the Supervisory Board are specified in their respective bylaws, if any, which reflect the requirements of the German Stock Corporation Act and the recommendations of the GCGC.

According to the provisions of the Sarbanes-Oxley Act, SAP does not grant loans to the members of the Executive Board or the Supervisory Board.

## **The Executive Board**

The Executive Board manages the Company's business, is responsible for preparing its strategy and represents it in dealings with third parties. The Executive Board reports regularly to the Supervisory Board about SAP operations and business strategies and prepares special reports upon request. A person may not serve on the Executive Board and on the Supervisory Board at the same time.

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**Table of Contents**

Part I

Item 10

The Executive Board and the Supervisory Board must cooperate closely for the benefit of the Company. Without being asked, the Executive Board must provide to the Supervisory Board regular, prompt and comprehensive information about all of the essential issues affecting the SAP Group's business progress and its potential business risks. Furthermore, the Executive Board must maintain regular contact with the chairperson of the Supervisory Board. The Executive Board must inform the chairperson of the Supervisory Board promptly about exceptional events that are of significance to SAP's business. The Supervisory Board chairperson must inform the Supervisory Board accordingly.

Pursuant to the Articles of Incorporation, the Executive Board must consist of at least two members. Currently, SAP AG's Executive Board is currently comprised of seven members. Any two members of the Executive Board jointly or one member of the Executive Board and the holder of a special power of attorney (Prokurist) jointly may legally represent SAP AG. The Supervisory Board appoints each member of the Executive Board for a maximum term of five years, with the possibility of re-appointment. Under certain circumstances, a member of the Executive Board may be removed by the Supervisory Board prior to the expiration of that member's term. A member of the Executive Board may not vote on matters relating to certain contractual agreements between such member and SAP AG, and may be liable to SAP AG if such member has a material interest in any contractual agreement between SAP and a third party which was not previously disclosed to and approved by the Supervisory Board. Further, as the compensation of the Executive Board members is set by the Supervisory Board, Executive Board members are unable to vote on their own compensation, with the exception that they are able to exercise voting rights in a General Meeting of Shareholders resolving a non-binding vote on the system for the remuneration of Executive Board members.

Under German law SAP AG's Supervisory Board members and Executive Board members have a duty of loyalty and care towards SAP AG. They must exercise the standard of care of a prudent and diligent businessman and bear the burden of proving they did so if their actions are contested. Both bodies must consider the interest of SAP AG shareholders and our employees and, to some extent, the common good. Those who violate their duties may be held jointly and severally liable for any resulting damages, unless they acted pursuant

to a lawful resolution of the Annual General Meeting of Shareholders.

SAP has implemented a Code of Business Conduct for employees (see Item 16B, Code of Ethics for details). The employee code is equally applicable to managers and members of the Executive Board.

Under German law the Executive Board of SAP AG has to assess all major risks for the SAP Group. In addition, all measures taken by management to reduce and handle the risks have to be documented. Therefore, SAP's management has adopted suitable measures such as implementing an enterprise-wide monitoring system to ensure that adverse developments endangering the corporate standing are recognized at a reasonably early point in time.

The Global Compliance Office (GCO), an extension of SAP's Global Legal Department, was created by the SAP Executive Board in 2006 to oversee and coordinate legal and regulatory policy compliance at SAP. Effective March 1, 2007, the Company appointed a Chief Global Compliance Officer who reports to the General Counsel, and also has direct communication channels and reporting obligations to the Executive Board and the Audit Committee of the Supervisory Board. The GCO manages a network of more than 100 local subsidiary Compliance Officers who act as the point of contact for local questions or issues under the SAP Code of Business Conduct for employees. The GCO provides training and communication to SAP employees to raise awareness and understanding of legal and regulatory compliance policies. Employee help lines are also supported in each region where questions can be raised or questionable conduct can be reported without fear of retaliation.

Pursuant to Sec. 289a of the German Commercial Code (Handelsgesetzbuch) the Executive Board of publicly listed companies like SAP AG are required to issue a corporate governance statement (Erklärung zur Unternehmensführung) every year together with its annual financial statements. Companies are free to include the corporate governance declaration in their management report or publish the declaration on their website. SAP has chosen to publish the declaration on its website under (<http://www.sap.com/corporate-en/investors/governance/index.epx>). As stipulated by law the declaration comprises the declaration of compliance with the recommendations of the GCGC pursuant to Sec. 161 of the German Stock Corporation Act, relevant disclosures of the





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## **Table of Contents**

### Part I

#### Item 10

company's corporate governance practices such as ethical, work and welfare standards, and a description of the Executive Board and Supervisory Board's rules of procedure as well as information on the composition and rules of procedure of their sub-committees.

### **The Global Managing Board**

In May 2012, SAP created a Global Managing Board in addition to the SAP Executive Board, which retains ultimate responsibility for overseeing and deciding on the activities of the company. The Global Managing Board allows SAP to appoint a broader range of global leaders to help steer the organization. It has advisory and decision-supporting functions for the Executive Board and comprises all Executive Board members as well as Robert Enslin and Bob Calderoni.

### **The Annual General Meeting of Shareholders**

Shareholders of the Company exercise their voting rights at shareholders' meetings. The Executive Board calls the Annual General Meeting of Shareholders, which must take place within the first eight months of each fiscal year. The Supervisory Board or the Executive Board may call an extraordinary meeting of the shareholders if the interests of the stock corporation so require. Additionally, shareholders of SAP AG holding in the aggregate a minimum of 5% of SAP AG's issued share capital may call an extraordinary meeting of the shareholders. Shareholders as of the record date are entitled to attend and participate in shareholders' meetings if they have provided timely notice of their intention to attend the meeting.

At the Annual General Meeting of Shareholders, the shareholders are asked, among other things, to formally approve the actions taken by the Executive Board and the Supervisory Board in the preceding fiscal year, to approve the appropriation of the corporation's distributable profits and to appoint an external independent auditor. Shareholder representatives of the Supervisory Board are generally elected at the Annual General Meeting of Shareholders for a term of approximately five years. Shareholders may also be asked to grant authorization to repurchase treasury shares, to resolve on measures to raise or reduce the capital of the Company or to ratify amendments of our Articles of Incorporation. The

Annual General Meeting of Shareholders can make management decisions only if requested to do so by the Executive Board.

### **CHANGE IN CONTROL**

There are no provisions in the Articles of Incorporation of SAP AG that would have an effect of delaying, deferring or preventing a change in control of SAP AG and that would only operate with respect to a merger, acquisition or corporate restructuring involving it or any of its subsidiaries.

According to the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz) a bidder seeking control of a company with its corporate seat in Germany and traded on a European Union stock exchange must publish advance notice of a tender offer, submit a draft offer statement to the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) for review, and obtain certification from a qualified financial institution that adequate financing is in place to complete the offer. Once a bidder has acquired shares representing 30% of the voting power of the target company, it must make an offer for all remaining shares. The Securities Acquisition and Takeover Act requires the executive board of the target company to refrain from taking any measures that may frustrate the success of the takeover offer. However, the target executive board is permitted to take any action that a prudent and diligent management of a company that is not the target of a takeover bid would also take. Moreover, the target executive board may search for other bidders and, with the prior approval of the supervisory board, may take other defensive measures, provided that both boards act within the parameters of their general authority under the German Stock Corporation Act. An executive board may also adopt specific defensive measures if such measures have been approved by the supervisory board and were specifically authorized by the shareholders no later than 18 months in advance of a takeover bid by resolution of 75% of the votes cast.

## Edgar Filing: SAP AG - Form 20-F

Under the European Takeover Directive of 2004 member states had to choose whether EU restrictions on defensive measures apply to companies that are registered in their territory. Germany decided to opt out and to retain its current restrictions on a board implementing defensive measures (as described above). As required by the Directive if a country decides to

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**Table of Contents**

Part I

Item 10

opt out the German Securities Acquisition and Takeover Act grants companies the option of voluntarily applying the European standard by a change of the Articles of Incorporation (opt-in). SAP AG has not made use of this option.

**CHANGE IN SHARE CAPITAL**

Under German law, the capital stock may be increased in consideration of contributions in cash or in kind, or by establishing authorized capital or contingent capital or by an increase of the company's capital reserves. Authorized capital provides the Executive Board with the flexibility to issue new shares for a period of up to five years. The Executive Board must obtain the approval of the Supervisory Board before issuing new shares with regard to the authorized capital. Contingent capital allows the issuance of new shares for specified purposes, including stock option plans for Executive Board members or employees and the issuance of shares upon conversion of convertible bonds and exercise of stock options. By law, the Executive Board may only issue new shares with regard to the contingent capital for the specified purposes. Capital increases require an approval by at least 75% of the share capital represented and by the simple majority of the votes cast at the General Meeting of Shareholders in which the increase is proposed, and requires an amendment to the Articles of Incorporation.

The share capital may be reduced by an amendment to the Articles of Incorporation approved by at least 75% of the share capital represented and by the simple majority of the votes cast at the General Meeting of Shareholders. In addition, the Executive Board of SAP AG is allowed to authorize a reduction of the company's capital stock by canceling a defined number of repurchased treasury shares if this repurchasing and the subsequent reduction have already been approved by the General Meeting of Shareholders.

The Articles of Incorporation do not contain conditions regarding changes in the share capital that are more stringent than those provided by German law.

**RIGHTS ACCOMPANYING OUR SHARES**

There are no limitations imposed by German law or the Articles of Incorporation of SAP AG on the rights to own securities, including the rights of

non-residents or foreign holders to hold the ADRs or ordinary shares, to exercise voting rights or to receive dividends or other payments on such shares.

According to the German stock corporation law, the rights of shareholders cannot be amended without shareholders' consent. The Articles of Incorporation do not provide more stringent conditions regarding changes of the rights of shareholders than those provided by German law.

**Voting Rights**

Each ordinary SAP AG share represents one vote. Cumulative voting is not permitted under German law. A corporation's articles of incorporation may stipulate a majority necessary to pass a shareholders' resolution differing from the majority provided by law, unless the law does not mandatorily require a certain majority. Section 21 (1) of SAP AG's Articles of Incorporation provides that resolutions may be passed at the General Meeting of Shareholders by the majority as provided by law. This means that resolutions may be passed by a majority of 50% plus one vote of votes cast (simple majority), unless the law provides or requires a higher majority. German law requires that the following matters, among others, be approved by at least 75% of the share capital represented and by the simple majority of the votes cast at the General Meeting of Shareholders in which the matter is proposed:

changing the corporate purpose of the company set out in the articles of incorporation;

capital increases and capital decreases;

excluding preemptive rights of shareholders to subscribe for new shares or for treasury shares;

dissolution;

a merger into, or a consolidation with, another company;

a transfer of all or virtually all of the assets; and

a change of corporate form.

Section 21 (3) of SAP AG's Articles of Incorporation provides that, if at an election no candidate receives a simple majority of votes during the first ballot in an election, a second, deciding ballot shall be conducted between the

**Table of Contents**

## Part I

## Item 10

candidates who received the largest number of votes. If the second ballot is tied, the election shall be determined by drawing lots.

**Dividend Rights**

See Item 3. Key Information Dividends.

**Preemptive Rights**

Shareholders have preemptive rights to subscribe (Bezugsrecht) for any issue of additional shares in proportion to their shareholdings in the issued capital. The preemptive rights may be excluded under certain circumstances by a shareholders' resolution (approved by at least 75% of the share capital represented and by the simple majority of the votes cast at the General Meeting of Shareholders) or by the Executive Board authorized by such shareholders' resolutions and subject to the consent of the Supervisory Board.

**Liquidation**

If SAP AG were to be liquidated, any liquidation proceeds remaining after all of our liabilities were paid would be distributed to our shareholders in proportion to their shareholdings.

**Disclosure of Shareholdings**

SAP AG's Articles of Incorporation do not require shareholders to disclose their share holdings. The German Securities Trading Act (Wertpapierhandelsgesetz), however, requires holders of voting securities of SAP AG to notify SAP AG and the Federal Financial Supervisory Authority of the number or shares they hold if that number reaches, exceeds or falls below specified thresholds. These thresholds are 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% of the corporation's outstanding voting rights. In respect of certificates representing shares, the notification requirement shall apply exclusively to the holder of the certificates. In addition, the German Securities Trading Act also obliges anyone who holds, directly or indirectly, financial instruments that result in an entitlement to acquire, on one's initiative alone and under a legally binding agreement, shares in SAP AG, to notify SAP AG and the Federal Financial Supervisory Authority if the thresholds mentioned above have been reached, exceeded or fallen below, with the exception of the 3% threshold. In connection with

this notification obligation positions in voting rights and other financial instruments have to be aggregated.

**Exchange Controls and Other Limitations Affecting Security Holders**

The euro is a fully convertible currency. At the present time, Germany does not restrict the export or import of capital, except for investments in certain areas in accordance with applicable resolutions adopted by the United Nations and the European Union. However, for statistical purposes only, every individual or corporation residing in Germany ( Resident ) must report to the German Central Bank (Deutsche Bundesbank), subject only to certain immaterial exceptions, any payment received from or made to an individual or a corporation residing outside of Germany ( Non-Resident ) if such payment exceeds 12,500 (or the equivalent in a foreign currency). In addition, German Residents must report any claims against or any liabilities payable to Non-Residents if such claims or liabilities, in the aggregate, exceed 5 million (or the equivalent in a foreign currency) at the end of any calendar month. Residents are also required to report annually to the German Central Bank any shares or voting rights of 10% or more which they hold directly or indirectly in non-resident corporations with total assets of more than 3 million. Corporations residing in Germany with assets in excess of 3 million must report annually to the German Central Bank any shares or voting rights of 10% or more held directly or indirectly by a Non-Resident.

**TAXATION**

## General

The following discussion is a summary of certain material German tax and U.S. federal income tax consequences of the acquisition, ownership and disposition of our ADRs or ordinary shares to a U.S. Holder. In general, a U.S. Holder (as hereinafter defined) is any beneficial owner of our ADRs or ordinary shares that (i) is a citizen or resident of the U.S. or a corporation organized under the laws of the U.S. or any political subdivision thereof, an estate whose income is subject to U.S. federal income tax regardless of its source or a trust, if a U.S. court can exercise primary supervision over its administration and

**Table of Contents**

## Part I

## Item 10

one or more U.S. persons are authorized to control all substantial decisions of the trust; (ii) is not a resident of Germany for purposes of the income tax treaty between the U.S. and Germany (Convention between the Federal Republic of Germany and the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and to certain other Taxes, as amended by the Protocol of June 1, 2006 and as published in the German Federal Law Gazette 2008 vol. II pp. 611/851; the Treaty ); (iii) owns the ADRs or ordinary shares as capital assets; (iv) does not hold the ADRs or ordinary shares as part of the business property of a permanent establishment or a fixed base in Germany; and (v) is fully entitled to the benefits under the Treaty with respect to income and gain derived in connection with the ADRs or ordinary shares.

THE FOLLOWING IS NOT A COMPREHENSIVE DISCUSSION OF ALL GERMAN TAX AND U.S. FEDERAL INCOME TAX CONSEQUENCES THAT MAY BE RELEVANT FOR U.S. HOLDERS OF OUR ADRs OR ORDINARY SHARES. THEREFORE, U.S. HOLDERS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE OVERALL GERMAN TAX AND U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF OUR ADRs OR ORDINARY SHARES IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES, INCLUDING THE EFFECT OF ANY STATE, LOCAL OR OTHER FOREIGN OR DOMESTIC LAWS.

**German Taxation**

The summary set out below is based on German tax laws, interpretations thereof and applicable tax treaties to which Germany is a party and that are in force at the date of this report; it is subject to any changes in such authority occurring after that date, potentially with retroactive effect, that could result in German tax consequences different from those discussed below. This discussion is also based, in part, on representations of the Depository and assumes that each obligation of the Deposit Agreement and any related agreements will be performed in accordance with its terms. For additional information on the Depository and the fees associated with SAP's ADR program see Item 12. Description of Securities Other Than Equity Securities – American Depository Shares.

For purposes of applying German tax law and the applicable tax treaties to which Germany is a party, a holder of ADRs will generally be treated as owning the ordinary shares represented thereby.

***German Taxation of Dividends***

Under German income tax law, the full amount of dividends distributed by a company is generally subject to German withholding tax at a domestic rate of 25% plus a solidarity surtax of 5.5% (effectively 1.375% of dividends before withholding tax), resulting in an aggregate withholding tax rate from dividends of 26.375%. Non-resident corporate shareholders will generally be entitled to a refund in the amount of two-fifths of the withholding tax (including solidarity surtax). This does not preclude a further reduction of withholding tax, if any, available under a relevant tax treaty.

Generally, for many non-resident shareholders the withholding tax rate is currently reduced under applicable income tax treaties. Rates and refund procedures may vary according to the applicable treaty. To reduce the withholding tax to the applicable treaty tax rate a non-resident shareholder must apply for a refund of withholding taxes paid. Claims for refund, if any, are made on a special German claim for refund form, which must be filed with the German Federal Tax Office (Bundeszentralamt für Steuern, D-53221 Bonn, Germany; <http://www.bzst.de>). The relevant forms can be obtained from the German Federal Tax Office or from German embassies and consulates. For details, such non-resident shareholders are urged to consult their own tax advisors. Special rules apply for the refund to U.S. Holders (we refer to the below section Refund Procedures for U.S. Holders ).

***Refund Procedures for U.S. Holders***

Under the Treaty, a partial refund of the 25% withholding tax equal to 10% of the gross amount of the dividend and a full refund of the solidarity surtax can be obtained by a U.S. Holder. Thus, for each US\$100 of gross dividends paid by SAP AG to a U.S. Holder, the dividends (which are



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dependent on the euro/dollar exchange rate at the time of payment) will be initially subject to a German withholding tax of US\$26.375, of which US\$11.375 may be refunded under the Treaty. As a result, a U.S. Holder effectively would receive a total dividend of US\$85 (provided the euro/dollar

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**Table of Contents**

## Part I

## Item 10

exchange rate at the time of payment of the dividend is the same as at the time of refund, otherwise the effective dividend may be higher or lower).

To claim the refund of amounts withheld in excess of the Treaty rate, a U.S. Holder must submit (either directly or, as described below, through the Data Medium Procedure participant) a claim for refund to the German tax authorities, with, in the case of a direct claim, the original bank voucher (or certified copy thereof) issued by the paying entity documenting the tax withheld, within four years from the end of the calendar year in which the dividend is received. Claims for refund are made on a special German claim for refund form, which must be filed with the German Federal Tax Office (Bundeszentralamt für Steuern, D-53221 Bonn, Germany). The German claim for refund form may be obtained from the German tax authorities at the same address where applications are filed, from the Embassy of the Federal Republic of Germany, 2300 M Street NW, Washington, DC 20037, or can be downloaded from the homepage of the German Federal Tax Office (<http://www.bzst.de>).

U.S. Holders must also submit to the German tax authorities a certification of their U.S. residency status (IRS Form 6166). This certification can be obtained from the Internal Revenue Service by filing a request for certification (generally on an IRS Form 8802, which will not be processed unless a user fee is paid) with the Internal Revenue Service, P.O. Box 71052, Philadelphia, PA 19176-6052. U.S. Holders should consult their own tax advisors regarding how to obtain an IRS Form 6166.

An IT-supported quick-refund procedure is available for dividends received (the Data Medium Procedure DMP). If the U.S. Holder's bank or broker elects to participate in the DMP, it will perform administrative functions necessary to claim the Treaty refund for the beneficiaries. The refund beneficiaries must confirm to the DMP participant that they meet the conditions of the Treaty provisions and that they authorize the DMP participant to file applications and receive notices and payments on their behalf. Further each refund beneficiary must confirm that (i) it is the beneficial owner of the dividends received; (ii) it is resident in the U.S. in the meaning of the Treaty; (iii) it does not have its domicile, residence or place of management in Germany; (iv) the dividends received do not form part of a permanent

establishment or fixed base in Germany; and (v) it commits, due to its participation in the DMP, not to claim separately for refund.

The beneficiaries also must provide an IRS Form 6166 certification with the DMP participant. The DMP participant is required to keep these documents in its files and prepare and file a combined claim for refund with the German tax authorities by electronic media. The combined claim provides evidence of a U.S. Holder's personal data including its U.S. Tax Identification Number.

The German tax authorities reserve the right to audit the entitlement to tax refunds for several years following their payment pursuant to the Treaty in individual cases. The DMP participant must assist with the audit by providing the necessary details or by forwarding the queries to the respective refund beneficiaries.

The German tax authorities will issue refunds denominated in euros. In the case of shares held through banks or brokers participating in the Depository, the refunds will be issued to the Depository, which will convert the refunds to dollars. The resulting amounts will be paid to banks or brokers for the account of the U.S. Holders.

***German Taxation of Capital Gains***

Under German income tax law, a capital gain derived from the sale or other disposition of ADRs or ordinary shares by a non-resident shareholder is subject to income tax in Germany only if such non-resident shareholder has held, directly or indirectly, ADRs or ordinary shares representing 1% or more of the registered share capital of a company at any time during the five-year period immediately preceding the sale or other disposition.

However, a U.S. Holder of ADRs or ordinary shares that qualifies for benefits under the Treaty is not subject to German income or corporate income tax on the capital gain derived from the sale or other disposition of ADRs or ordinary shares.

***German Gift and Inheritance Tax***

Generally, a transfer of ADRs or ordinary shares by a shareholder at death or by way of gift will be

**Table of Contents**

## Part I

## Item 10

subject to German gift or inheritance tax, respectively, if (i) the decedent or donor, or the heir, donee or other transferee is resident in Germany at the time of the transfer, or with respect to German citizens who are not resident in Germany, if the decedent or donor, or the heir, donee or other transferee has not been continuously outside of Germany for a period of more than five years; (ii) the ADRs or ordinary shares are part of the business property of a permanent establishment or a fixed base in Germany; or (iii) the ADRs or ordinary shares subject to such transfer form part of a portfolio that represents 10% or more of the registered share capital of the Company and has been held, directly or indirectly, by the decedent or donor, respectively, at the time of the transfer, actually or constructively together with related parties.

However, the right of the German government to impose gift or inheritance tax on a non-resident shareholder may be limited by an applicable estate tax treaty. In the case of a U.S. Holder, a transfer of ADRs or ordinary shares by a U.S. Holder at death or by way of gift generally will not be subject to German gift or inheritance tax by reason of the estate tax treaty between the U.S. and Germany (Convention between the Federal Republic of Germany and the United States of America for the Avoidance of Double Taxation with respect to Estate, Gift and Inheritance Taxes, German Federal Law Gazette 1982 vol. II page 847, as amended by the Protocol of December 14, 1998 and as published on December 21, 2000, German Federal Law Gazette 2001 vol. II, page 65; the Estate Tax Treaty ) so long as the decedent or donor, or the heir, donee or other transferee was not domiciled in Germany for purposes of the Estate Tax Treaty at the time the gift was made, or at the time of the decedent's death, and the ADRs or ordinary shares were not held in connection with a permanent establishment or a fixed base in Germany. In general, the Estate Tax Treaty provides a credit against the U.S. federal gift or estate tax liability for the amount of gift or inheritance tax paid in Germany, subject to certain limitations, in a case where the ADRs or ordinary shares are subject to German gift or inheritance tax and U.S. federal gift or estate tax.

***Other German Taxes***

There are currently no German net worth, transfer, stamp or other similar taxes that would apply to a U.S. Holder on the acquisition, ownership, sale or other disposition of our ADRs or ordinary shares.

**U.S. Taxation**

The following discussion applies to U.S. Holders only if the ADRs and ordinary shares are held as capital assets for tax purposes. It does not address tax considerations applicable to U.S. Holders that may be subject to special tax rules, such as dealers or traders in securities, financial institutions, insurance companies, tax-exempt entities, regulated investment companies, U.S. Holders that hold ordinary shares or ADRs as a part of a straddle, conversion transaction or other arrangement involving more than one position, U.S. Holders that own (or are deemed for U.S. tax purposes to own) 10% or more of the total combined voting power of all classes of voting stock of SAP AG, U.S. Holders that have a principal place of business or tax home outside the United States or U.S. Holders whose functional currency is not the dollar and U.S. Holders that hold ADRs or ordinary shares through partnerships or other pass-through entities.

The summary set out below is based upon the U.S. Internal Revenue Code of 1986, as amended (the Code ), the Treaty and regulations, rulings and judicial decisions thereunder at the date of this report. Any such authority may be repealed, revoked or modified, potentially with retroactive effect, so as to result in U.S. federal income tax consequences different from those discussed below. No assurance can be given that the conclusions set out below would be sustained by a court if challenged by the IRS. The discussion below is based, in part, on representations of the Depository, and assumes that each obligation in the Deposit Agreement and any related agreements will be performed in accordance with its terms.

**Table of Contents**

## Part I

## Item 10

For U.S. federal income tax purposes, a U.S. Holder of ADRs will be considered to own the ordinary shares represented thereby. Accordingly, unless the context otherwise requires, all references in this section to ordinary shares are deemed to refer likewise to ADRs representing an ownership interest in ordinary shares.

***U.S. Taxation of Dividends***

Subject to the discussion below under *Passive Foreign Investment Company Considerations*, distributions made by SAP AG with respect to ordinary shares (other than distributions in liquidation and certain distributions in redemption of stock), including the amount of German tax deemed to have been withheld in respect of such distributions, will generally be taxed to U.S. Holders as ordinary dividend income.

As discussed above, a U.S. Holder may obtain a refund of German withholding tax under the Treaty to the extent that the German withholding tax exceeds 15% of the dividend distributed. Thus, for each US\$100 of gross dividends paid by SAP AG to a U.S. Holder, the dividends (which are dependent on the euro/dollar exchange rate at the time of payment) will be initially subject to German withholding tax of US\$25 plus US\$1.375 solidarity surtax, and the U.S. Holder will receive US\$73.625. A U.S. Holder who obtains the Treaty refund will receive from the German tax authorities an additional amount in euro that would be equal to US\$11.375. For U.S. tax purposes, such U.S. Holder will be considered to have received a total distribution of US\$100, which will be deemed to have been subject to German withholding tax of US\$15 (15% of US\$100) resulting in the net receipt of US\$85 (provided the euro/dollar exchange rate at the time of payment of the dividend is the same as at the time of refund, otherwise the effective dividend may be higher or lower).

In the case of a distribution in euro, the amount of the distribution generally will equal the dollar value of the euro distributed (determined by reference to the spot currency exchange rate on the date of receipt of the distribution, or receipt by the Depositary in the case of a distribution on ADRs), regardless of whether the holder in fact converts the euro into dollars, and the U.S. Holder will not realize any separate foreign currency gain or loss (except to the extent that such gain or loss arises on the actual disposition of foreign currency received). However, a U.S. Holder may be required to recognize foreign currency gain or loss on the

receipt of a refund in respect of German withholding tax to the extent the U.S. dollar value of the refund differs from the U.S. dollar equivalent of that amount on the date of receipt of the underlying dividend.

Dividends paid by SAP AG generally will constitute *portfolio income* for purposes of the limitations on the use of passive activity losses (and, therefore, generally may not be offset by passive activity losses) and as *investment income* for purposes of the limitation on the deduction of investment interest expense. Dividends paid by SAP AG will not be eligible for the dividends received deduction generally allowed to U.S. corporations under Section 243 of the Code. Dividends paid by SAP AG to an individual after December 31, 2002 are treated as *qualified dividends* subject to capital gains rates, i.e. at a maximum rate of 15% if received prior to January 1, 2013 and 20% afterwards, if SAP AG was not in the prior year and, is not in the year in which the dividend is paid, a passive foreign investment company ( *PFIC* ). Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income taxes with respect to our 2012 tax year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for the 2013 tax year. Beginning on January 1, 2013, dividend income may also be subject to tax on net investment income at a rate of 3.8%.

***U.S. Taxation of Capital Gains***

In general, assuming that SAP AG at no time is a PFIC, upon a sale or exchange of ordinary shares to a person other than SAP AG, a U.S. Holder will recognize gain or loss in an amount equal to the difference between the amount realized on the sale or exchange and the U.S. Holder's adjusted tax basis in the ordinary shares. Such gain or loss will be a capital gain or loss and will be considered a long-term capital gain (taxable at a reduced rate for individuals) if the ordinary shares were held for more than one year. Beginning on January 1, 2013, capital gains may also be subject to tax on net investment income at a rate of 3.8%. The deductibility of capital losses is subject to significant limitations. Upon a sale of ordinary shares to SAP AG, a U.S. Holder may recognize a capital gain or loss or, alternatively, may be considered to have

received a distribution with

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**Table of Contents**

Part I

Item 10

respect to the ordinary shares, in each case depending upon the application to such sale of the rules of Section 302 of the Code.

Deposit and withdrawal of ordinary shares in exchange for ADRs by a U.S. Holder will not result in its realization of gain or loss for U.S. federal income tax purposes.

***U.S. Information Reporting and Backup Withholding***

Dividend payments made to holders and proceeds paid from the sale of shares or ADRs are subject to information reporting to the Internal Revenue Service and will be subject to backup withholding taxes (currently imposed at a 28% rate) unless the holder (i) is a corporation or other exempt recipient or (ii) provides a taxpayer identification number on a properly completed IRS Form W-9 and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Backup withholding is not an additional tax and any amounts withheld as backup withholding may be credited against a holder's U.S. federal income tax liability. A holder may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

Shareholders may be subject to other U.S. information reporting requirements and should consult their own tax advisors for application of these reporting requirements to their own facts and circumstances.

***U.S. Foreign Tax Credit***

In general, in computing its U.S. federal income tax liability, a U.S. Holder may elect for each taxable year to claim a deduction or, subject to the limitations on foreign tax credits generally, a credit for foreign income taxes paid or accrued by it. For U.S. foreign tax credit purposes, subject to the applicable limitations under the foreign tax credit rules, German tax withheld from dividends paid to a U.S. Holder, up to the 15% provided under the Treaty, will be eligible for credit against

the U.S. Holder's federal income tax liability or, if the U.S. Holder has elected to deduct such taxes, may be deducted in computing taxable income.

For U.S. foreign tax credit purposes, dividends paid by SAP AG generally will be treated as foreign-source income and as passive category income (or in the case of certain holders, as general category income). Gains or losses realized by a U.S. Holder on the sale or exchange of ordinary shares generally will be treated as U.S.-source gain or loss.

***Passive Foreign Investment Company Considerations***

Special and adverse U.S. tax rules apply to a U.S. Holder that holds an interest in a passive foreign investment company (PFIC). Based on current projections concerning the composition of SAP AG's income and assets, SAP AG does not believe that it will be treated as a PFIC for its current or future taxable years. However, because this conclusion is based on our current projections and expectations as to its future business activity, SAP AG can provide no assurance that it will not be treated as a PFIC in respect of its current or any future taxable years.

**MATERIAL CONTRACTS**

**SuccessFactors, Inc.**

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Pursuant to the Agreement and Plan of Merger dated as of December 3, 2011 by and among SAP America, Inc., a wholly owned subsidiary of SAP AG (SAP America), Saturn Expansion Corporation, a wholly owned subsidiary of SAP America (Saturn) and SuccessFactors, Inc. (SuccessFactors), Saturn commenced a cash tender offer for all of the outstanding shares of the common stock of SuccessFactors, par value US\$0.001 per share (each a share), at a price of US\$40.00 per share, representing an enterprise value of approximately US\$3.6 billion. On February 21, 2012, SAP acquired more than 90% of the outstanding ordinary shares of SuccessFactors. Subsequent to the acceptance of the shares for payment under the tender offer, SAP effected a short-form merger under Delaware and acquired the remaining shares for the same US\$40.00 per share price that was paid in the tender offer. The transaction was funded from SAP's cash on hand and a 1 billion credit facility.



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**Table of Contents**

Part I

Item 10, 11, 12

The preceding description is a summary of the Agreement and Plan of Merger and is qualified in its entirety by the Agreement and Plan of Merger which is incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC by SuccessFactors on December 5, 2011.

**Ariba, Inc.**

Pursuant to the Agreement and Plan of Merger, dated as of May 22, 2012 by and among Ariba, Inc., SAP America, Inc. and Angel Expansion Corporation, (the Merger Agreement ), on October 1, 2012 SAP America acquired Ariba, the leading cloud-based business commerce network, for US\$45.00 per share, representing an enterprise value of approximately US\$4.3 billion. The acquisition combines Ariba's successful buyer-seller collaboration network with SAP's broad customer base and deep business process expertise to create new models for business-to-business collaboration in the cloud. The transaction was funded from SAP's free cash and a 2.4 billion term loan facility.

The preceding description is a summary of the Merger Agreement and is qualified in its entirety by the Merger Agreement which is incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC by Ariba, Inc. on May 22, 2012.

See Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Disclosures , for information on our credit facilities.

**DOCUMENTS ON DISPLAY**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and furnish other information as a foreign private issuer with the SEC. These materials, including this report and the exhibits thereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The SEC also maintains a Web site at [www.sec.gov](http://www.sec.gov) that contains reports and other information regarding registrants that file electronically with the SEC. This report as well as some of the other information submitted by us to the SEC may be accessed through this Web site. In addition, information about us is available at our Web site: [www.sap.com](http://www.sap.com).

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to various financial risks, such as market risks, including changes in foreign currency exchange rates, interest rates and equity prices, as well as credit risk and liquidity risk. We manage these risks on a Group-wide basis. Selected derivatives are exclusively used for this purpose and not for speculation, which is defined as entering into derivative instruments without a corresponding underlying transaction. Financial risk management is done centrally. See Notes (24), (25) and (26) to our Consolidated Financial Statements for our quantitative and qualitative disclosures about market risk.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**AMERICAN DEPOSITARY SHARES**

**Fees and Charges Payable by ADR Holders**

Deutsche Bank Trust Company Americas is the Depositary for SAP AG's ADR program. ADR holders may be required to pay the following charges:

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taxes and other governmental charges;

registration fees as may be in effect from time to time for the registration of transfers of SAP ordinary shares on any applicable register to the Depositary or its nominee or the custodian or its nominee in connection with deposits or withdrawals under the Deposit Agreement;

applicable air courier, cable, telex and facsimile expenses of the Depositary;

expenses incurred by the Depositary in the conversion of foreign currency;

\$5.00 or less per 100 ADSs (or portion thereof) to the Depositary for the execution and delivery of ADRs (including in connection with the depositing of SAP ordinary shares or the exercising of rights) and the surrender of ADRs as well as for the distribution of other securities;

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**Table of Contents**

Part I

Item 12

a maximum aggregate service fee of US\$2.00 per 100 ADSs (or portion thereof) per calendar year to the Depositary for the services performed by the Depositary in administering the ADR program, including for processing any cash dividends and other cash distributions; and

\$5.00 or less per 100 ADSs (or portion thereof) to the Depositary for distribution of securities other than SAP ordinary shares or rights. These charges are described more fully in Section 5.9 of the Amended and Restated Deposit Agreement dated November 25, 2009, incorporated by reference as Exhibit 4.1.2 to our 2010 Annual Report on Form 20-F filed with the Commission on March 18, 2011.

Applicable service fees are either deducted from any cash dividends or other cash distributions or charged separately to holders in a manner determined by the Depositary, depending on whether ADSs are registered in the name of investors (whether certificated or in book-entry form) or held in brokerage and custodian accounts (via DTC). In the case of distributions of securities other than SAP ordinary shares or rights, the Depositary charges the applicable ADS record date holder concurrent with the distribution. In the case of ADSs registered in the name of the investor, whether certificated or in book entry form, the Depositary sends invoices to the applicable record date ADS holders. For ADSs held in brokerage and custodian accounts via DTC, the Depositary may, if permitted by the settlement systems provided by DTC, collect the fees through those settlement systems from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in such case may in turn charge their clients' accounts the amount of the service fees paid to the Depositary.

In the event of a refusal to pay applicable fees, the Depositary may refuse the requested services until payment is received or may set off the amount of the service from any distribution to be made to the ADR holder, all in accordance with the Deposit Agreement.

If any taxes or other governmental charges are payable by the holders and/or beneficial owners of ADSs to the Depositary, the Depositary, the custodian or SAP may withhold or deduct from any distributions made in respect of the deposited SAP ordinary share and may sell for the account of the holder and/or beneficial owner any or all of the deposited ordinary shares and apply such distributions and sale proceeds in payment of such taxes (including applicable interest and penalties) or charges, with the holder and the beneficial owner thereof remaining fully liable for any deficiency.

**Fees and Other Payments Payable by the Depositary to SAP**

The Depositary has agreed to make certain payments to SAP as reimbursement for expenses incurred by SAP in connection with its ADR program and in support of SAP's ongoing investor relations activities related to the ADR program. For the year ended December 31, 2012, the Depositary has made direct and indirect payments to SAP of US\$2,632,581.79 for investor relations activities related to the ADR program, including the production of annual reports and Form 20-F filings, 2012 NYSE listing fees, road shows, production of investor targeting, peer analysis, shareholder identification reports and perception studies, postage for mailing annual and interim reports and other communications to ADR holders and participation in retail investor activities, broker conferences, SAP sponsored analyst events and capital markets days.

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**Table of Contents**

Part II

Item 13, 14, 15, 16, 16A

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

**ITEM 15. CONTROLS AND PROCEDURES**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are controls and other procedures of SAP that are designed to ensure that information required to be disclosed by SAP in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by SAP in the reports that it files or submits under the Exchange Act is accumulated and communicated to SAP management, including SAP's principal executive and financial officers (i.e. SAP's co-chief executive officers (Co-CEOs) and chief financial officer (CFO)), or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. SAP's management evaluated, with the participation of SAP's Co-CEOs and CFO the effectiveness of SAP's disclosure controls and procedures as of December 31, 2012. The evaluation was led by SAP's Global Governance Risk & Compliance function, including dedicated SOX Champions in all of SAP's major entities and business units with the participation of process owners, SAP's key corporate senior management, senior management of each business group, and as indicated above under the supervision of SAP's Co-CEOs and CFO. Based on the foregoing, SAP's management, including SAP's Co-CEOs and CFO, concluded that as of December 31, 2012, SAP's disclosure controls and procedures were effective.

**MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of SAP is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. SAP's internal control over financial reporting is a process designed under the supervision of SAP's Co-CEOs and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

SAP's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework.

Based on the assessment under these criteria, SAP management has concluded that, as of December 31, 2012, the Company's internal control over financial reporting was effective.

KPMG, our independent registered public accounting firm has issued its attestation report on the effectiveness of SAP's internal control over financial reporting, which is included in Item 18. Financial Statements, Report of Independent Registered Public Accounting Firm.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There has been no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16. [RESERVED]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our Supervisory Board has determined that Erhard Schipporeit is an audit committee

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**Table of Contents**

Part II

Item 16A, 16B, 16C

financial expert, as defined by the regulations of the Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002 and meeting the requirements of Item 16A. He is independent, as such term is defined in Rule 10A-3 under the Exchange Act.

**ITEM 16B. CODE OF ETHICS**

In 2003, SAP adopted a Code of Business Conduct that applies to all employees (including all personnel in the accounting and controlling departments), managers and the members of SAP's Executive Board (including our CEOs and CFO). Our Code of Business Conduct constitutes a code of ethics as defined in Item 16.B of Form 20-F. Our Code of Business Conduct sets standards for all dealings with customers, partners, competitors and suppliers and includes, among others, regulations with regard to confidentiality, loyalty, preventing conflicts of interest, preventing bribery, and avoiding anti-competitive practices. International differences in culture, language, and legal and social systems make the adoption of uniform Codes of Business Conduct across an entire global company challenging. As a result, SAP has set forth a master code containing minimum standards. In turn, each company within the SAP Group has been required to adopt a similar code that meets at least these minimum standards, but may also include additional or more stringent rules of conduct. Newly acquired companies also are required to meet the minimum standards set forth in the Code of Business Conduct. Effective February 2012, SAP amended its Code of Business Conduct to address certain changes in bribery laws, and to update the intellectual property and non-retaliation provisions. We have made our amended Code of Business Conduct publicly available by posting the full text on our Web site under <http://www.sap.com/corporate-en/investors/governance/policies-statutes.epx>.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**AUDIT FEES, AUDIT RELATED FEES, TAX FEES AND ALL OTHER FEES**

Refer to Note (31) to our Consolidated Financial Statements for information on fees billed by our independent registered public accounting firm, KPMG, for audit services and other professional services.

**AUDIT COMMITTEE'S PRE-APPROVAL POLICIES AND PROCEDURES**

As required under German law, our shareholders appoint our external independent auditors to audit our financial statements, based on a proposal that is legally required to be submitted by the Supervisory Board. The Supervisory Board's proposal is based on a proposal by the Audit Committee. See also the description in Item 10. Additional Information - Corporate Governance.

In 2002 our Audit Committee adopted a policy with regard to the pre-approval of audit and non-audit services to be provided by our external independent auditors. This policy, which is designed to assure that such engagements do not impair the independence of our auditors, was amended and expanded in 2003, 2007 and 2009 (changes in 2009 only related to information requirements). The policy requires prior approval of the Audit Committee for all services to be provided by our external independent auditors for any entity of the SAP Group. With regard to non-audit services the policy distinguishes among three categories of services:

- (i) Prohibited services: This category includes services that our external independent auditors must not be engaged to perform. These are services that are not permitted by applicable law or that would be inconsistent with maintaining the auditors' independence.
  
- (ii) Services requiring universal approval: Services of this category may be provided by our external independent auditors up to a certain aggregate amount in fees per year that is determined by the Audit Committee.

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(iii) Services requiring individual approval: Services of this category may only be provided by our external independent auditors if they have been individually (specifically) pre-approved by the Audit Committee or an Audit Committee member who is authorized by the Audit Committee to make such approvals.

Our Chief Accounting Officer or individuals empowered by him review all individual requests to engage our external independent auditors as a service provider in accordance with this policy and determines the category to which the requested service belongs. All requests for engagements with expected fees over a specified limit are additionally reviewed by our CFO. Based on the determination of the category the request is

**Table of Contents**

Part II

Item 16C, 16D

(i) declined if it is a prohibited service, (ii) approved if it is a service requiring universal approval and the maximum aggregate amount fixed by the Audit Committee has not been reached or (iii) forwarded to the Audit Committee for individual approval if the service requires individual approval or is a service requiring universal approval and the maximum aggregate amount fixed by the Audit Committee has been exceeded.

Our Audit Committee's pre-approval policies also include information requirements to ensure the Audit Committee is kept aware of the volume of engagements involving our external independent auditors that were not individually pre-approved by the Audit Committee itself.

Substantially all of the work performed to audit our Consolidated Financial Statements was performed by our principal accountant's full-time, permanent employees.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Rule 10A-3 of the Exchange Act requires that all members of our audit committee be independent,

subject to certain exceptions. In accordance with German law, the Audit Committee consists of both employee and shareholder elected members. Rule 10A-3 provides an exception for an employee of a foreign private issuer such as SAP who is not an executive officer of that issuer and who is elected to the supervisory board or audit committee of that issuer pursuant to the issuer's governing law. In this case, the employee is exempt from the independence requirements of Rule 10A-3 and is permitted to sit on the audit committee.

We rely on this exemption. Our Audit Committee includes two members who are non-executive employees of SAP AG, Inga Wiele and Stefan Schulz, who were named to our Supervisory Board pursuant to the German Co-determination Act (see Item 6. Directors, Senior Management and Employees. for details). We believe that the reliance on this exemption does not materially adversely affect the ability of our Audit Committee to act independently and to satisfy the other requirements of Rule 10A-3.



**Table of Contents**

## Part II

## Item 16E, 16F, 16G

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

We did not purchase any ADRs in 2012. The following table sets out information concerning repurchases of our ordinary shares, which we mainly use to serve our employee discount stock purchase programs, Long-Term Incentive Plans, Stock Option Plans and other such plans. The maximum number of shares that we were authorized to repurchase under these plans and programs as of December 31, 2012 was 86,515,907.

<b>Period</b>	<b>(a)Total Number of Shares Purchased</b>	<b>(b)Average Price Paid per Share (in )</b>	<b>(c)Total Number of Shares Purchased as Part of Publicly Announced Plans and Programs</b>	<b>(d)Maximum Number of Shares that May Yet Be Purchased Under these Plans and Programs</b>
January 1/1/12 1/31/12	190,000	45.74	190,000	85,082,342
February 2/1/12 2/28/12	910,000	48.64	910,000	85,184,921
March 3/1/12 3/31/12	0		0	85,213,701
April 4/1/12 4/30/12	0		0	85,246,300
May 5/1/12 5/31/12	0		0	85,280,215
June 6/1/12 6/30/12	0		0	86,225,823
July 7/1/12 7/31/12	0		0	86,258,552
August 8/1/12 8/31/12	0		0	86,289,354
September 9/1/12 9/30/12	0		0	86,413,029
October 10/1/12 10/31/12	0		0	86,443,467
November 11/1/12 11/30/12	0		0	86,472,799
December 12/1/12 12/31/12	0		0	86,515,907
<b>Total</b>	<b>1,100,000</b>	<b>48.14</b>	<b>1,100,000</b>	

Purchases between January 1, 2012 and December 31, 2012 were made in accordance with the authorization to acquire and use treasury shares granted at the Annual General Meeting of Shareholders on June 8 2010, pursuant to which the Executive Board was authorized to acquire, on or before June 30, 2013, up to 120 million shares of SAP. The authorization from June 8, 2010 replaced the authorization from May 19, 2009.

Both authorizations were subject to the provision that the shares to be purchased, together with any other shares already acquired and held by SAP, do not account for more than 10% of SAP's capital stock.

**ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. DIFFERENCES IN CORPORATE GOVERNANCE PRACTICES**

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The following summarizes the principal ways in which our corporate governance practices differ from the New York Stock Exchange (NYSE) corporate governance rules applicable to U.S. domestic issuers (the NYSE Rules).

### **INTRODUCTION**

SAP is incorporated under the laws of Germany, with securities publicly traded on markets in Germany, including the Frankfurt Exchange and in the United States on the NYSE.

The NYSE Rules permit foreign private issuers to follow applicable home country corporate governance practices in lieu of the NYSE corporate governance standards, subject to certain exceptions. Foreign private issuers electing to follow home country corporate governance rules are required to disclose the principal differences in their corporate governance practices from those required under the NYSE Rules. This Item 16G

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**Table of Contents**

Part II

Item 16G

summarizes the principal ways in which SAP's corporate governance practices differ from the NYSE Rules applicable to domestic issuers.

**LEGAL FRAMEWORK**

The primary source of law relating to the corporate governance of a German stock corporation is the German Stock Corporation Act (Aktengesetz). Additionally, the Securities Trading Act (Wertpapierhandelsgesetz), the German Securities Purchase and Take Over Act (Wertpapiererwerbs- und Übernahmegesetz), the Stock Exchange Admission Regulations, the German Commercial Code (Handelsgesetzbuch) and certain other German statutes contain corporate governance rules applicable to SAP. In addition to these mandatory rules, the German Corporate Governance Code ( GCGC ) summarizes the mandatory statutory corporate governance principles found in the German Stock Corporation Act and other provisions of German law. Further, the GCGC contains supplemental recommendations and suggestions for standards on responsible corporate governance intended to reflect generally accepted best practices.

The German Stock Corporation Act requires the executive and the supervisory board of publicly listed companies like SAP to declare annually that the recommendations set forth in the GCGC have been and are being complied with or which of the recommendations have not been or are not being complied with and why not. SAP has disclosed and reasoned deviations from a few of the GCGC recommendations in its Declaration of Implementation on a yearly basis since 2003. Declarations from 2007 forward are available on the SAP website (<http://www.sap.com/corporate-en/investors/governance/policies-statutes.epx>).

**SIGNIFICANT DIFFERENCES**

We believe the following to be the significant differences between German corporate governance practices, as SAP has implemented them, and those applicable to domestic companies under the NYSE Rules.

**GERMAN STOCK CORPORATIONS ARE REQUIRED TO HAVE A TWO-TIER BOARD SYSTEM**

SAP is governed by three separate bodies: (i) the Supervisory Board, which counsels, supervises

and controls the Executive Board; (ii) the Executive Board, which is responsible for the management of SAP; and (iii) the General Meeting of Shareholders. The rules applicable to these governing bodies are defined by German law and by SAP's Articles of Incorporation. This corporate structure differs from the unitary board of directors established by the relevant laws of all U.S. states and the NYSE Rules. Under the German Stock Corporation Act, the Supervisory Board and Executive Board are separate and no individual may be a member of both boards. See Item 10. Additional Information Corporate Governance for additional information on the corporate structure.

**DIRECTOR INDEPENDENCE RULES**

The NYSE Rules require that a majority of the members of the board of directors of a listed issuer and each member of its nominating, corporate governance, compensation and audit committee be independent. The NYSE Rules stipulate that no director qualifies as independent unless the board of directors has made an affirmative determination that the director has no material direct or indirect relationship with the listed company. However, under the NYSE Rules a director may still be deemed independent even if the director or a member of a director's immediate family has received during a 12 month period within the prior three years up to \$120,000 in direct compensation. In addition, a director may also be deemed independent even if a member of the director's immediate family works for the company's auditor in a non-partner capacity and not on the company's audit. By contrast, the GCGC requires that the Supervisory Board ensure that proposed candidates are persons with the necessary knowledge, competencies and applicable experience, and that the Supervisory Board includes what it considers an adequate number of independent members. A Supervisory Board member is considered independent if he or she has no business or personal relations with SAP or its Executive Board that could give rise to a conflict of interest. The members of the Supervisory Board must have enough time to perform their board duties and must carry out their duties carefully and in good faith. For as long as they serve, they must comply with the criteria that are enumerated in relation to the selection of candidates for the Supervisory Board concerning independence, conflict of interest and multiple

memberships of management, supervisory and other governing bodies. They must be loyal to

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**Table of Contents**

Part II

Item 16G

SAP in their conduct and they must not accept appointment in companies that are in competition with SAP. Supervisory Board members must disclose any planned non-ordinary course business transactions with SAP to the Supervisory Board promptly. The Supervisory Board members cannot carry out such transactions before the Supervisory Board has given its permission. The Supervisory Board may grant its permission for any such transaction only if the transaction is based on terms and conditions that are standard for the type of transaction in question and if the transaction is not contrary to SAP's interest. SAP complies with these GCGC director independence requirements.

German corporate law requires that for publicly listed stock corporations at least one member of the Supervisory Board who has expert knowledge in the areas of financial accounting and audit of financial statements must be independent. Mr. Erhard Schipporeit who is the Chairman of SAP's Audit Committee meets these requirements. However, German corporate law and the GCGC do not require the Supervisory Board to make an affirmative determination for each individual member that is independent or that a majority of Supervisory Board members or the members of a specific committee are independent.

The NYSE independence requirements are closely linked with risks specific to unitary boards of directors that are customary for U.S. companies. In contrast, the two-tier board structure requires a strict separation of the executive board and supervisory board. In addition, the supervisory board of large German stock corporations is subject to the principle of employee codetermination as outlined in the German Co-Determination Act of 1976 (Mitbestimmungsgesetz). As a result, the Supervisory Board of SAP AG consists of 16 members, of which eight have been elected by SAP AG's shareholders at the Annual General Meeting and eight members have been elected by employees of SAP AG and its German subsidiaries. Typically, the chairperson of the supervisory board is a shareholder representative. In case of a tie vote, the supervisory board chairperson may cast the decisive tie-breaking vote. This board structure creates a different system of checks and balances, including employee participation, and cannot be directly compared with a unitary board system.

## **AUDIT COMMITTEE INDEPENDENCE**

As a foreign private issuer, the NYSE Rules require SAP to establish an Audit Committee that satisfies the requirements of Rule 10A-3 of the Exchange Act with respect to audit committee independence. SAP is in compliance with these requirements. The Chairman of SAP's Audit Committee and Prof. Dr. Klaus Wucherer meet the independence requirements of Rule 10A-3 of the Exchange Act. The other two Audit Committee members, Inga Wiele and Stefan Schulz, are employee representatives who are eligible for the exemption provided by Rule 10 A-3 (b) (1) (iv) (C) (see Item 16D Exemptions from the listing standards for audit committees for details).

The Audit Committee independence requirements are similar to the Board independence requirements under German corporate law and GCGC. See the section above under Director Independence Rules. Nonetheless, SAP meets the NYSE Rules on audit committee independence applicable to foreign private issuers.

## **RULES ON NON-MANAGEMENT BOARD MEETINGS ARE DIFFERENT**

Section 303 A.03 of the NYSE Rules stipulates that the non-management board of each listed issuer must meet at regularly scheduled executive sessions without the management. Under German corporate law and the GCGC the Supervisory Board is entitled but not required to exclude Executive Board members from its meetings. The Supervisory Board exercises this right generally during its meetings.

## **RULES ON ESTABLISHING COMMITTEES DIFFER**

Pursuant to Section 303 A.04 and 303 A.05 of the NYSE Rules listed companies are required to set up a Nominating/Corporate Governance Committee and a Compensation Committee, each composed entirely of independent directors and having a written charter specifying the committee's purpose and responsibilities. In addition, each committee's performance must be reviewed annually. With one exception, German corporate law does not mandate the creation of specific supervisory board committees. Required by the German Co-Determination Act of 1976



**Table of Contents**

Part II

Item 16G

(Mitbestimmungsgesetz), the Mediation Committee (Vermittlungsausschuss) convenes only if the 2/3 majority required for appointing/revoking the appointment of Executive Board Members is not attained. This committee has never been convened in SAP's history. In addition, the GCGC recommends that the Supervisory Board establish an Audit Committee and a Nomination Committee. In addition to the legally required Mediation Committee, SAP has the following committees, which are in compliance with the GCGC: General and Compensation Committee, Audit Committee, Strategy and Technology Committee, Finance and Investment Committee, Nomination Committee, and Special Committee (See Item 10. Additional Information - Corporate Governance for more information).

**RULES ON SHAREHOLDERS - COMPULSORY APPROVAL ARE DIFFERENT**

Section 312 of the NYSE Rules requires U.S. companies to seek shareholder approval of all equity-compensation plans, including certain material revisions thereto (subject to certain exemptions as described in the rules), issuances of common stock, including convertible stock, if the common stock has, or will have upon issuance, voting power of or in excess of 20% of the then outstanding common stock, and issuances of common stock if they trigger a change of control.

According to the German Stock Corporation Act and other applicable German laws, shareholder approval is required for a broad range of matters, such as amendments to the articles of association, certain significant corporate transactions (including inter-company agreements and material restructurings), the offering of stock options and similar equity compensation to its

Executive Board members or its employees by a way of a conditional capital increase or by using treasury shares (including significant aspects of such an equity compensation plan as well as the exercise thresholds), the issuance of new shares, the authorization to purchase the corporation's own shares, and other essential issues, such as transfers of all, or substantially all, of the assets of the stock corporation, including shareholdings in subsidiaries.

**SPECIFIC PRINCIPLES OF CORPORATE GOVERNANCE**

Under the NYSE Rules Section 303A.09 listed companies must adopt and disclose corporate guidelines. Since October 2007, SAP has applied, with few exceptions, the recommended corporate governance standards of the GCGC rather than company-specific principles of corporate governance. The GCGC recommendations differ from the NYSE Standards primarily as outlined in this Item 16G.

**SPECIFIC CODE OF BUSINESS CONDUCT**

NYSE Rules Section 303 A.10 requires listed companies to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and to disclose promptly any waivers of the code for directors or executive officers. Although not required under German law, SAP has adopted a Code of Business Conduct, which is equally applicable to employees, managers and members of the Executive Board. SAP complies with the requirement to disclose the Code of Business Conduct and any waivers of the code with respect to directors and executive officers. See Item 16B. Code of Ethics for details.

**Table of Contents**

Part III

Item 17, 18, 19

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

The Consolidate Financial Statements are included herein on pages F-1 through F-99.

The following are filed as part of this report:

Report of Independent Registered Public Accounting Firm.

Consolidated Financial Statements

Consolidated Income Statements for the years ended 2012, 2011, and 2010.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010.

Consolidated Statements of Financial Position as of December 31, 2012 and 2011.

Consolidated Statements of Changes in Equity for the years ended December 31, 2012, 2011 and 2010.

Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010.

Notes to the Consolidated Financial Statements.

**ITEM 19. EXHIBITS**

The following documents are filed as exhibits to this report:



## Edgar Filing: SAP AG - Form 20-F

- 1 Articles of Incorporation (Satzung) of SAP AG, as amended effective November 20, 2012 (English translation).
- 2.1 Form of global share certificate for ordinary shares (English translation).<sup>(1)</sup>

Certain instruments which define rights of holders of long-term debt of SAP AG and its subsidiaries are not being filed because the total amount of securities authorized under each such instrument does not exceed 10% of the total consolidated assets of SAP AG and its subsidiaries. SAP AG and its subsidiaries hereby agree to furnish a copy of each such instrument to the Securities and Exchange Commission upon request.

- 4.1.2 Amended and Restated Deposit Agreement dated as of November 25, 2009 among SAP AG, Deutsche Bank Trust Company Americas as Depositary, and all owners and holders from time to time of American Depositary Receipts issued thereunder, including the form of American Depositary Receipts.<sup>(2)</sup>
- 4.8 Agreement and Plan of Merger dated December 3, 2011 by and among SAP America, Inc., Saturn Expansion Corporation, SAP AG and SuccessFactors, Inc.<sup>(3)</sup>
- 4.9 Agreement and Plan of Merger dated May 22, 2012 by and among Ariba, Inc., SAP America, Inc. and Angel Expansion Corporation<sup>(4)</sup>
- 8 For a list of our subsidiaries see Note (33) to our Consolidated Financial Statements in Item 18. Financial Statements .
- 12.1 Certification of Bill McDermott, Co-Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a).
- 12.2 Certification of Jim Hagemann Snabe, Co-Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a).
- 12.3 Certification of Werner Brandt, Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a).

**Table of Contents**

Part III

Item 19

- 13.1 Certification of Bill McDermott, Co-Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification of Jim Hagemann Snabe, Co-Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.3 Certification of Werner Brandt, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 15 Consent of Independent Registered Public Accounting Firm.

(1) Incorporated by reference to Exhibit 2.1 of SAP AG's Annual Report on Form 20-F filed on March 22, 2006.

(2) Incorporated by reference to Exhibit 99(A) of Post Effective Amendment #1 to SAP AG's Registration Statement on Form F-6 filed on November 25, 2009.

(3) Incorporated by reference to Exhibit 2.1 to SuccessFactors, Inc.'s Current Report on Form 8-K filed on December 5, 2011.

(4) Incorporated by reference to Exhibit 2.1 to Ariba, Inc.'s Current Report on Form 8-K filed on May 22, 2012.

**Table of Contents**

**SIGNATURES**

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this report on its behalf.

SAP AG

(Registrant)

By: /s/ BILL MCDERMOTT

Name: Bill McDermott

Title: Co-Chief Executive Officer

Dated: March 21, 2013

By: /s/ JIM HAGEMANN SNABE

Name: Jim Hagemann Snabe

Title: Co-Chief Executive Officer

Dated: March 21, 2013

By: /s/ WERNER BRANDT

Name: Dr. Werner Brandt

Title: Chief Financial Officer

Dated: March 21, 2013

**Table of Contents**

**SAP AG AND SUBSIDIARIES**

**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Financial Statements:</u>	
<u>Consolidated Income Statements for the years ended 2012, 2011 and 2010</u>	F-3
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011 and 2010</u>	F-4
<u>Consolidated Statements of Financial Position as of December 31, 2012 and 2011</u>	F-5
<u>Consolidated Statements of Changes in Equity for the years ended December 31, 2012, 2011 and 2010</u>	F-6
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010</u>	F-7
<u>Notes to the Consolidated Financial Statements</u>	F-8 to F-99

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**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Supervisory Board of SAP AG:

We have audited the accompanying consolidated statements of financial position of SAP AG and subsidiaries ( SAP or the Company ) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2012. We also have audited SAP s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). SAP s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SAP AG and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). Also in our opinion, SAP AG maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the COSO.

**/s/ KPMG AG  
Wirtschaftsprüfungsgesellschaft**

Mannheim, Germany

February 21, 2013

**Table of Contents****SAP AG AND SUBSIDIARIES****CONSOLIDATED FINANCIAL STATEMENTS****CONSOLIDATED INCOME STATEMENTS OF SAP GROUP**

for the years ended December 31,

	Note	(Unaudited) 2012 <sup>(1)</sup> US\$	2012	2011	2010
<b>millions, unless otherwise stated</b>					
Software		6,142	4,658	4,107	3,410
Cloud subscriptions and support		356	270	18	14
Software and cloud subscriptions		6,498	4,928	4,125	3,424
Support		10,861	8,237	7,194	6,370
<b>Software and software-related service revenue</b>		<b>17,359</b>	<b>13,165</b>	<b>11,319</b>	<b>9,794</b>
Consulting		3,220	2,442	2,341	2,197
Other services		812	616	573	473
<b>Professional services and other service revenue</b>		<b>4,032</b>	<b>3,058</b>	<b>2,914</b>	<b>2,670</b>
<b>Total revenue</b>	(5)	<b>21,392</b>	<b>16,223</b>	<b>14,233</b>	<b>12,464</b>
Cost of software and software-related services		3,364	2,551	2,107	1,823
Cost of professional services and other services		3,315	2,514	2,248	2,071
<b>Total cost of revenue</b>		<b>6,679</b>	<b>5,065</b>	<b>4,355</b>	<b>3,894</b>
<b>Gross profit</b>		<b>14,713</b>	<b>11,158</b>	<b>9,878</b>	<b>8,570</b>
Research and development		2,971	2,253	1,939	1,729
Sales and marketing		5,152	3,907	3,081	2,645
General and administration		1,249	947	715	636
Restructuring		11	8	4	3
TomorrowNow litigation	(23)	0	0	717	981
Other operating income/expense, net	(6)	30	23	25	9
<b>Total operating expenses</b>		<b>16,032</b>	<b>12,158</b>	<b>9,352</b>	<b>9,873</b>
<b>Operating profit</b>		<b>5,360</b>	<b>4,065</b>	<b>4,881</b>	<b>2,591</b>
Other non-operating income/expense, net	(8)	228	173	75	186
Finance income		141	107	123	73
Finance costs TomorrowNow litigation		1	1	8	12
Other finance costs		229	174	169	128
Finance costs		231	175	161	140
<b>Financial income, net</b>	(9)	<b>90</b>	<b>68</b>	<b>38</b>	<b>67</b>
<b>Profit before tax</b>		<b>5,042</b>	<b>3,824</b>	<b>4,768</b>	<b>2,338</b>
Income tax TomorrowNow litigation		0	0	281	377
Other income tax expense		1,319	1,000	1,048	902
Income tax expense	(10)	1,319	1,000	1,329	525
<b>Profit after tax</b>		<b>3,722</b>	<b>2,823</b>	<b>3,439</b>	<b>1,813</b>
Profit attributable to non-controlling interests		0	0	1	2
Profit attributable to owners of parent		3,722	2,823	3,438	1,811
<b>Basic earnings per share, in</b>	(11)	<b>3.13</b>	<b>2.37</b>	<b>2.89</b>	<b>1.52</b>
<b>Diluted earnings per share, in</b>	(11)	<b>3.12</b>	<b>2.37</b>	<b>2.89</b>	<b>1.52</b>

<sup>(1)</sup> The 2012 figures have been translated solely for the convenience of the reader at an exchange rate of US\$1.3186 to 1.00, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 31, 2012.

**The accompanying Notes are an integral part of these Consolidated Financial Statements.**

**Table of Contents****SAP AG AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OF SAP GROUP**

for the years ended December 31,

	Notes	2012	2011	2010
		millions		
<b>Profit after tax</b>		<b>2,823</b>	<b>3,439</b>	<b>1,813</b>
<b>Items that will not be reclassified to profit or loss</b>				
Actuarial gains (losses) on defined benefit pension plans	(18)	12	12	39
Income tax relating to items that will not be reclassified	(10)	4	5	18
<b>Other comprehensive income after tax for items that will not be reclassified to profit or loss</b>		<b>8</b>	<b>7</b>	<b>21</b>
<b>Items that will be reclassified subsequently to profit or loss</b>	<b>(20)</b>			
Exchange differences on translations		214	106	193
Available-for-sale financial assets	(26)	13	7	3
Cash flow hedges	(25)	63	1	21
Income tax relating to items that will be reclassified	(10)	20	7	0
<b>Other comprehensive income after tax for items that will be reclassified to profit or loss</b>		<b>157</b>	<b>105</b>	<b>175</b>
<b>Other comprehensive income net of tax</b>		<b>165</b>	<b>98</b>	<b>154</b>
<b>Total comprehensive income</b>		<b>2,658</b>	<b>3,537</b>	<b>1,967</b>
attributable to owners of parent		2,658	3,536	1,965
attributable to non-controlling interests		0	1	2

The accompanying Notes are an integral part of these Consolidated Financial Statements.



**Table of Contents****SAP AG AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SAP GROUP**

as at December 31,

	Note	(Unaudited) 2012 <sup>(1)</sup> US\$	2012	2011
			millions	
Cash and cash equivalents		3,266	2,477	4,965
Other financial assets	(12)	203	154	817
Trade and other receivables	(13)	5,165	3,917	3,493
Other non-financial assets	(14)	388	294	187
Tax assets		206	156	207
<b>Total current assets</b>		<b>9,228</b>	<b>6,998</b>	<b>9,669</b>
Goodwill	(15)	17,503	13,274	8,711
Intangible assets	(15)	4,264	3,234	2,024
Property, plant, and equipment	(16)	2,252	1,708	1,551
Other financial assets	(12)	835	633	538
Trade and other receivables	(13)	116	88	84
Other non-financial assets	(14)	90	68	39
Tax assets		224	170	146
Deferred tax assets	(10)	870	660	465
<b>Total non-current assets</b>		<b>26,156</b>	<b>19,836</b>	<b>13,558</b>
<b>Total assets</b>		<b>35,385</b>	<b>26,835</b>	<b>23,227</b>
Trade and other payables	(17)	1,147	870	937
Tax liabilities		674	511	409
Financial liabilities	(17)	1,058	802	1,331
Other non-financial liabilities	(17)	2,817	2,136	1,981
Provision TomorrowNow litigation	(23)	309	234	231
Other provisions		926	702	331
Provisions	(18)	1,234	936	562
Deferred income	(19)	1,828	1,386	1,046
<b>Total current liabilities</b>		<b>8,757</b>	<b>6,641</b>	<b>6,266</b>
Trade and other payables	(17)	83	63	43
Tax liabilities		512	388	408
Financial liabilities	(17)	5,862	4,446	2,925
Other non-financial liabilities	(17)	129	98	92
Provisions	(18)	518	393	268
Deferred tax liabilities	(10)	757	574	474
Deferred income	(19)	82	62	44
<b>Total non-current liabilities</b>		<b>7,942</b>	<b>6,023</b>	<b>4,254</b>
<b>Total liabilities</b>		<b>16,699</b>	<b>12,664</b>	<b>10,520</b>
Issued capital		1,621	1,229	1,228
Share premium		649	492	419
Retained earnings		18,425	13,973	12,466
Other components of equity		256	194	37
Treasury shares		1,763	1,337	1,377
<b>Equity attributable to owners of parent</b>		<b>18,675</b>	<b>14,163</b>	<b>12,699</b>
<b>Non-controlling interests</b>		<b>11</b>	<b>8</b>	<b>8</b>
<b>Total equity</b>	(20)	<b>18,686</b>	<b>14,171</b>	<b>12,707</b>
<b>Equity and liabilities</b>		<b>35,385</b>	<b>26,835</b>	<b>23,227</b>

- (1) The 2012 figures have been translated solely for the convenience of the reader at an exchange rate of US\$1.3186 to 1.00, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 31, 2012.

**The accompanying Notes are an integral part of these Consolidated Financial Statements.**

**Table of Contents****SAP AG AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY OF SAP GROUP**

as at December 31,

Note reference	Equity Attributable to Owners of Parent Other Components of Equity						Treasury Shares	Total	Non- Controlling Interests	Total Equity
	Issued Capital	Share Premium	Retained Earnings	Exchange Differences	Financial Assets	Available- for-Sale Hedges				
	(20)	(20)	(20)	(20)	(20)	(20)	(20)			
<b>January 1, 2010</b>	<b>1,226</b>	<b>317</b>	<b>8,571</b>	<b>319</b>	<b>13</b>	<b>11</b>	<b>1,320</b>	<b>8,477</b>	<b>14</b>	<b>8,491</b>
Profit after tax			1,811					1,811	2	1,813
Other comprehensive income			21	188	3	16		154		154
<b>Comprehensive income</b>	<b>0</b>	<b>0</b>	<b>1,790</b>	<b>188</b>	<b>3</b>	<b>16</b>	<b>0</b>	<b>1,965</b>	<b>2</b>	<b>1,967</b>
Share-based payments		2						2		2
Dividends			594					594		594
Issuance of shares under share-based payments	1	23						24		24
Purchase of treasury shares							220	220		220
Reissuance of treasury shares under share-based payments		5					158	153		153
Other								0	1	1
<b>December 31, 2010</b>	<b>1,227</b>	<b>337</b>	<b>9,767</b>	<b>131</b>	<b>16</b>	<b>27</b>	<b>1,382</b>	<b>9,807</b>	<b>17</b>	<b>9,824</b>
Profit after tax			3,438					3,438	1	3,439
Other comprehensive income			7	112	7	0		98		98
<b>Comprehensive income</b>	<b>0</b>	<b>0</b>	<b>3,431</b>	<b>112</b>	<b>7</b>	<b>0</b>	<b>0</b>	<b>3,536</b>	<b>1</b>	<b>3,537</b>
Share-based payments		9						9		9
Dividends			713					713		713
Issuance of shares under share-based payments	1	46						47		47
Purchase of treasury shares							246	246		246
Reissuance of treasury shares under share-based payments		27					251	278		278
Change in non-controlling interests			19					19	10	29
<b>December 31, 2011</b>	<b>1,228</b>	<b>419</b>	<b>12,466</b>	<b>19</b>	<b>9</b>	<b>27</b>	<b>1,377</b>	<b>12,699</b>	<b>8</b>	<b>12,707</b>
Profit after tax			2,823					2,823	0	2,823
Other comprehensive income			8	217	13	47		165		165
<b>Comprehensive income</b>	<b>0</b>	<b>0</b>	<b>2,815</b>	<b>217</b>	<b>13</b>	<b>47</b>	<b>0</b>	<b>2,658</b>	<b>0</b>	<b>2,658</b>
Share-based payments		41						41		41
Dividends			1,310					1,310		1,310
Issuance of shares under share-based payments	1	14						15		15
Purchase of treasury shares							53	53		53
Reissuance of treasury shares under share-based payments		18					93	111		111
Other			2					2	0	2
<b>December 31, 2012</b>	<b>1,229</b>	<b>492</b>	<b>13,973</b>	<b>236</b>	<b>22</b>	<b>20</b>	<b>1,337</b>	<b>14,163</b>	<b>8</b>	<b>14,171</b>

The accompanying Notes are an integral part of these Consolidated Financial Statements.



**Table of Contents****SAP AG AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS OF SAP GROUP**

as at December 31,

	Notes	(Unaudited) 2012 <sup>(1)</sup> US\$	2012	2011	2010
		millions			
<b>Profit after tax</b>		<b>3,722</b>	<b>2,823</b>	<b>3,439</b>	<b>1,813</b>
Adjustments to reconcile profit after taxes to net cash flow provided by operating activities:					
Depreciation and amortization	(15),(16)	1,138	863	724	534
Income tax expense	(10)	1,319	1,000	1,329	525
Financial income, net	(9)	90	68	38	67
Decrease/increase in sales and bad debt allowances on trade receivables		33	25	18	49
Other adjustments for non-cash items		41	31	14	29
Decrease/increase in trade and other receivables		393	298	426	123
Decrease/increase in other assets		45	34	59	122
Decrease/increase in trade payables, provisions, and other liabilities		538	408	380	1,116
Decrease/increase in deferred income		203	154	121	66
Cash outflows due to TomorrowNow litigation	(23)	9	7	52	102
Interest paid		218	165	139	66
Interest received		121	92	92	52
Income taxes paid, net of refunds		1,453	1,102	908	818
<b>Net cash flows from operating activities</b>		<b>5,040</b>	<b>3,822</b>	<b>3,775</b>	<b>2,922</b>
Business combinations, net of cash and cash equivalents acquired	(4)	8,036	6,094	188	4,194
Purchase of intangible assets and property, plant, and equipment		713	541	445	334
Proceeds from sales of intangible assets or property, plant, and equipment		51	39	55	44
Purchase of equity or debt instruments of other entities		1,348	1,022	2,046	842
Proceeds from sales of equity or debt instruments of other entities		2,181	1,654	1,398	1,332
<b>Net cash flows from investing activities</b>		<b>7,864</b>	<b>5,964</b>	<b>1,226</b>	<b>3,994</b>
Purchase of non-controlling interests		0	0	28	0
Dividends paid	(21)	1,727	1,310	713	594
Purchase of treasury shares	(21)	70	53	246	220
Proceeds from reissuance of treasury shares		119	90	251	127
Proceeds from issuing shares (share-based payments)		20	15	46	23
Proceeds from borrowings		7,619	5,778	519	5,380
Repayments of borrowings		6,216	4,714	1,005	2,196
<b>Net cash flows from financing activities</b>		<b>256</b>	<b>194</b>	<b>1,176</b>	<b>2,520</b>
<b>Effect of foreign currency exchange rates on cash and cash equivalents</b>		<b>200</b>	<b>152</b>	<b>74</b>	<b>186</b>
<b>Net decrease/increase in cash and cash equivalents</b>		<b>3,281</b>	<b>2,488</b>	<b>1,447</b>	<b>1,634</b>
<b>Cash and cash equivalents at the beginning of the period</b>	(21)	<b>6,547</b>	<b>4,965</b>	<b>3,518</b>	<b>1,884</b>
<b>Cash and cash equivalents at the end of the period</b>	(21)	<b>3,266</b>	<b>2,477</b>	<b>4,965</b>	<b>3,518</b>

(1) The 2012 figures have been translated solely for the convenience of the reader at an exchange rate of US\$1.3186 to 1.00, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 31, 2012.

**The accompanying Notes are an integral part of these Consolidated Financial Statements.**



**Table of Contents****SAP AG AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(1) General Information about Consolidated Financial Statements**

The accompanying Consolidated Financial Statements of SAP AG and its subsidiaries (collectively, we, us, our, SAP, Group, and Company) have been prepared in accordance with International Financial Reporting Standards (IFRS). The designation IFRS includes all standards issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

We have applied all standards and interpretations that were effective on and endorsed by the European Union (EU) as at December 31, 2012. There were no standards or interpretations impacting our Consolidated Financial Statements for the years ended December 31, 2012, 2011, and 2010, that were effective but not yet endorsed. Therefore our Consolidated Financial Statements comply with both IFRS as issued by the IASB and with IFRS as endorsed by the EU.

Our Executive Board approved the Consolidated Financial Statements on February 21, 2013, for submission to our Supervisory Board.

All amounts included in the Consolidated Financial Statements are reported in millions of euros (€ millions) except where otherwise stated. Due to rounding, numbers presented throughout this document may not add up precisely to the totals we provide and percentages may not precisely reflect the absolute figures.

**(2) Scope of Consolidation**

The Consolidated Financial Statements include SAP AG and all subsidiaries of SAP AG. Subsidiaries are all entities that are controlled directly or indirectly by SAP AG.

The financial statements of SAP AG and its subsidiaries used in the preparation of the Consolidated Financial Statements have December 31 as their reporting date. All financial statements were prepared applying the same IFRS Group accounting policies. Intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the SAP Group are eliminated in full.

The following table summarizes the changes in the number of entities included in the Consolidated Financial Statements.

**Entities Consolidated in the Financial Statements**

	<b>German</b>	<b>Foreign</b>	<b>Total</b>
December 31, 2010	21	182	203
Additions	4	9	13
Disposals	2	15	17
<b>December 31, 2011</b>	<b>23</b>	<b>176</b>	<b>199</b>
Additions	4	92	96
Disposals	5	23	28
<b>December 31, 2012</b>	<b>22</b>	<b>245</b>	<b>267</b>

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The additions relate to legal entities added in connection with acquisitions and foundations. The disposals are due to sales, mergers, and liquidations of consolidated or acquired legal entities.

In 2012, we acquired SuccessFactors (in February 2012) and Ariba (in October 2012), which are

both individually significant to some positions in our financial statements and may affect comparability of our 2012 Consolidated Financial Statements with our 2011 and 2010 Consolidated Financial Statements. For more information about our business combinations and the effect on our Consolidated Financial Statements, see Note (4).

F-8



**Table of Contents****(3) Summary of Significant Accounting Policies*****(3a) Bases of Measurement***

The Consolidated Financial Statements have been prepared on the historical cost basis except for the following:

Derivative financial instruments, available-for-sale financial assets (except for investments in certain equity instruments without a quoted market price), and liabilities for cash-settled share-based payments are measured at fair value.

Foreign exchange receivables and payables are translated at period-end exchange rates.

Post-employment benefits are measured according to IAS 19 (Employee Benefits) as described in Note (18a). Where applicable, information about the methods and assumptions used in determining the respective measurement bases is disclosed in the Notes specific to that asset or liability.

***(3b) Relevant Accounting Policies*****Reclassifications**

We have reclassified certain revenue items in our consolidated income statements to provide additional transparency into our revenues from software and software-related services, particularly with respect to revenue generated from cloud subscription and support. Revenue from cloud subscriptions and related support are no longer included in the line item Subscription and other software-related service revenue, but are presented as a separate line item within Software and software-related service revenue. We also present a separate subtotal for software and cloud subscription revenue within the line item Software and software-related service revenue. Additionally we have split up revenues from multi-year licensing arrangements and all other revenues thus far included in the Subscription and other software-related service revenue into their software portion and support portion and reclassified them accordingly to the Software revenue line item (2011: 136 million; 2010: 145 million) and Support revenue line item (2011: 227 million; 2010: 237 million) respectively. As a consequence of this reclassification, the Subscription and other

software-related service revenue line item no longer exists. Comparative amounts for prior periods presented have been reclassified accordingly to conform with the current presentation.

**Business Combinations and Goodwill**

Business combinations are accounted for using the acquisition method as at the closing date, which is the date on which the acquirer obtains control of the acquiree. The consideration transferred in an acquisition is measured at the fair value of the assets transferred and liabilities incurred at the date of transfer of control. Settlements of preexisting relationships are not included in the consideration transferred. Such amounts are recognized in profit and loss. Identifiable assets acquired and liabilities assumed in a business combination (including contingent consideration) are measured at their acquisition-date fair values. Changes in contingent consideration classified as a liability at the acquisition date are recognized in profit and loss provided they do not occur during the measurement period. We decide on a transaction-by-transaction basis whether to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Where a business combination is achieved in stages, SAP recognizes the gain or loss from remeasuring the equity interest to fair value in finance income. Acquisition-related costs are accounted as expense in the periods in which the costs are incurred and the services are received, with the expense being classified as General and administration expense.

The excess of the consideration transferred in a business combination over the fair value of the identifiable net assets acquired is recorded as goodwill.

With respect to at-equity investments, the carrying amount of goodwill is included in the carrying amount of the investment.

**Foreign Currencies**

Assets and liabilities of our foreign subsidiaries that use a functional currency other than the euro are translated at the closing rate at the date of the Statement of Financial Position. Income and expenses are translated at average rates of exchange computed on a monthly basis. All resulting exchange differences are recognized in

F-9

**Table of Contents**

other comprehensive income. Exchange differences from monetary items denominated in foreign currency transactions that are part of a long-term investment (that is, settlement is neither planned nor likely to occur in the foreseeable future) are also included in other comprehensive income. When a foreign operation is disposed of, liquidated, or abandoned, the foreign currency translation adjustments applicable to that entity are reclassified from other comprehensive income to profit or loss.

On initial recognition, foreign currency transactions are recorded in the respective functional currencies of Group entities by applying to the foreign currency amount the exchange rate at the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are remeasured at the period-end closing rate. Resulting exchange differences are

recognized, in the period in which they arise, in other non-operating expense, net in the Consolidated Income Statements.

Operating cash flows of foreign subsidiaries are translated into euros using average rates of exchange computed on a monthly basis. Investing and financing cash flows of foreign subsidiaries are translated into euros using the exchange rates in effect at the time of the respective transaction. The effect of exchange rate changes on cash is reported in a separate line item in the Consolidated Statements of Cash Flows.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition are treated as assets and liabilities of the foreign operation and translated at the respective closing rates.

The exchange rates of key currencies affecting the Company were as follows:

**Exchange Rates**

Equivalent to 1		Closing Rate as at December 31		Annual Average Exchange Rate		
		2012	2011	2012	2011	2010
U.S. dollar	USD	1.3194	1.2939	1.2862	1.3863	1.3201
Pound sterling	GBP	0.8161	0.8353	0.8104	0.8656	0.8570
Japanese yen	JPY	113.61	100.20	103.05	110.17	115.07
Swiss franc	CHF	1.2072	1.2156	1.2055	1.2299	1.3699
Canadian dollar	CAD	1.3137	1.3215	1.2843	1.3739	1.3583
Australian dollar	AUD	1.2712	1.2723	1.2419	1.3436	1.4198

**Revenue Recognition**

We derive our revenue from fees charged to our customers for (a) licenses to our on-premise software products, (b) the use of our hosted cloud subscription software offerings and (c) support, consulting, development, training, and other services. The majority of our software arrangements include support services, and many also include professional services and other elements.

Software and software-related service revenue, as shown in our Consolidated Income Statements, is the sum of our Software revenue, our Support revenue and our Cloud subscriptions and support revenue. Professional services and other service revenue as shown in our Consolidated Income Statements is the sum of our Consulting revenue and Other service revenue. Other service revenue as shown in our Consolidated Income Statements mainly consists of revenue from training services, messaging services, and SAP marketing events. Revenue information by segment and geographic region is disclosed in Note (28).

If, for any of our product or service offerings, we determine at the outset of an arrangement that the amount of revenue cannot be measured reliably, we conclude that the inflow of economic benefits associated with the transaction is not probable, and we defer revenue until the arrangement fee becomes due and payable by the customer. If, at the outset of an arrangement, we determine that collectability is not probable, we conclude that the inflow of economic benefits associated with the transaction is not probable, and we defer revenue recognition until the earlier of when collectability becomes probable or payment is received. If collectability becomes unlikely before all revenue from an arrangement is recognized, we recognize revenue only to the extent of the fees that are successfully collected unless collectability becomes

reasonably assured again. If a customer is specifically identified as a bad debtor, we stop recognizing revenue from this customer except to the extent of the fees that have already been collected.

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## **Table of Contents**

We account for out-of-pocket expenses invoiced by SAP and reimbursed by customers as support, cloud subscription and support, consulting, or other service revenue, depending on the nature of the service for which the out-of-pocket expenses were incurred.

Software revenue 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). Revenue from the sale of perpetual licenses of our standard software products is recognized in line with the requirements for selling goods stated in IAS 18 (Revenue) when evidence of an arrangement exists, delivery has occurred, the risks and rewards of ownership have been transferred to the customer, the amount of revenue and associated costs can be measured reliably, and collection of the related receivable is reasonably assured. The fee of the sale is recognized net of returns and allowances, trade discounts, and volume rebates.

We usually sell or license on-premise software on a perpetual basis. Occasionally, we license on-premise software for a specified period of time. Revenue from short-term time-based licenses, which usually include support services during the license period, is recognized ratably over the license term. Revenue from multi-year time-based licenses that include support services, whether separately priced or not, is recognized ratably over the license term unless a substantive support service renewal rate exists; if this is the case, the amount allocated to the delivered software is recognized as software revenue based on the residual method once the basic criteria described above have been met.

In general, our software license agreements do not include acceptance-testing provisions. If an arrangement allows for customer acceptance-testing of the software, we defer revenue until the earlier of customer acceptance or when the acceptance right lapses.

We usually recognize revenue from on-premise software arrangements involving resellers on evidence of sell-through by the reseller to the end-customer, because the inflow of the economic benefits associated with the arrangements to us is not probable before sell-through has occurred.

Sometimes we enter into customer-specific on-premise software development agreements. We recognize software revenue in connection with these arrangements using the percentage-of-

completion method based on contract costs incurred to date as a percentage of total estimated contract costs required to complete the development work. If we do not have a sufficient basis to reasonably measure the progress of completion or to estimate the total contract revenue and costs, revenue is recognized only to the extent of the contract costs incurred for which we believe recoverability to be probable. When it becomes probable that total contract costs exceed total contract revenue in an arrangement, the expected losses are recognized immediately as an expense based on the costs attributable to the contract.

On-premise software subscription contracts combine software and support service elements, as under these contracts the customer is provided with current software products, rights to receive unspecified future software products, and rights to support services during the on-premise software subscription term. Customers pay a periodic fee for a defined subscription term, and we recognize such fees ratably over the term of the arrangement beginning with the delivery of the first product. Revenue from on-premise software subscription contracts is allocated to the Software revenue and Support revenue line items in our Consolidated Income Statements.

On-premise software rental contracts also combine software and support service elements. Under such contracts the customer is provided with current software products and support, but not with the right to receive unspecified future software products. Customers pay a periodic fee over the rental term and we recognize fees from software rental contracts ratably over the term of the arrangement. Revenue from rental contracts is split to be allocated to the Software revenue and Support revenue line items in our Consolidated Income Statements.

Support revenue represents fees earned from providing customers with unspecified future software updates, upgrades, and enhancements, and technical product support for on-premise software products. We recognize support revenue based on our performance under the support arrangements. Under our major support services our performance obligation is to stand ready to provide technical product support and to provide unspecified updates and enhancements on a when-and-if-available basis. For these support services we recognize revenue ratably over the term of the support arrangement. We do not separately sell technical product support or unspecified software upgrades, updates, and enhancements. Accordingly, we do not distinguish

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## **Table of Contents**

within software and software-related service revenue or within cost of software and software-related services the amounts attributable to technical support services and unspecified software upgrades, updates, and enhancements.

Revenue from cloud subscriptions and support relates to arrangements that provide the customer with the right to use certain software functionality hosted by SAP, but do not include the right to terminate the hosting contract and take possession of the software without significant penalty. Cloud subscription and support revenue is recognized as the services are performed. Where a fixed fee is agreed for the right to continuously access and use a cloud offering for a certain term, the fee is recognized ratably over the term covered by the fixed fee. Fees that are based on actual transaction volumes are recognized as the transactions occur.

We recognize consulting and other service revenue when the services are performed. Consulting revenue primarily results from implementation contracts to install and configure our software products and cloud offerings. Usually, our consulting contracts do not involve significant production, modification, or customization of software and the related revenue is recognized using the percentage-of-completion method of accounting as outlined above.

Other service revenue consists of fees from training services, application management services (AMS), messaging services, revenue from SAP marketing events, and referral fees. Training services provide educational services to customers and partners regarding the use of our software products. We recognize training revenue when the services are rendered. Our AMS contracts provide post-implementation application support, optimization, and improvements to a customer's IT solution. We recognize revenue from AMS services when the services are rendered. Messaging revenue mainly represents fees earned from transmitting electronic text messages from one mobile phone provider to another. We recognize revenue from message services based upon the number of messages successfully processed and delivered. Revenue from fixed-price messaging arrangements is recognized ratably over the contractual term of the arrangement. Revenue from marketing events hosted by SAP, for which SAP sells tickets to its customers, is recognized after the marketing event takes place. Fees from referral services are commissions from partners to which we have referred customers. We recognize these fees in revenue upon providing the referral service.

The majority of our arrangements contain multiple elements. We account for software, support, cloud subscription, consulting and other service deliverables as separate units of accounting and allocate revenue based on fair value. Fair value is determined by establishing either company-specific objective evidence, or an estimated stand-alone selling price.

Revenue from multiple-element arrangements is allocated to the different elements based on their individual fair values. The revenue amounts allocated to the individual elements are recognized when the revenue recognition criteria described above have been met for the respective element.

We determine the fair value of and allocate revenue to each element based on its company-specific objective evidence of fair value, which is the price charged when that element is sold separately or, for elements not yet sold separately, the price established by our management if it is probable that the price will not change before the element is sold separately. Where we fail to establish such company-specific objective evidence of fair value for one or more elements of an arrangement, we proceed as follows:

We apply the residual method of revenue recognition when company-specific objective evidence of fair value exists for all of the undelivered elements in the arrangement, but does not exist for one or more delivered elements. This is generally the case in multiple-element arrangements involving on-premise software and services related to on-premise software where company-specific objective evidence of fair value exists for all the services (for example, support services, consulting services) in the arrangement, but does not exist for the on-premise software. Under the residual method, revenue is allocated to all undelivered elements in the amount of their respective fair values and the remaining amount of the arrangement fee is allocated to the delivered element. With this policy we have considered the guidance provided by FASB ASC Subtopic 985-605, Software Revenue Recognition (FASB ASC 985-605), where applicable, as authorized by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8).

Where company-specific objective evidence of fair value cannot be established for undelivered elements, we determine the fair value of the respective element by estimating its stand-alone selling price. This is generally the case for our cloud subscription offerings.

## **Table of Contents**

We derive the company-specific objective evidence of fair value for our support services from the rates charged to renew the support services annually after an initial period. Such renewal rates generally represent a fixed percentage of the discounted software license fee charged to the customer. The majority of our customers renew their annual support service contracts at these rates. Estimated stand-alone selling price (ESP) for our cloud subscription offerings is determined based on the rates agreed with the individual customers to apply if and when the subscription arrangement renews. We determine ESP for all deliverables for which we do not have company-specific objective evidence of fair value or third-party evidence of selling price by considering multiple factors which include, but are not limited to, the following: i) substantive renewal rates contained within an arrangement for cloud subscription deliverables; ii) gross margin objectives and internal costs for services; and iii) pricing practices, market conditions, and competitive landscape.

We consider FASB ASC 985-605 in our accounting for options that entitle the customer to purchase, in the future, additional on-premise software. We allocate revenue to future incremental discounts whenever customers are granted the right to license additional on-premise software at a higher discount than the one given within the initial software license arrangement, or to purchase or renew services at rates below the fair values established for these services.

Our consideration of whether on-premise software, consulting or other services, or cloud subscriptions and services are to be accounted for separately or as one combined element of the arrangement depends on:

Whether the arrangement involves significant production, modification, or customization of the software or cloud subscription, and

Whether the services are not available from third-party vendors and are therefore deemed essential to the software.

If neither of the above is the case, revenue for the on-premise software or cloud subscription element, and the other elements, are recognized separately. In contrast, if one or both of the above applies, the respective elements of the arrangement are combined and accounted for as a single unit of accounting, and the portion of the arrangement fee allocated to this single unit of account is recognized using the percentage-of-

completion method, as outlined above, or over the cloud subscription term, if applicable, depending on which service term is longer.

Our contributions to resellers that allow our resellers to execute qualified and approved marketing activities are recognized as an offset to revenue, unless we obtain a separate identifiable benefit for the contribution, and the fair value of the benefit is reasonably estimable.

### **Cost of Software and Software-Related Services**

Cost of software and software-related services includes the cost incurred in producing the goods and providing the services that generate software and software-related service revenue. Consequently this line item includes employee expenses relating to these services, amortization of acquired intangibles, third-party licenses, shipping and ramp-up cost, and so on.

### **Cost of Professional Services and Other Services**

Cost of professional services and other services includes the cost incurred in providing the services that generate professional service and other service revenue including messaging revenues. The item also includes sales and marketing expenses related to our professional services and other services that result from sales and marketing efforts that cannot be clearly separated from providing the services.

### **Research and Development**

Research and development includes the costs incurred by activities related to the development of software solutions (new products, updates, and enhancements) including resource and hardware costs for the development systems.

Development activities involve the application of research findings or other knowledge to a plan or design of new or substantially improved software products before the start of commercial use. Development expenditures are capitalized only if all of the following criteria are met:

The development cost can be measured reliably.

The product is technically and commercially feasible.

F-13



## **Table of Contents**

Future economic benefits are probable.

We intend to complete development and market the product.

We have determined that the conditions for recognizing internally generated intangible assets from our software development activities are not met until shortly before the products are available for sale. Development costs incurred after the recognition criteria are met have not been material. Consequently, all research and development costs are expensed as incurred.

### **Sales and Marketing**

Sales and marketing includes costs incurred for the selling and marketing activities related to our software solutions, software-related service portfolio, and cloud business.

### **General and Administration**

General and administration includes costs related to finance and administrative functions, human resources, and general management as long as they are not directly attributable to one of the other operating expense line items.

### **Leases**

We are a lessee of property, plant, and equipment, mainly buildings, hardware, and vehicles, under operating leases that do not transfer to us the substantive risks and rewards of ownership. Rent expense on operating leases is recognized on a straight-line basis over the life of the lease including renewal terms if, at inception of the lease, renewal is reasonably assured.

Some of our operating leases contain lessee incentives, such as up-front payments of costs or free or reduced periods of rent. The incentives are amortized over the life of the lease and the rent expense is recognized on a straight-line basis over the life of the lease. The same applies to contractually-agreed future increases of rents.

### **Income Tax**

Deferred taxes are accounted for under the liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the Consolidated Statements of Financial Position and

their respective tax bases and on the carryforwards of unused tax losses and unused tax credits. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses, and unused tax credits can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss, unless related to items directly recognized in equity, in the period of (substantive) enactment.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax assets to be utilized.

### **Share-Based Payments**

Share-based payments cover cash-settled and equity-settled awards issued to our employees. The fair values of both equity-settled and cash-settled awards are measured at grant date using an option-pricing model.

The fair value of equity-settled awards is not subsequently remeasured. The grant-date fair value of equity-settled awards is recognized as personnel expense in profit or loss over the period in which the employees become unconditionally entitled to the rights, with a corresponding increase in share premium. The amount recognized as an expense is adjusted to reflect the actual number of equity-settled awards that ultimately vest. We grant our employees discounts on certain share-based payments. Since those discounts are not dependent on future services to be

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provided by our employees, the discount is recognized as an expense when the rights are granted.

For the share-based payments that are settled by paying cash rather than by issuing equity instruments, a provision is recorded for the rights granted reflecting the vested portion of the fair value of the rights at the reporting date. Personnel expense is accrued over the period the beneficiaries are expected to perform the related service (vesting period), with a corresponding increase in provisions.

F-14

## **Table of Contents**

Cash-settled awards are remeasured to fair value at each Statement of Financial Position date until the award is settled. Any changes in the fair value of the provision are recognized as personnel expense in profit or loss. The amount of unrecognized compensation expense related to non-vested share-based payments granted under our cash-settled plans is dependent on the final intrinsic value of the awards. The amount of unrecognized compensation expense is dependent on the future price of our ordinary shares which we cannot reasonably predict.

In the event we hedge our exposure to cash-settled awards, changes in the fair value of the respective hedging instruments are also recognized as personnel expense in profit or loss. The fair values for hedged programs are based on market data reflecting current market expectations.

For more information about our share-based payments, see Note (27).

## **Other Components of Equity**

Other components of equity include:

Currency effects arising from the translation of the financial statements of our foreign operations as well as the currency effects from intercompany long-term monetary items for which settlement is neither planned nor likely to occur in the foreseeable future

Unrealized gains and losses on available-for-sale financial assets

Gains and losses on cash flow hedges comprising the net change in fair value of the effective portion of the respective cash flow hedges that have not yet impacted profit or loss

## **Treasury Shares**

Treasury shares are recorded at acquisition cost and are presented as a deduction from total equity. Gains and losses on the subsequent reissuance of treasury shares are credited or charged to share premium on an after-tax basis. On cancellation of treasury shares, any excess of their carrying amount over the calculated par value is charged to retained earnings.

## **Earnings per Share**

We present basic and diluted earnings per share (EPS). Basic earnings per share is determined by

dividing profit after tax attributable to equity holders of SAP AG by the weighted average number of ordinary shares outstanding during the respective year. Diluted earnings per share reflect the potential dilution assuming the conversion of all dilutive potential ordinary shares. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options is based on market prices for the period during which the options were outstanding.

## **Financial Assets**

Our financial assets comprise cash and cash equivalents (highly liquid investments with original maturities of three months or less), loans and receivables, acquired equity and debt investments, and derivative financial instruments (derivatives) with positive fair values.

These assets are recognized and measured in accordance with IAS 39 (Financial Instruments: Recognition and Measurement). Accordingly, financial assets are recognized in the Consolidated Statements of Financial Position if we have a contractual right to receive cash or other financial assets from another entity. Regular way purchases or sales of financial assets are recorded at the trade date. Financial assets are initially recognized at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Interest-free or below-market-rate loans and receivables are initially measured at the present value of the expected future cash flows. The subsequent measurement depends on the classification of our financial assets to the following categories according to IAS 39:

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Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are neither quoted in an active market nor intended to be sold in the near term. This category comprises trade receivables, receivables and loans included in other financial assets, and cash and cash equivalents. We carry loans and receivables at amortized cost less impairment losses. For further information on trade receivables, see the Trade and Other Receivables section.

Available-for-sale financial assets: Available-for-sale financial assets are non-derivative financial assets that are not assigned to either of the two other categories and mainly include equity investments and debt investments. If readily determinable from market data, available-for-sale financial assets are measured at fair value, with changes in fair value being reported net of

**Table of Contents**

tax in other comprehensive income. Fair value changes are not recognized in profit or loss until the assets are sold or impaired. Available-for-sale financial assets for which no market price is available and whose fair value cannot be reliably estimated in the absence of an active market are carried at cost less impairment losses.

Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss comprise only those financial assets that are held for trading, as we do not designate financial assets at fair value through profit or loss on initial recognition. This category solely contains embedded and freestanding derivatives with positive fair values, except where hedge accounting is applied. All changes in the fair value of financial assets in this category are immediately recognized in profit or loss. For more information about derivatives, see the Derivatives section.

All financial assets not accounted for at fair value through profit or loss are assessed for impairment at each reporting date or if we become aware of objective evidence of impairment as a result of one or more events that indicate that the carrying amount of the asset may not be recoverable. Objective evidence includes but is not limited to a significant or prolonged decline of the fair value below its carrying amount, a high probability of insolvency, or a material breach of contract by the issuer such as a significant delay or a shortfall in payments due. Impairment losses in the amount of the difference of an asset's carrying amount and the present value of the expected future cash flows or current fair value, respectively, are recognized in Finance income, net. For available-for-sale financial assets such impairment losses directly reduce an asset's carrying amount, while impairments on loans and receivables are recorded using allowance accounts. Account balances are charged off against the respective allowance after all collection efforts have been exhausted and the likelihood of recovery is considered remote. Impairment losses are reversed if the reason for the original impairment loss no longer exists. No such reversals are made for available-for-sale equity investments.

Income/expenses and gains/losses on financial assets consist of impairment losses and reversals, interest income and expenses, dividends, and gains and losses from the disposal of such assets. Dividend income is recognized when earned. Interest income is recognized based on the effective interest method. Neither dividend nor

interest income is included in net gains/losses at the time of disposal of an asset. Financial assets are derecognized when contractual rights to receive cash flows from the financial assets expire or the financial assets are transferred together with all material risks and benefits.

**Investments in Associates**

Companies in which we do not have control, but over which we can exercise significant operating and financial influence (associates), are accounted for using the equity method.

**Derivatives**

We account for derivatives and hedging activities in accordance with IAS 39 at fair value.

***Derivatives Without Designated Hedge Relationship***

Many transactions constitute economic hedges, and therefore contribute effectively to the securing of financial risks but do not qualify for hedge accounting under IAS 39. For the hedging of currency risks inherent in foreign currency denominated and recognized monetary assets and liabilities, we do not designate our held-for-trading derivative financial instruments as accounting hedges, as the realized profits and losses from the underlying transactions are recognized in profit or loss in the same periods as the realized profits or losses from the derivatives.

***Embedded Derivatives***

We occasionally have contracts that require payment streams in currencies other than the functional currency of either party to the contract. Such embedded foreign currency derivatives are separated from the host contract and accounted for separately if the following are met:

The economic characteristics and risks of the host contract and the embedded derivative are not closely related.

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A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

The combined instrument is not measured at fair value through profit or loss.

F-16

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**Table of Contents*****Derivatives with Designated Cash Flow Hedge Relationship***

Derivatives that are part of a hedging relationship that qualifies for hedge accounting under IAS 39 are carried at their fair value. We designate and document the hedge relationship, including the nature of the risk, the identification of the hedged item, the hedging instrument, and how we will assess the hedge effectiveness. The accounting for changes in fair value of the hedging instrument depends on the effectiveness of the hedging relationship. The effective portion of the unrealized gain or loss on the derivative instrument determined to be an effective hedge is recognized in other comprehensive income. We subsequently reclassify the portion of gains or losses from other comprehensive income to profit or loss when the hedged transaction affects profit or loss. The ineffective portion of gains or losses is recognized in profit or loss immediately. For more information about our hedges, see Note (25).

***Valuation and Testing of Effectiveness***

The fair value of our derivatives is calculated by discounting the expected future cash flows using relevant interest rates, and spot rates over the remaining lifetime of the contracts.

Gains or losses on the spot price and the intrinsic values of the derivatives designated and qualifying as cash flow hedges are recognized directly in other comprehensive income, while gains and losses on the interest element and on those time values excluded from the hedging relationship are recognized in profit or loss immediately.

The effectiveness of the hedging relationship is tested prospectively and retrospectively. Prospectively, we apply the critical terms match for our foreign currency hedges as currencies, maturities, and the amounts are identical for the forecasted transactions and the spot element of the forward exchange rate contract or intrinsic value of the currency options, respectively. For interest rate swaps, we also apply the critical terms match as the notional amounts, currencies, maturities, basis of the variable legs (EURIBOR), reset dates, and the dates of the interest and principal payments are identical for the debt instrument and the corresponding interest rate swaps. Therefore, over the life of the hedging instrument, the changes in cash flows of the hedging relationship components will offset the impact of fluctuations of the underlying forecasted transactions.

Retrospectively, effectiveness is tested on a cumulative basis applying the dollar offset method by using the hypothetical derivative method. Under this approach, the change in fair value of a constructed hypothetical derivative with terms reflecting the relevant terms of the hedged item is compared to the change in the fair value of the hedging instrument employing its relevant terms. The hedge is deemed highly effective if the results are within the range 80% to 125%.

***Trade and Other Receivables***

Trade receivables are recorded at invoiced amounts less sales allowances and allowances for doubtful accounts. We record these allowances based on a specific review of all significant outstanding invoices. When analyzing the recoverability of our trade receivables, we consider the following factors:

First, we consider the financial solvency of specific customers and record an allowance for specific customer balances when we believe it is probable that we will not collect the amount due according to the contractual terms of the arrangement.

Second, we evaluate homogenous portfolios of trade receivables according to their default risk primarily based on the age of the receivable and historical loss experience, but also taking into consideration general market factors that might impact our trade receivable portfolio. We record a general bad debt allowance to record impairment losses for a portfolio of trade receivables when we believe that the age of the receivables indicates that it is probable that a loss has occurred and we will not collect some or all of the amounts due.

Account balances are written off, that is, charged off against the allowance after all collection efforts have been exhausted and the likelihood of recovery is considered remote.

In our Consolidated Income Statements, expenses from recording bad debt allowances for a portfolio of trade receivables are classified as other operating income, net, whereas expenses from recording bad debt allowances for specific customer balances are classified as cost of software and software-related services or cost of professional services and other services, depending on the transaction from which the respective trade receivable results. Sales allowances are recorded as an offset to the respective revenue item.





**Table of Contents**

Included in trade receivables are unbilled receivables related to fixed-fee and time-and-material consulting arrangements for contract work performed to date.

**Other Non-Financial Assets**

Other non-financial assets are recorded at amortized cost, which approximates fair value due to their short-term nature.

**Intangible Assets**

We classify intangible assets according to their nature and use in our operation. Software and database licenses consist primarily of technology for internal use, whereas acquired technology consists primarily of purchased software to be incorporated into our product offerings and in-process research and development. Customer relationship and other intangibles consist primarily of customer contracts and acquired trademark licenses.

Purchased intangible assets with finite useful lives are recorded at acquisition cost and are amortized either based on expected usage or on a straight-line basis over their estimated useful lives ranging from two to 16 years. All of our intangible assets, with the exception of goodwill, have finite useful lives and are therefore subject to amortization.

We recognize acquired in-process research and development projects as an intangible asset separate from goodwill if a project meets the definition of an asset. Amortization for these intangible assets starts when the projects are complete and the developed software is taken to the market. We typically amortize these intangibles over five to seven years.

Amortization expenses of intangible assets are classified as cost of software and software-related services, cost of professional services and other services, research and development, sales and marketing, and general and administration depending on their use.

**Property, Plant, and Equipment**

Property, plant, and equipment are carried at acquisition cost plus the fair value of related asset retirement costs, if any and if reasonably estimable, and less accumulated depreciation. Interest incurred during the construction of qualifying assets is capitalized and amortized over the related assets' estimated useful lives.

Property, plant, and equipment are depreciated over their expected useful lives, generally using the straight-line method.

**Useful Lives of Property, Plant, and Equipment**

	<b>Useful Lives of Property, Plant, and Equipment</b>
Buildings	25 to 50 years
Leasehold improvements	Based on the lease contract
Information technology equipment	3 to 5 years
Office furniture	4 to 20 years
Automobiles	4 to 5 years

Leasehold improvements are depreciated using the straight-line method over the shorter of the term of the lease or the useful life of the asset. If a renewal option exists, the term used reflects the additional time covered by the option if exercise is reasonably assured when the leasehold improvement is first put into operation.

**Impairment of Goodwill and Non-Current Assets**

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We test goodwill for impairment at least annually and when events occur or changes in circumstances indicate that the recoverable amount of a cash-generating unit to which goodwill has been allocated to is less than its carrying value.

The recoverable amount of goodwill is estimated each year at the same time. The goodwill impairment test is performed at the level of our operating segments since there are no lower levels in SAP at which goodwill is monitored for internal management purposes.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the operating segments that are expected to benefit from the synergies of the combination. If the carrying amount of the operating segment to which the goodwill is allocated exceeds the recoverable amount, an impairment loss on goodwill allocated to this operating segment is recognized. The recoverable amount is the higher of the operating segment's fair value less cost to sell (FVLCS) and its value in use. FVLCS is the

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## **Table of Contents**

amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. Impairment losses on goodwill are not reversed in future.

We review non-current assets, such as property, plant, equipment, and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Intangible assets not yet available for use are tested for impairment annually.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. If assets do not generate cash inflows that are largely independent of those from other assets or groups of assets, the impairment test is not performed at an individual asset level; instead, it is performed at the level of the cash-generating unit (CGU) to which the asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. The recoverable amount of an asset or its CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in other operating income, net in profit or loss.

Impairment losses for non-current assets recognized in the prior periods are assessed at each reporting date for indicators that the loss has decreased or no longer exists. Accordingly, if there is an indication that the reasons that caused the impairment no longer exist, we would consider the need to reverse all or a portion of the impairment through profit or loss.

## **Contingent Assets**

We carry insurance policies amongst others to offset the expenses associated with defending against litigation matters as well as other risks. To mitigate the risk of customer default, our trade receivables are partially covered by merchandise credit insurance. We recognize the respective

reimbursements in profit or loss when it is virtually certain that the reimbursement will be received and retained by us.

## **Liabilities**

### ***Financial Liabilities***

Financial liabilities include trade and other payables, bank loans, issued bonds, private placements and other financial liabilities which comprise derivative and non-derivative financial liabilities.

Financial liabilities are recognized and measured in accordance with IAS 39. Accordingly, they are recognized in the Consolidated Financial Statements if we have a contractual obligation to transfer cash or another financial asset to another party. Financial liabilities are initially recognized at fair value. In the case of financial liabilities not at fair value through profit or loss, this includes directly attributable transaction costs. If material, financial liabilities are discounted to present value based on prevailing market rates adjusted for credit risk, with the discount being recognized over time as interest expense. The subsequent measurement depends on the allocation of financial liabilities to the following categories according to IAS 39:

Financial liabilities at fair value through profit or loss only comprise those financial liabilities that are held for trading, as we do not designate financial liabilities at fair value through profit or loss on initial recognition. This category solely contains embedded and other derivatives with negative fair values, except where hedge accounting is applied. All changes in the fair value of financial liabilities in this category are immediately recognized in profit or loss. For more information about derivatives, see the Derivatives section.

Financial liabilities at amortized cost include all non-derivative financial liabilities not quoted in an active market which are measured at amortized cost using the effective interest method.

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Expenses and gains/losses on financial liabilities consist of interest expenses, and gains and losses from the disposal of such liabilities. Interest expense is recognized based on the effective interest method.

Financial liabilities are derecognized when the contractual obligation is discharged, canceled, or has expired.

## **Table of Contents**

### ***Non-Financial Liabilities***

Other non-financial liabilities with fixed or determinable payments that are not quoted in an active market are mainly the result of obligations to employees and fiscal authorities and are generally measured at amortized cost.

### **Provisions**

Provisions are recorded when all of the following conditions are met:

It is more likely than not that we have a legal or constructive obligation to third parties as a result of a past event.

The amount can be reasonably estimated.

It is probable that there will be an outflow of future economic benefits to settle the obligation, while there may be uncertainty about the timing or amount of the future expenditure required in the settlement.

We regularly adjust provisions as further information becomes available or circumstances change. Non-current provisions are reported at the present value of their expected settlement amounts as at the reporting date. Discount rates are regularly adjusted to current market interest rates.

### **Post-Employment Benefits**

We measure our pension-benefit liabilities and other post-employment benefits based on actuarial computations using the projected-unit-credit method in accordance with IAS 19. The assumptions used to calculate pension liabilities and costs are disclosed in Note (18a). As a result of the actuarial calculation for each plan, we recognize an asset or liability for the overfunded or underfunded status of the respective defined benefit plan. We classify a portion of the liability as current (determined on a plan-by-plan basis) if the amount by which the actuarial present value of benefits included in the benefit obligation payable within the next 12 months exceeds the fair value of plan assets. Changes in the amount of the defined benefit obligation or plan assets resulting from demographic and financial data different than originally assumed and from changes in assumptions can result in actuarial gains and losses. We recognize all actuarial gains and losses directly in retained earnings.

SAP's pension benefits are classified as defined contribution plans if the payment to a separate fund relieves SAP of all obligations from the pension plan. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when paid or due.

Certain of our foreign subsidiaries are required to provide termination indemnity benefits to their employees regardless of the reason for termination (retirement, voluntary, or involuntary). We treat these plans as defined benefit pension plans if the substance of the post-employment plan is a pension-type arrangement. Most of these arrangements provide the employee with a one-time payout based on compensation levels, age, and years of service on termination independent of the reason (retirement, voluntary, or involuntary).

### **Deferred Income**

Deferred income is recognized as software revenue, support revenue, cloud subscription and support revenue, consulting revenue, development revenue, training revenue, or other service revenue, depending on the reasons for the deferral, once the basic applicable revenue recognition criteria have been met, for example, when the related services are performed or when the discounts are used.

### **Presentation in the Consolidated Statements of Cash Flows**

We classify interest and taxes paid as well as interest and dividends received as cash flows from operating activities. Dividends paid are classified as cash flows from financing activities.

### ***(3c) Management Judgments and Sources of Estimation Uncertainty***

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The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities.

We base our judgments, estimates, and assumptions on historical and forecast information, as well as regional and industry economic conditions in which we or our customers

F-20

## **Table of Contents**

operate, changes to which could adversely affect our estimates. Although we believe we have made reasonable estimates about the ultimate resolution of the underlying uncertainties, no assurance can be given that the final outcome of these matters will be consistent with what is reflected in our assets, liabilities, revenues, and expenses. Actual results could differ from original estimates.

The accounting policies that most frequently require us to make judgments, estimates, and assumptions, and therefore are critical to understanding our results of operations, include the following:

Revenue recognition

Valuation of trade receivables

Accounting for share-based payments

Accounting for income tax

Accounting for business combinations

Subsequent accounting for goodwill and other intangibles

Accounting for legal contingencies

Recognition of internally generated intangible assets from development

Our management periodically discusses these critical accounting policies with the Audit Committee of the Supervisory Board.

### **Revenue Recognition**

As described in the Revenue Recognition section of Note (3b), we do not recognize revenue before persuasive evidence of an arrangement exists, delivery has occurred, the risks and rewards of ownership have been transferred to the customer, the amount of revenue can be measured reliably, and collection of the related receivable is reasonably assured. The determination of whether the amount of revenue can be measured reliably or whether the fees are collectible is inherently judgmental as it requires estimates as to whether and to what extent subsequent concessions may be granted to customers and whether the customer is expected to pay the contractual fees. The timing and amount of revenue recognition can vary depending on what assessments have been made.

In most of our revenue-generating arrangements we sell to the customer more than one product solution or service. Additionally, we have ongoing relationships with many of our customers and often enter into several transactions with the same customer within close proximity in time. We therefore have to determine the following:

Which arrangements with the same customer are to be accounted for as one arrangement

Which deliverables under one arrangement are to be accounted for separately

How to allocate the total arrangement fee to the individual elements of one arrangement

The determination of whether different arrangements with the same customer are to be accounted for as one arrangement is highly judgmental, as it requires us to evaluate whether the arrangements are negotiated together or linked in any other way. The timing and amount of revenue recognition can vary depending on whether two arrangements are accounted for separately or as one arrangement.

Under an arrangement including on-premise software, or cloud subscription, and other deliverables, we do not account for the on-premise software, or cloud subscription, and the other deliverables separately if one of the other deliverables (such as consulting services) is deemed to be essential to the functionality of the on-premise software, or cloud subscription. The determination whether an undelivered element is essential to the functionality of the delivered element requires the use of judgment. The timing and amount of revenue recognition can vary depending on how that judgment is exercised, because revenue may be recognized over a longer service term.

We also do not account separately for different deliverables under an arrangement if we have no basis for allocating the overall arrangement fee to the different elements of the arrangement. However, we believe that such allocation basis exists if we can demonstrate for each undelivered element of the arrangement either company-specific objective evidence of fair value, or for cloud subscription deliverables, estimated stand-alone selling price, if company-specific objective evidence of fair value cannot be established, as further defined in the Revenue Recognition section



**Table of Contents**

of Note (3b). Judgment is required in the determination of an appropriate fair value measurement which may impact the timing and amount of revenue recognized depending on the following:

Whether an appropriate measurement of fair value can be demonstrated for undelivered elements

The approaches used to establish fair value  
 Additionally, our revenue for on-premise software contracts would be significantly different if we applied a revenue allocation policy other than the residual method.

Revenue from consulting, other professional services, and customer-specific on-premise software development projects is determined by applying the percentage-of-completion method. The percentage-of-completion method requires us to make estimates about total revenue, total cost to complete the project, and the stage of completion. The assumptions, estimates, and uncertainties inherent in determining the stage of completion affect the timing and amounts of revenue recognized and expenses reported. If we do not have a sufficient basis to measure the progress of completion or to estimate the total contract revenue and costs, revenue recognition is limited to the amount of contract costs incurred. The determination of whether a sufficient basis to measure the progress of completion exists is judgmental. Changes in estimates of progress towards completion and of contract revenue and contract costs are accounted for as cumulative catch-up adjustments to the reported revenue for the applicable contract.

**Valuation of Trade Receivables**

As described in the Trade and Other Receivables section in Note (3b), we account for impairments of trade receivables by recording sales allowances and allowances for doubtful accounts on an individual receivable basis and on a portfolio basis. The assessment of whether a receivable is collectible is inherently judgmental and requires the use of assumptions about customer defaults that could change significantly. Judgment is required when we evaluate available information about a particular customer's financial situation to determine whether it is probable that a credit loss will occur and the amount of such loss is reasonably estimable and thus an allowance for that specific account is necessary. Basing the general allowance for the remaining receivables on

our historical loss experience, too, is highly judgmental, as history may not be indicative of future development, particularly in the global economic circumstances resulting from the recent global financial crisis. Changes in our estimates about the allowance for doubtful accounts could materially impact the reported assets and expenses in our financial statements, and our profit could be adversely affected if actual credit losses exceed our estimates. To mitigate this risk, our trade receivables are partially covered by merchandise credit insurance.

**Accounting for Share-Based Payments**

As described in Note (27), we have issued both equity-settled, as well as cash-settled share-based payments.

We use certain assumptions in estimating the fair values for our share-based payments, including expected future stock price volatility and expected option life (which represents our estimate of the average amount of time remaining until the options are exercised or expire unexercised). In addition, the final payout for these plans also depends on our share price at the respective exercise dates. All these assumptions may significantly impact the fair value determination and thus the amount and timing of our share-based payment expense. Furthermore, the fair values of the options granted under our 2009 Plan (SOP PP) are dependent on our performance against the Tech Peer Group Index (TechPGI) since the respective grant date, the volatility and the expected correlation between the market price of this index, and our share price.

For the purpose of determining the estimated fair value of our stock options, we believe expected volatility is the most sensitive assumption. Regarding future payout under the plans, the price of SAP's shares will be the most relevant factor. The fair values of the Restricted Share Units (RSUs) granted under our Employee Participation Plan (EPP) and Long Term Incentive Plan (LTI) 2015 depend on SAP's share price directly after the announcement of the preliminary fourth quarter and full-year results for the last financial year of the respective performance period under the EPP (three-year-holding period under the LTI 2015), and thus may be significantly above or below the budgeted amounts. With respect to our plan granted in 2009 (SOP PP), we believe that future payout will be significantly impacted not only by our share price but also by the requirement to outperform the TechPGI. Changes



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## **Table of Contents**

in these factors could significantly affect the estimated fair values as calculated by the option-pricing model, and the future payout. For more information about these plans, see Note (27).

### **Accounting for Income Tax**

We conduct operations and earn income in numerous foreign countries and are subject to changing tax laws in multiple jurisdictions within the countries in which we operate. Our ordinary business activities also include transactions where the ultimate tax outcome is uncertain, such as those involving revenue sharing and cost reimbursement arrangements between SAP Group entities. In addition, the amount of income tax we pay is generally subject to ongoing audits by domestic and foreign tax authorities. As a result, judgment is necessary in determining our worldwide income tax provisions. We have made reasonable estimates about the ultimate resolution of our tax uncertainties based on current tax laws and our interpretation thereof. Such judgment can have a material effect on our income tax expense, income tax provision, and profit after tax.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax assets to be utilized. This assessment requires management judgment, estimates, and assumptions. In evaluating our ability to utilize our deferred tax assets, we consider all available positive and negative evidence, including the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are recoverable. Our judgment regarding future taxable income is based on expectations of market conditions and other facts and circumstances. Any adverse change to the underlying facts or our estimates and assumptions could require that we reduce the carrying amount of our net deferred tax assets.

For more information about our income tax, see Note (10).

### **Accounting for Business Combinations**

In our accounting for business combinations, judgment is required in determining whether an intangible asset is identifiable, and should be recorded separately from goodwill. Additionally, estimating the acquisition-date fair values of the

identifiable assets acquired and liabilities assumed involves considerable management judgment. The necessary measurements are based on information available at the acquisition date and are based on expectations and assumptions that have been deemed reasonable by management. These judgments, estimates, and assumptions can materially affect our financial position and profit for several reasons, among which are the following:

Fair values assigned to assets subject to depreciation and amortization affect the amounts of depreciation and amortization to be recorded in operating profit in the periods following the acquisition.

Subsequent negative changes in the estimated fair values of assets may result in additional expense from impairment charges.

Subsequent changes in the estimated fair values of liabilities and provisions may result in additional expense (if increasing the estimated fair value) or additional income (if decreasing the estimated fair value).

### **Subsequent Accounting for Goodwill and Other Intangibles**

As described in the Intangible Assets section in Note (3b), all our intangible assets other than goodwill have finite useful lives. Consequently, the depreciable amount of the intangible assets is allocated on a systematic basis over their useful lives. Judgment is required in determining the following:

The useful life of an intangible asset, as this determination is based on our estimates regarding the period over which the intangible asset is expected to produce economic benefits to us.

The amortization method, as IFRS requires the straight-line method to be used unless we can reliably determine the pattern in which the asset's future economic benefits are expected to be consumed by us. Both the amortization period and the amortization method have an impact on the amortization expense that is recorded in each period.

In making impairment assessments for our intangible assets and goodwill, the outcome of these tests is highly dependent on management's

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## **Table of Contents**

latest estimates and assumptions regarding future cash flow projections and economic risks, which are complex and require significant judgment and assumptions about future developments. They can be affected by a variety of factors, including changes in our business strategy, our internal forecasts, and an estimate of our weighted-average cost of capital. Due to these factors, actual cash flows and values could vary significantly from the forecasted future cash flows and related values derived using the discounted cash flow method. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, different assumptions and estimates could materially affect our financial position and profit.

The results of goodwill impairment tests may depend on the allocation of goodwill to our operating segments. This allocation is judgmental as it is based on our estimates regarding which operating segments are expected to benefit from the synergies of the business combination.

We recognized no impairment losses on our goodwill and no significant impairment losses on our intangible assets during 2012. Although we do not currently have an indication of any significant impairment, there can be no assurance that impairment losses will not occur in the future. For more information, see Note (15).

### **Accounting for Legal Contingencies**

As described in Note (23), we are currently involved in various claims and legal proceedings. We review the status of each significant matter not less frequently than each quarter and assess our potential financial and business exposures related to such matters. Significant judgment is required in the determination of whether a provision is to be recorded and what the appropriate amount for such provision should be. Notably, judgment is required in the following:

Determining whether an obligation exists

Determining the probability of outflow of economic benefits

Determining whether the amount of an obligation is estimable

Estimating the obligation

Due to uncertainties relating to these matters, provisions are based on the best information available at the time.

At the end of each reporting period, we reassess the potential obligations related to our pending claims and litigation and adjust our respective provisions to reflect the current best estimate. In addition, we monitor and evaluate new information that we receive after the end of the respective reporting period but before the Consolidated Financial Statements are authorized for issue to determine whether this provides additional information regarding conditions that existed at the end of the reporting period. Such revisions to our estimates of the potential obligations could have a material impact on our financial position and profit. The change in the provision for the TomorrowNow litigation had a material impact on our 2010 and 2011 consolidated financial statements. For further information about this case, see Notes (18b) and (23).

### **Recognition of Internally Generated Intangible Assets from Development**

Under IAS 38, internally generated intangible assets from the development phase are recognized if certain conditions are met. These conditions include the technical feasibility, intention to complete, the ability to use or sell the asset under development, and the demonstration of how the asset will generate probable future economic benefits. The cost of a recognized internally generated intangible asset comprises all directly attributable cost necessary to make the asset capable of being used as intended by management. In contrast, all expenditures arising from the research phase are expensed as incurred.

We believe that determining whether internally generated intangible assets from development are to be recognized as intangible assets requires significant judgment, particularly in the following areas:

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Determining whether activities should be considered research activities or development activities.

Determining whether the conditions for recognizing an intangible asset are met requires assumptions about future market conditions, customer demand and other developments.

The term *technical feasibility* is not defined in IFRS, and therefore determining whether the completion of an asset is technically feasible requires judgment and a company-specific approach.

F-24

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## **Table of Contents**

Determining the future ability to use or sell the intangible asset arising from the development and the determination of the probability of future benefits from sale or use.

Determining whether a cost is directly or indirectly attributable to an intangible asset and whether a cost is necessary for completing a development.

We have determined that the conditions for recognizing internally generated intangible assets from our software development activities are not met until shortly before the developed products are available for sale. This assessment is monitored by us on a regular basis.

### ***(3d) New Accounting Standards Adopted in the Current Period***

The new accounting standards adopted in fiscal year 2012 did not have a material impact on our Consolidated Financial Statements. The amendments to IFRS 7 (Financial Instruments: Disclosures) detailing additional disclosures for certain transfers of financial assets have so far not necessitated any additional disclosures on our part.

### ***(3e) New Accounting Standards Not Yet Adopted***

The standards and interpretations (relevant to the Group) that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective:

Amendments to IFRS 7 (Financial Instruments: Disclosures) – Offsetting financial assets and financial liabilities, which become mandatory for our 2013 Consolidated Financial Statements and require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure and which might result in additional disclosures in the future.

IFRS 9 (Financial Instruments), which becomes mandatory for our 2015 Consolidated Financial Statements and is expected to impact the classification and measurement of financial assets. We have not yet completed the determination of the impact on our Consolidated Financial Statements.

IFRS 10 (Consolidated Financial Statements), IFRS 11 (Joint Arrangements), and IFRS 12 (Disclosure of Interests in Other Entities) including amendments to the transition guidance for IFRS 10-12 issued in June 2012: This new set of standards provides a single consolidation model that identifies control as the basis for consolidation for all types of entities, establishes principles for the financial reporting by parties to a joint arrangement, and combines, enhances and replaces the current disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the IASB also issued amended and retitled IAS 27 (Separate Financial Statements) and IAS 28 (Investments in Associates and Joint Ventures). We will adopt the new set of standards for our 2013 Consolidated Financial Statements. The adoption of these standards will not have a material impact on our Consolidated Financial Statements.

IFRS 13 (Fair Value Measurement) defines fair value, sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurements. The new standard becomes mandatory for our 2013 Consolidated Financial Statements and is not expected to have a significant impact on our Consolidated Financial Statements.

Amendments to IAS 1 (Presentation of Financial Statements), which become mandatory for the Group's 2013 Consolidated Financial Statements, aim to improve and align the presentation of items of other comprehensive income in financial statements prepared in accordance with IFRS and U.S. GAAP, and will impact the presentation of items within the Consolidated Statements of Comprehensive Income. While not early-adopting the amendments to IAS 1, SAP already provides additional disclosures to enhance the reader's insight into which elements

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of SAP's cumulative other comprehensive income will, through recycling, impact profit or loss in the future.

Amendments to IAS 19 (Employee Benefits), which become mandatory for our 2013 Consolidated Financial Statements, aim to improve the understanding of how defined benefit plans affect an entity's financial position, financial performance, and cash flows, and are likely to impact, for example, the amount of actuarial gains and losses that will impact profit and loss versus be allocated to other comprehensive income as remeasurements. The application of the revised standard will mainly

F-25



**Table of Contents**

result in more types of obligations qualifying as other long-term employee benefits and additional disclosures.

Amendments to IAS 32 (Financial Instruments: Presentation) Offsetting financial assets and financial liabilities, which become mandatory for the Group's 2014 Consolidated Financial Statements, aim to eliminate inconsistencies when applying the offsetting criteria and include some clarifications. We have not yet completed the determination of the extent of the impact on our Consolidated Financial Statements.

**(4) Business Combinations**

In 2012, we concluded the following business combinations:

**Acquired Businesses**

	<b>Sector</b>	<b>Acquisition Type</b>	<b>Acquired Voting Interest</b>	<b>Acquisition Date</b>
Purisma Inc, Short Hills, NJ, USA	Master Data Management Solution Business	Asset Deal	n/a	January 18, 2012
Datango AG, Berlin, Germany	Solution for Workforce Performance Support	Asset Deal	n/a	February 7, 2012
SuccessFactors, Inc, San Mateo, CA, USA	Provider of cloud-based human capital management (HCM) solutions	Share Deal	100%	February 21, 2012
Syclo LLC, Hoffman Estates, IL, USA	Provider of enterprise mobile applications and technologies	Share Deal	100%	June 6, 2012
Ariba, Inc., Sunnyvale, CA, USA	Provider of cloud-based business network solution	Share Deal	100%	October 1, 2012

In 2012, SuccessFactors and Ariba were material business combinations to SAP; the remaining business combinations were immaterial individually and in the aggregate. We acquire businesses in specific areas of strategic interest to us. In 2012, we complemented our existing product portfolio primarily with the acquisition of cloud and mobile solutions.

***Acquisition of SuccessFactors***

On February 21, 2012, we acquired more than 90% of the outstanding ordinary shares of SuccessFactors, Inc. (NYSE: SFSF). After the acceptance of the tender offer, we effected a short-form merger and acquired the remaining shares. SAP paid US\$40.00 per share, representing consideration transferred of approximately 2.7 billion.

SuccessFactors is a provider of cloud-based human capital management (HCM) solutions. As a

result of the acquisition, we established ourselves as a provider of cloud applications, platforms, and infrastructure and were able to establish an advanced end-to-end offering of cloud and on-premise solutions for managing all relevant business processes.

***Acquisition of Ariba***

On October 1, 2012, we acquired Ariba, Inc. (Nasdaq: ARBA), a leading cloud-based business network. SAP offered US\$45.00 per share, representing consideration transferred of approximately 3.5 billion.

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The acquisition combines Ariba's buyer-seller collaboration network with SAP's broad customer base and business process expertise to create new models for business-to-business collaboration in the cloud.

F-26

**Table of Contents*****Financial Impact of Our Acquisitions as of the Acquisition Date***

The following tables summarize the consideration transferred, and the values for identifiable assets acquired and liabilities assumed, as of the acquisition date.

**Consideration Transferred**

millions	2012	Thereof	
		SuccessFactors	Ariba
Cash	6,237	2,659	3,424
Liabilities incurred	158	59	91
<b>Total consideration transferred</b>	<b>6,395</b>	<b>2,717</b>	<b>3,515</b>

Of the total amount of liabilities incurred, 144 million relate to the earned portion of unvested share-based payment awards. These liabilities were incurred, by replacing, upon acquisition, equity-settled share-based payment awards held by employees of SuccessFactors and Ariba with cash-settled share-based payment awards, which are subject to forfeiture. The potential amounts of all future payments that SAP could be required to make under these share-based payments is between 90 million and 158 million. The respective liabilities represent the portion of the replacement awards that relates to pre-acquisition services provided by the acquiree's employees and were measured, at the

fair value determined under IFRS 2 as required by IFRS 3. For more information about these share-based payments, see Note (27).

The acquisition-related costs incurred totaled 26 million in 2012 for our 2012 business combinations, all of which were recognized in general and administration expense.

The initial accounting for the Ariba acquisition is provisional in our financial statements with respect to tax-related assets and liabilities, contingent liabilities, as well as litigation and similar liabilities, as we are still validating our valuation assumptions.

**Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed**

millions	Total	Thereof	
		SuccessFactors	Ariba
Cash and cash equivalents	249	80	168
Other financial assets	52	9	43
Trade and other receivables	134	60	72
Other non-financial assets	26	12	14
Property, plant, and equipment	36	10	25
Intangible assets	1,734	786	901
Thereof customer relationship and other intangibles	1,152	493	646
Customer relationship	939	400	528
Trade name	48	24	23
Other intangible assets	165	69	94
Thereof acquired technology	578	290	255
Thereof software and database licenses	4	3	0
Current and deferred tax assets	68	7	59

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<b>Total identifiable assets</b>	<b>2,299</b>	<b>965</b>	<b>1,282</b>
Trade accounts payable	68	23	43
Loans and borrowings	1	1	0
Current and deferred tax liabilities	159	152	7
Provisions and other non-financial liabilities	103	33	67
Deferred revenue	212	132	77
<b>Total identifiable liabilities</b>	<b>543</b>	<b>341</b>	<b>194</b>
<b>Total identifiable net assets</b>	<b>1,756</b>	<b>624</b>	<b>1,088</b>
<b>Goodwill</b>	<b>4,639</b>	<b>2,094</b>	<b>2,427</b>
<b>Total consideration transferred</b>	<b>6,395</b>	<b>2,717</b>	<b>3,515</b>

F-27

**Table of Contents****Valuation of Trade Receivables Acquired**

The fair value of trade receivables acquired has been estimated as follows:

**Valuation of Trade Receivables Acquired**

millions	Value as at Acquisition Date	Thereof SuccessFactors	Thereof Ariba
Gross carrying amount	136	62	72
Allowance for doubtful accounts	2	2	0
<b>Fair value of receivables</b>	<b>134</b>	<b>60</b>	<b>72</b>

**Impact of Material Business Combinations on Our Financials**

The amounts of revenue and profit or loss of the material businesses acquired in 2012 since the acquisition date included in the consolidated income statements for the reporting period are as follows:

**Impact of Material Business Combinations**

millions	2012 as Reported	Thereof SuccessFactors	Thereof Ariba
Revenue	16,223	236	80
Profit after tax	2,823	117	31

**Proforma Financial Information for Material Business Combinations**

Had SuccessFactors and Ariba been consolidated as of January 1, 2012, our consolidated income statements for the reporting period would have presented the following amounts:

**Proforma Financial Information**

millions	2012 Proforma	Thereof SuccessFactors	Thereof Ariba
Revenue	16,865	269	373
Profit after tax	2,587	150	86

These amounts were calculated after applying the Company's accounting policies and after adjusting the results for SuccessFactors and Ariba to reflect the following:

Additional depreciation and amortization that would have been charged assuming the fair value adjustment to property, plant, and equipment and intangible assets had been applied from January 1, 2012

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The impact of deferred revenue write-downs on a full-year basis

The borrowing costs on the funding levels and debt/equity position of the company after the business combination

Related tax effects

These proforma numbers have been prepared for comparative purposes only. The proforma revenue and profit numbers are not necessarily indicative of either the results of operations that would have actually occurred had the acquisition been in effect at the beginning of the respective periods or of future results.

Prior year acquisitions are described in the Consolidated Financial Statements in our 2011 Annual Report.

### **(5) Revenue**

For detailed information about our revenue recognition policies, see Note (3).

For revenue information by segment and geographic region, see Note (28).

F-28

**Table of Contents**

Revenue from construction-type contracts (contract revenue) is included in software revenue and consulting revenue depending on the type of project. The status of our construction projects in progress at the end of the reporting period accounted for under IAS 11 was as follows:

**Construction Projects in Progress**

millions	2012	2011	2010
Revenue recognized in the respective year	196	172	141
Aggregate cost recognized (multi-year)	255	229	163
Recognized result (+profit/-loss; multi-year)	2	14	17
Advance payments received	3	5	5
Gross amounts due from customers	7	20	21
Gross amounts due to customers	15	44	35
Loss provisions	34	27	28

**(6) Other Operating Income/Expense, Net**

Other operating income/expense, net, was as follows:

**Other Operating Income/Expense, Net**

millions	2012	2011	2010
Miscellaneous other operating expenses	3	3	5
Gain/loss on disposals of non-current assets	5	18	3
Miscellaneous other operating income	31	10	11
<b>Other operating income/expense, net</b>	<b>23</b>	<b>25</b>	<b>9</b>

**(7) Employee Benefits Expense and Headcount*****Employee Benefits Expense***

Employee benefits expense comprises the following:

**Employee Benefits Expense**

millions	2012	2011	2010
Salaries	5,706	4,939	4,383
Social security expense	777	642	607
Pension expense	190	176	149
Share-based payment expense	522	68	58
Termination benefits	61	59	63
Employee-related restructuring expense	6	0	1
<b>Employee benefits expense</b>	<b>7,262</b>	<b>5,884</b>	<b>5,261</b>

Pension expense includes the amounts recorded for our defined benefit and defined contribution plans as described in Note (18a). Expenses for local state pension plans are included in social security expense.

**Table of Contents****Number of Employees**

On December 31, 2012, the breakdown of our full-time equivalent employee numbers by function in SAP and by region was as follows:

**Number of Employees**

Full-time equivalents	December 31, 2012				December 31, 2011				December 31, 2010			
	EMEA <sup>(1)</sup>	Americas	Asia Pacific Japan	Total	EMEA <sup>(1)</sup>	Americas	Asia Pacific Japan	Total	EMEA <sup>(1)</sup>	Americas	Asia Pacific Japan	Total
Software and software-related services	4,559	2,628	3,364	10,551	4,068	2,079	2,816	8,963	3,804	1,827	2,254	7,885
Professional services and other services	7,020	4,399	2,840	14,259	6,808	3,963	2,497	13,268	6,787	3,955	2,410	13,152
Research and development	8,952	3,672	5,388	18,012	8,713	3,028	4,120	15,861	8,617	3,154	4,113	15,884
Sales and marketing	5,697	6,220	2,982	14,899	4,856	4,581	2,343	11,780	4,593	4,214	2,180	10,987
General and administration	2,243	1,383	660	4,286	2,073	1,120	542	3,735	2,053	1,005	518	3,576
Infrastructure	1,286	821	308	2,415	1,182	702	274	2,158	1,135	628	266	2,029
<b>SAP Group (December 31)</b>	<b>29,757</b>	<b>19,123</b>	<b>15,542</b>	<b>64,422</b>	<b>27,700</b>	<b>15,473</b>	<b>12,592</b>	<b>55,765</b>	<b>26,989</b>	<b>14,783</b>	<b>11,741</b>	<b>53,513</b>
Thereof acquisitions	791	2,987	1,038	4,816	264	49	90	403	1,174	1,975	1,084	4,233
<b>SAP Group (months end average)</b>	<b>29,009</b>	<b>17,619</b>	<b>14,506</b>	<b>61,134</b>	<b>27,296</b>	<b>15,010</b>	<b>12,040</b>	<b>54,346</b>	<b>25,929</b>	<b>13,164</b>	<b>10,877</b>	<b>49,970</b>

<sup>(1)</sup> Europe, Middle East, Africa

The increase of our full-time equivalent employee numbers in 2012 was mainly due to the acquisition of SuccessFactors in February 2012 and Ariba in October 2012.

**Allocation of Share-Based Payment Expense**

The allocation of expense for share-based payments, net of the effects from hedging these instruments, to the various expense items is as follows:

**Share-Based Payments**

millions	2012	2011	2010
Cost of software and software-related services	42	5	4
Cost of professional services and other services	104	11	9
Research and development	125	16	19
Sales and marketing	123	15	16
General and administration	127	21	10
<b>Share-based payments</b>	<b>522</b>	<b>68</b>	<b>58</b>
Thereof cash-settled share-based payments	450	33	29
Thereof equity-settled share-based payments	72	35	29

For more information about our share-based payments, see Note (27).



**Table of Contents**

**(8) Other Non-Operating Income/Expense, Net**

Other non-operating income/expense, net was as follows:

**Other Non-Operating Income/Expense, Net**

millions	2012	2011	2010
Foreign currency exchange gain/loss, net	154	58	175