

INCYTE CORP
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November 03, 2004

As filed with the Securities and Exchange Commission on November 3, 2004

Registration No. 333-114863

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 3

To

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

INCYTE CORPORATION

(Exact Name of registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

94-3136539
(I.R.S. Employer Identification Number)

Incyte Corporation
Experimental Station
Route 141 & Henry Clay Road
Building E336

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Wilmington, DE 19880

(302) 498-6700

(Address, Including Zip Code, and Telephone Number, Including Area Code, of registrant's Principal Executive Offices)

Paul A. Friedman

Chief Executive Officer

Incyte Corporation

Experimental Station

Route 141 & Henry Clay Road

Building E336

Wilmington, DE 19880

(302) 498-6700

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

With copy to:

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Telephone: (415) 983-1000

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective, as determined by market conditions and other factors.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, check the following box. "

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

Explanatory Note

The Registrant is filing this Post-Effective Amendment No. 3 to Form S-3 Registration Statement to update the table under the caption "Selling Securityholders" in the prospectus contained herein to add and delete the names and respective holdings of certain selling securityholders who have requested such changes.

The information in this prospectus is not complete and may be changed. The selling securityholders may not sell these securities until the post-effective amendment to the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion. Dated November 3, 2004

PROSPECTUS

\$250,000,000

**3 1/2% Convertible Subordinated Notes due 2011
and Shares of Common Stock Issuable upon Conversion of the Notes**

Incyte Corporation issued the notes in a private placement in February and March 2004. This prospectus will be used by selling securityholders to resell their notes and the shares of common stock issuable upon conversion of their notes.

The notes are due on February 15, 2011. We will pay interest on the notes on February 15 and August 15 of each year, beginning August 15, 2004.

Holders may convert the notes at any time prior to maturity into shares of our common stock at a conversion price of \$11.22 per share, which is equivalent to a conversion rate of 89.1385 shares of our common stock per \$1,000 principal amount of notes. This conversion rate is subject to adjustment under the terms of the notes. The notes are general, unsecured obligations that are subordinated to all existing and future senior indebtedness and pari passu in right of payment with our 5.5% convertible subordinated notes due 2007. As of June 30, 2004, we had no senior indebtedness outstanding.

We may redeem any portion of the notes at any time after February 20, 2007 and prior to maturity if specific circumstances are satisfied. You may require us to repurchase your notes upon the occurrence of a designated event, subject to specified exceptions.

For a more detailed description of the notes, see [Description of Notes](#) beginning on page 22.

Our common stock is traded on the Nasdaq National Market under the symbol INCY. The last reported sale price of our common stock on the Nasdaq National Market on November 2, 2004 was \$9.75 per share.

Investing in the notes or our common stock involves a high degree of risk. You should carefully read and consider the Risk Factors beginning on page 4.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is November , 2004

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We have not authorized anyone to provide you with information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. The selling securityholders are offering to sell, and seeking offers to buy, only the notes and shares of common stock covered by this prospectus, and only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date, regardless of the time of delivery of this prospectus or of any sale of the shares.

You should read carefully the entire prospectus, as well as the documents incorporated by reference in the prospectus, before making an investment decision. All references to Incyte, we, us, our, or the Company in this prospectus mean Incyte Corporation and its subsidiaries, except where it is made clear that the term means only the parent company. All references to Incyte in this prospectus mean Incyte Corporation, the parent company.

SUMMARY

This summary contains basic information about us, the notes and our common stock. Because it is a summary, it does not contain all of the information that you should consider before investing. You should read this entire prospectus carefully, including the section entitled Risk Factors, and our financial statements and the related notes and other documents incorporated in this prospectus by reference, before making an investment decision.

Incyte Corporation is focused on the discovery and development of novel, small molecule drugs to treat major medical conditions, including infection with human immunodeficiency virus, or HIV, inflammatory disorders, cancer and diabetes. We have assembled a team of scientists with core competencies in the areas of medicinal chemistry, and molecular, cellular and in vivo biology.

Our most advanced product candidate, Reverset, is a nucleoside analog reverse transcriptase inhibitor, or NRTI, that is being developed as a once-a-day oral therapy for use in combination with other antiviral drugs for patients with HIV infections. Reverset is currently in Phase IIb clinical trials to treat patients infected with HIV.

In a Phase IIa trial of HIV infected patients who had never undergone previous treatment, Reverset demonstrated potent activity against HIV and was well tolerated during the 10-day trial period. Laboratory data also suggest that Reverset has the potential to treat viruses resistant to other NRTIs.

In addition to our Reverset development program, we have internally-generated drug discovery programs underway. The most advanced of these programs is focused on developing antagonists to a key receptor involved in inflammation called the CCR2 receptor. A lead candidate from this program has been identified and is currently in Phase I clinical trials. We believe that CCR2 receptor antagonists may represent a new class of compounds to treat various inflammatory diseases, including rheumatoid arthritis, multiple sclerosis and atherosclerosis. Our next most-advanced program involves novel sheddase inhibitors that we believe may have application in the treatment of breast cancer and other tumor types. Earlier stage programs have generated other compounds with potential for applications in HIV, diabetes and cancer.

For the past several years, Incyte has been a leader in the development and provision of genomic and proteomic information products. However, in response to the decreasing commercial potential of this area of business, Incyte made the decision in February 2004 to close our Palo Alto headquarters and to discontinue further development of the information products produced at that facility. The genomic and proteomic-information related assets remaining within Incyte after this restructuring are our gene and gene-technology related intellectual property portfolio and our BioKnowledge Library, or BKL product line, produced by our Proteome facility based in Beverly, Massachusetts.

Incyte and BioKnowledge are our registered trademarks. We also refer to trademarks of other corporations and organizations in this prospectus.

Incyte was incorporated in Delaware in 1991. Our executive offices are located at Experimental Station, Route 141 & Henry Clay Road, Building E336, Wilmington, DE 19880 and our telephone number is (302) 498-6700.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The risks described below are not the only ones facing our company. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

Our business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of the notes and our common stock could decline if any of these risks occurs, and you may lose all or part of your investment.

Risks Relating to our Business

We are at the early stage of our drug discovery and development efforts and we may be unsuccessful in our efforts.

We are in the early stage of building our drug discovery and development operations. Our ability to develop and commercialize pharmaceutical products based on proteins, antibodies and other compounds will depend on our ability to:

hire and retain key scientific employees;

identify high quality therapeutic targets;

identify potential drug candidates;

develop products internally or license drug candidates from others;

identify and enroll suitable volunteers, either in the United States or abroad, for our clinical trials;

complete laboratory testing and clinical trials on humans;

obtain and maintain necessary intellectual property rights to our products;

obtain and maintain necessary regulatory approvals for our products, both in the United States and abroad;

enter into arrangements with third parties to provide services or to manufacture our products on our behalf, or develop efficient production facilities meeting all regulatory requirements;

deploy sales and marketing resources effectively or enter into arrangements with third parties to provide these functions;

lease facilities at reasonable rates to support our growth; and

enter into arrangements with third parties to license and commercialize our products.

Of the compounds that we identify as potential drug products or that we in-license from other companies, only a few, at most, are statistically likely to lead to successful drug development programs. Significant research and development efforts will be necessary. We have limited experience with these activities and may not be successful in developing or commercializing drug products. If we choose to outsource some of these activities, we may be unable to enter into outsourcing or licensing agreements on commercially reasonable terms, if at all. In addition, if we elect to manufacture our products in our own manufacturing facilities, we will require substantial additional capital resources to lease or build and maintain those facilities, including attracting and retaining qualified personnel to lease or build and operate our facilities.

Our efforts to discover and develop potential drug candidates may not lead to the development, commercialization or marketing of drug products.

We are currently engaged in a number of different approaches to discover and develop novel drug candidates. We are internally developing novel small molecule chemokine receptor antagonists to treat

inflammation and our scientists have produced a number of lead compounds that are in the final stages of preclinical testing and a lead candidate from this program has entered Phase I clinical trials. Other internal drug discovery programs are focused on sheddase inhibitors to treat cancer and compounds with potential for applications in HIV, diabetes and cancer. Discovery and development of potential drug candidates are expensive and time-consuming, and we do not know if our efforts will lead to discovery of any drug candidates that can be successfully developed and marketed. If our efforts do not lead to the discovery of a suitable drug candidate, we may be unable to grow our clinical pipeline or we may be unable to enter into agreements with collaborators who are willing to develop our drug candidates.

The success of our drug discovery and development efforts may depend on our ability to find suitable collaborators to fully exploit our capabilities. If we are unable to establish collaborations or if these future collaborations are unsuccessful, our research and development efforts may be unsuccessful, which could adversely affect our results of operations and financial condition.

An important element of our business strategy will be to enter into collaborative or license arrangements with third parties under which we license our drug candidates to those third parties for development and commercialization. We expect that while we may initially seek to conduct initial clinical trials on our drug candidates, we will need to seek collaborators for a number of our drug candidates because of the expense, effort and expertise required to continue additional clinical trials and further develop those drug candidates. Because collaboration arrangements are complex to negotiate, we may not be successful in our attempts to establish these arrangements. Also, we may not have drug compounds that are desirable to other parties, or we may be unwilling to license a drug compound because the party interested in it is a competitor. The terms of any such arrangements that we establish may not be favorable to us. Alternatively, potential collaborators may decide against entering into an agreement with us because of our financial, regulatory or intellectual property position or for scientific, commercial or other reasons. If we are not able to establish collaborative agreements, we may not be able to develop and commercialize a drug product, which would adversely affect our business and our revenues.

In order for any of these collaboration efforts to be successful, we must first identify potential collaborators whose capabilities complement and integrate well with ours. We may rely on these arrangements for not only financial resources, but also for expertise or economies of scale that we expect to need in the future relating to clinical trials, manufacturing, sales and marketing, and for licenses to technology rights. However, it is likely that we will not be able to control the amount and timing of resources that our collaborators devote to our programs or potential products. If our collaborators prove difficult to work with, are less skilled than we originally expected or do not devote adequate resources to the program, the relationship will not be successful. If a business combination involving a collaborator and a third party were to occur, the effect could be to diminish, terminate or cause delays in development of a potential product.

We face significant competition for our drug discovery and development efforts, and if we do not compete effectively, our commercial opportunities will be reduced or eliminated.

The biotechnology and pharmaceutical industries are intensely competitive and subject to rapid and significant technological change. Our drug discovery and development efforts may target diseases and conditions that are already subject to existing therapies or that are being developed by our competitors, many of which have substantially greater resources, larger research and development staffs and facilities, more experience in completing preclinical testing and clinical trials in order to obtain regulatory approvals and formulation, marketing and manufacturing capabilities. As a result of these resources, our competitors may develop drug products that render our products obsolete or noncompetitive by developing more effective drugs or by developing their products more efficiently. Our ability to develop competitive products would be limited if our competitors succeeded in obtaining regulatory approvals for drug candidates more rapidly than we were able to or in obtaining patent protection or other intellectual property rights that limited our drug development efforts. Any drugs resulting from our research and development efforts, or from our joint efforts with collaborators, might not be able to compete successfully with our competitors' existing and future products, or obtain regulatory approval in the United States or elsewhere.

Our ability to develop and commercialize Reverset may be adversely affected if a dispute arose with Pharmasset.

We are developing Reverset under a collaborative licensing agreement with Pharmasset entered into in September 2003. If a dispute arose with Pharmasset over the terms of the collaborative license agreement, including the alleged breach of any provision, our development, commercialization and marketing of Reverset may be adversely affected.

If conflicts arise between our collaborators or advisors and us, our collaborators or advisors may act in their self-interest, which may adversely affect our business.

If conflicts arise between us and our collaborators, including Pharmasset, or our scientific advisors, the other party may act in its self-interest and not in the interest of our stockholders. Conflicts may arise with our collaborators if they pursue alternative technologies or develop alternative products either on their own or in collaboration with others as a means for developing treatments for the diseases that we have targeted. Competing products, either developed by these future collaborators or to which these future collaborators have rights, may result in their withdrawal of support for our product candidates.

Additionally, conflicts may arise if there is a dispute about the achievement and payment of a milestone amount or the ownership of intellectual property that is developed during the course of the relationship. Similarly, the parties to a collaboration agreement may disagree as to which party owns newly developed products. Should an agreement be terminated as a result of a dispute and before we have realized the benefits of the collaboration, our reputation could be harmed and we may not obtain revenues that we anticipated receiving.

If we fail to enter into additional in-licensing agreements or if these arrangements are unsuccessful, our business and operations might be adversely affected.

In addition to establishing collaborative arrangements under which third parties license our drug candidates for development and commercialization, we intend to continue to explore opportunities to develop our clinical pipeline by in-licensing drug compounds that fit within our expertise and research and development capabilities. We may be unable to enter into any additional in-licensing agreements because suitable product candidates that are within our expertise may not be available to us on terms that are acceptable to us or because competitors with greater resources seek to in-license the same product candidates. Product candidates that we would like to develop may not be available to us because they are controlled by competitors who are unwilling to license the rights to the drug compound or candidate to us. We may also need to license drug delivery or other technology in order to continue to develop our drug candidate pipeline. If we are unable to enter into additional agreements to license drug candidates, drug delivery technology or other technology or if these arrangements are unsuccessful, our research and development efforts could be adversely affected.

We have limited expertise with and capacity to conduct clinical trials, and our resulting dependence on third parties to conduct clinical trials could result in delays in and additional costs for our drug development efforts.

We have only limited experience with clinical trials, manufacturing and commercialization of drug products. We also have limited internal resources and capacity to perform preclinical studies and clinical trials. As a result, we intend to hire contract research organizations, or CROs, to perform most of our clinical trials for drug candidates that we choose to develop without a collaborator. If the CROs that we hire to perform our clinical trials or our collaborators do not meet deadlines or do not follow proper procedures, our clinical trials may take longer than expected, may be delayed or may be terminated. If we were forced to find a replacement entity to perform any of our clinical trials, we may not be able to find a suitable entity on favorable terms, or at all. Even if we were able to find another company to perform a trial, the delay in the

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trial may result in significant expenditures. Events such as these may result in delays in our obtaining regulatory approval for our drug candidates or our ability to commercialize our products and could result in increased expenditures that would adversely affect our operating results.

In addition, for some of our drug candidates, we plan to contract with collaborators to advance those candidates through later-stage, more expensive clinical trials, rather than invest our own resources to perform these trials. Depending on the terms of our agreements with these collaborators, we may not have any control over the conduct of these clinical trials, and in any event we would be subject to the risks associated with depending on collaborators to develop these drug candidates.

If we are unable to obtain regulatory approval to develop and market products in the United States and foreign jurisdictions, we will not be permitted to manufacture or commercialize products resulting from our research.

In order to manufacture and commercialize drug products in the United States, our drug candidates will have to obtain regulatory approval from the Food and Drug Administration, or the FDA. Satisfaction of regulatory requirements typically takes many years. To obtain regulatory approval, we must first show that our drug products are safe and effective for target indications through preclinical studies (animal testing) and clinical trials (human testing). Preclinical testing and clinical development are long, expensive and uncertain processes, and we do not know whether the FDA will allow us to undertake clinical trials of any potential drug products in addition to Reverset and our lead compound from our CCR2 antagonist program.

Completion of clinical trials may take several years and failure may occur at any stage of testing. The length of time required varies substantially according to the type, complexity, novelty and intended use of the product candidate. Interim results of a preclinical study or clinical trial do not necessarily predict final results, and acceptable results in early trials may not be repeated in later trials. For example, a drug candidate that is successful at the preclinical level may cause harmful or dangerous side effects when tested at the clinical level. Our rate of commencement and completion of clinical trials may be delayed by many factors, including:

our inability to formulate or manufacture sufficient quantities of materials for use in clinical trials;

variability in the number and types of patients available for each study;

difficulty in maintaining contact with patients after treatment, resulting in incomplete data;

unforeseen safety issues or side effects;

poor or unanticipated effectiveness of products during the clinical trials; or

government or regulatory delays.

Data obtained from the clinical trials are susceptible to varying interpretation, which may delay, limit or prevent regulatory approval. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in advanced clinical trials, even after achieving promising results in earlier trials. In addition, regulatory authorities may refuse or delay approval as a result of other factors, such as changes in regulatory policy during the period of product development and regulatory agency review.

Due, in part, to the early stage of our drug candidate research and development process, we cannot predict whether regulatory approval will be obtained for any product we develop. At the present time, we have two drug candidates, Reverset and our lead CCR2 antagonist, in Phase II and Phase I clinical trials, respectively, and our other drug candidates are still undergoing preclinical testing. Compounds developed by us, alone or with other parties, may not prove to be safe and effective in clinical trials and may not meet all of the applicable regulatory requirements needed

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to receive marketing approval. If regulatory approval of a product is granted, this approval will be limited to those disease states and conditions for which the product is demonstrated through clinical trials to be safe and effective. Failure to obtain regulatory approval would delay or prevent us from commercializing products.

Outside the United States, our ability to market a product is contingent upon receiving a marketing authorization from the appropriate regulatory authorities. This foreign regulatory approval process typically includes all of the risks associated with the FDA approval process described above and may also include additional risks.

Our reliance on third parties to manufacture and commercialize any of our drug candidates that receives regulatory approval could result in a short supply of the drugs or withdrawal of the FDA's regulatory approval.

The FDA requires that drug products be manufactured according to its current Good Manufacturing Practices, or cGMP, regulations and a limited number of manufacturers comply with these requirements. If the third party that we choose to manufacture our drug products is not compliant with cGMP, the FDA may not approve our application to manufacture our drug products. We may not be able to arrange for our products to be manufactured by one of these companies on reasonable terms, if at all. Failure to comply with cGMP in the manufacture of our products could result in the FDA withdrawing its regulatory approval of our drug product or other enforcement actions. If either of these events occurred, our revenues would be negatively impacted.

If we receive marketing approval from the FDA for any of our drug candidates, we will rely on a third party to manufacture our products. We may not be able to obtain sufficient quantities of our new drug products if the manufacturer does not have the capacity to manufacture our products according to our schedule. Also, raw materials that may be required to manufacture any products we develop may only be available from a limited number of suppliers. If we have promised delivery of a new product and are unable to meet the delivery requirement due to manufacturing difficulties, our reputation would be impaired or our customers may buy our competitors' products. Additionally, we may have to expend additional sums in order to ensure that manufacturing capacity is available when we need it even if we do not use all of the manufacturing capacity. This expense would adversely affect our operating results. Manufacturers of pharmaceutical products often encounter difficulties in production, especially in scaling up initial production. These problems include difficulties with production costs and yields, quality control and assurance and shortages of qualified personnel, as well as compliance with strictly enforced federal, state and foreign regulations. The third party manufacturer we choose may not perform as agreed or may terminate its agreement with us.

We may incur additional expense in order to market our drug products.

We do not have experience marketing drug products. If the FDA approves one of our drug products to go to market, we would have to employ additional personnel or engage a third party to market our drug products, which would be an additional expense to us.

We might not be able to commercialize our drug candidates successfully, and we may spend significant time and money attempting to do so.

Reverset and our lead CCR2 antagonist are our only two drug candidates in clinical trials. We, or our collaborators, may decide to discontinue development of any or all of our drug candidates at any time for commercial, scientific or other reasons. If a product is developed, but is not marketed, we may have spent significant amounts of time and money on it, which would adversely affect our operating results and financial condition. Even if Reverset, or another drug candidate that we develop, receives regulatory approval, we may decide not to commercialize it if we determine that commercialization of that product would require more money and time than we are willing to invest. For example, drugs that receive approval are subject to post-regulatory surveillance and may have to be withdrawn from the market if previously unknown side effects occur. At this point, the regulatory agencies may require additional clinical trials or testing. Once a drug is marketed, if it causes side effects, the drug product may be recalled or may be subject to reformulation, additional studies, changes in labeling, warnings to the public and negative publicity. As a result, we may not continue to commercialize a product even though it has obtained regulatory approval. Further, we may decide not to continue to commercialize a product if the market does not accept the product because it is too expensive and third parties such as insurance companies or Medicare have not approved it for substantial reimbursement. Actions of governmental authorities and other groups could result in lower prices for certain drugs, including drugs that address HIV infection. In addition, we may decide not to continue to commercialize a product if another product comes on the market that is as effective but has fewer side effects. There is also a risk that competitors and third parties may develop similar or superior products or have proprietary rights that preclude us from ultimately marketing our products.

Our ability to generate revenues will be diminished if we are unable to obtain acceptable prices or an adequate level of reimbursement from third-party payors.

The continuing efforts of government and insurance companies, health maintenance organizations, or HMOs, and other payors of healthcare costs to contain or reduce costs of health care may affect our future revenues and profitability, and the future revenues and profitability of our potential customers, suppliers and collaborative partners and the availability of capital. For example, in certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States, given recent federal and state government initiatives directed at lowering the total cost of health care, the U.S. Congress and state legislatures will likely continue to focus on health care reform, the cost of prescription pharmaceuticals and on the reform of the Medicare and Medicaid systems. While we cannot predict whether any such legislative or regulatory proposals will be adopted, the announcement or adoption of these proposals could reduce the price that we or any of our collaborators receive for any products in the future.

Our ability to commercialize our products successfully will depend in part on the extent to which appropriate reimbursement levels for the cost of our products and related treatment are obtained by governmental authorities, private health insurers and other organizations, such as HMOs. Third-party payors are increasingly challenging the prices charged for medical products and services. Also, the trend toward managed health care in the United States and the concurrent growth of organizations such as HMOs, which could control or significantly influence the purchase of health care services and products, as well as legislative proposals to reform health care or reduce government insurance programs, may all result in lower prices for or rejection of our products. The cost containment measures that health care payors and providers are instituting and the effect of any health care reform could materially and adversely affect our ability to generate revenues.

As our drug discovery and development operations are conducted at our headquarters in Wilmington, Delaware, the loss of access to this facility would negatively impact our business.

Our facility in Wilmington, Delaware is our headquarters and is also where we conduct all of our drug discovery operations and research and development activities. Our lease contains provisions that provide for its early termination upon the occurrence of certain events of default or upon a change of control. Further, our headquarters facility is located in a large research and development complex that may be temporarily or permanently shutdown if certain environmental or other hazardous conditions were to occur within the complex. In addition, actions of activists opposed to aspects of pharmaceutical research may disrupt our experiments or our ability to access or use our facilities. The loss of access to or use of our Wilmington, Delaware, facility, either on a temporary or permanent basis, or early termination of our lease would result in an interruption of our business and, consequently, would adversely affect the advancement of our drug discovery and development programs and our overall business.

We depend on key employees in a competitive market for skilled personnel, and the loss of the services of any of our key employees would affect our ability to expand our drug discovery and development programs and achieve our objectives.

We are highly dependent on the principal members of our management, operations and scientific staff. We experience intense competition for qualified personnel. Our future success also depends in part on the continued service of our executive management team, key scientific and management personnel and our ability to recruit, train and retain essential scientific personnel for our drug discovery and development programs, including those who will be responsible for overseeing our internal preclinical testing and clinical trials as well as for the establishment of collaborations with other companies. If we lose the services of any of these people, our research and product development goals, including the identification and establishment of key collaborations, operations and marketing efforts could be delayed or curtailed. We do not maintain key person insurance on any of our employees.

We may encounter difficulties in integrating companies we acquire, which may harm our operations and financial results.

As part of our business strategy, we have in the past and may in the future acquire assets, technologies, compounds and businesses. Our past acquisitions, such as the acquisition of Maxia Pharmaceuticals, Inc. have involved, and our future acquisitions may involve, risks such as the following:

we may be exposed to unknown liabilities of acquired companies;

our acquisition and integration costs may be higher than we anticipated and may cause our quarterly and annual operating results to fluctuate;

we may experience difficulty and expense in assimilating the operations and personnel of the acquired businesses, disrupting our business and diverting our management's time and attention;

we may be unable to integrate or complete the development and application of acquired technology, compounds or drug candidates;

we may experience difficulties in establishing and maintaining uniform standards, controls, procedures and policies;

our relationships with key customers or collaborative partners of acquired businesses may be impaired, due to changes in management and ownership of the acquired businesses;

we may be unable to retain key employees of the acquired businesses;

we may incur amortization or impairment expenses if an acquisition results in significant goodwill or other intangible assets; or

our stockholders may be diluted if we pay for the acquisition with equity securities.

In addition, if we acquire additional businesses that are not located near our new headquarters, we may experience more difficulty integrating and managing the acquired businesses' operations.

We may encounter difficulties, including higher than anticipated costs and the diversion of management's attention, as a result of the restructuring of our business and the relocation of our headquarters and finance department from California to Delaware.

In April 2004, we had a significant reduction in our workforce and closed our Palo Alto, California research facilities. We may incur higher than anticipated costs associated with closing our California facilities, and this restructuring could result in the diversion of the efforts of our executive management team and other key employees, which could adversely affect our drug discovery and development efforts. As a part of this restructuring, we have discontinued our information products research and development efforts, with the exception of the activities related to, and products developed by, our Proteome subsidiary. We may encounter difficulties associated with the discontinuation of certain of our information product-related activities that could adversely affect our operating results and financial position. These difficulties could include challenges in providing support to our customers, and, in particular, our non-U.S. customers. Some of our database customers could become dissatisfied as a result of our restructuring, and we could incur expenses associated with the amendment, termination or transition of these

customer contracts.

As a part of increasing our focus on our drug discovery and development programs, we relocated our headquarters, including our finance and legal staff and information systems, to our facility in Wilmington, Delaware. During this transition process, we expect that we will need to continue to manage multiple locations and our relationships with information products customers, suppliers and other third parties.

Risks Relating to our Financial Results

We expect to incur losses in the future and we may not achieve or maintain profitability in the future.

We had net losses from inception in 1991 through 1996 and in 1999 through 2004. Because of those losses, we had an accumulated deficit of \$672.8 million as of June 30, 2004. We will continue to spend significant amounts on our efforts to discover and develop drugs. As a result, we expect to continue to incur losses in 2004 and in future periods as well.

We expect that any revenues from our information products, intellectual property licensing, and contracts, if any, will be more than offset by expenses for our drug discovery and development efforts. We anticipate that these efforts will increase as we focus on the studies, including preclinical tests and clinical trials prior to seeking regulatory approval, that are required before we can sell, or license to a third party, a drug product. The development of drug products will require us to spend significant funds on research, development, testing, obtaining regulatory approvals, manufacturing and marketing. To date, we do not have any drug products that have generated revenues and we anticipate that we will not generate significant revenues from the drug candidates that we license or develop for several years, if ever. We cannot be certain whether or when we will achieve profitability because of the significant uncertainties relating to our ability to generate commercially successful drug products. Even if we were successful in obtaining regulatory approvals for manufacturing and commercializing Reverset, our leading drug candidate, or another drug, we expect that we will continue to incur losses if our drug products do not generate significant revenues. If we achieve profitability we may not be able to sustain or increase profitability.

We will need additional capital in the future. The capital markets may not permit us to raise additional capital at the time that we require it, which could result in limitations on our research and development or commercialization efforts or the loss of certain of our rights in our technologies or drug candidates.

Our future funding requirements will depend on many factors and we anticipate that we will need to raise additional capital to fund our business plan and research and development efforts on a going-forward basis.

Additional factors that may affect our future funding requirements include:

any changes in the breadth of our research and development programs;

the results of research and development, preclinical testing and clinical trials conducted by us or our future collaborative partners or licensees, if any;

the acquisition or licensing of businesses, technologies or compounds, if any;

our ability to maintain and establish new corporate relationships and research collaborations;

competing technological and market developments;

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the amount of revenues generated from our business activities, if any;

the time and costs involved in filing, prosecuting, defending and enforcing patent and intellectual property claims;

the receipt of contingent licensing or milestone fees from our current or future collaborative and license arrangements, if established;
and

the timing of regulatory approvals, if any.

If we require additional capital at a time when investment in companies such as ours, or in the marketplace generally, is limited due to the then prevailing market or other conditions, we may have to scale back our operations, eliminate one or more of our research or development programs, or attempt to obtain funds by entering into an agreement with a collaborative partner that would result in terms that are not favorable to us or relinquishing our rights in certain of our proprietary technologies or drug candidates. If we are unable to raise funds at the time that we desire or at any time thereafter on acceptable terms, we may not be able to continue to develop our potential drug products. The sale of equity or additional convertible debt securities in the future would be dilutive to our stockholders, and debt financing arrangements may require us to pledge certain assets or enter into covenants that could restrict our operations or our ability to incur further indebtedness.

Because our revenues are derived from information products and licensing activities, our revenues may fluctuate substantially due to reductions and delays in research and development expenditures by pharmaceutical and biotechnology companies.

We expect that our revenues from our information products in the foreseeable future will be derived primarily from products and services provided to the pharmaceutical and biotechnology industries as well as to the academic community. Accordingly, these revenues will depend in large part upon the success of the companies within these industries and their demand for our products and services. Our operating results may fluctuate substantially due to reductions and delays in research and development expenditures by companies in these industries or by the academic community. These reductions and delays may result from factors such as:

changes in economic conditions;

consolidation in the pharmaceutical and biotechnology industries;

changes in the regulatory environment, including governmental pricing controls, affecting health care and health care providers;

pricing pressures;

market-driven pressures on companies to consolidate and reduce costs; and

other factors affecting research and development spending.

These factors are not within our control and may cause volatility to the price of our common stock.

Future milestone and royalty payments from our gene-related intellectual property may not contribute significantly to revenues for several years, and may never result in revenues.

Part of our strategy is to license to our database customers and to other pharmaceutical and biotechnology companies our know-how and patent rights associated with the information we have generated in the creation of our proprietary databases, for use in the discovery and development of potential pharmaceutical, diagnostic or other products. Any potential product that is the subject of such a license will require several years of further development, clinical trials and regulatory approval before commercialization, all of which is beyond our control, and possibly beyond the control of our licensee. These licensees may not develop the potential product if they do not devote the necessary resources or decide that they do not want to expend the resources to do the clinical trials necessary to obtain the necessary regulatory approvals. Therefore, milestone or royalty payments from these licenses may not contribute to our revenues for several years, if at all. We may decide at any time to discontinue some or all of our gene and gene-technology related patent prosecution or maintenance, which could limit our ability to receive license-based

revenues from our gene and gene-technology related patent portfolio.

Our long-term investments may decline in value and our losses may increase.

We have made and may in the future make long-term investments in entities that complement our business. These investments may:

often be made in securities lacking a public trading market or subject to trading restrictions, either of which increases our risk and reduces the liquidity of our investment;

require us to record losses and expenses related to our ownership interest;

require us to record acquisition-related charges, such as in-process research and development;

require us to record charges related to the impairment in the value of the securities underlying our investment; and

require us to invest greater amounts than anticipated or to devote substantial management time to the management of research and development relationships or other relationships.

The market values of many of these investments can fluctuate significantly. We evaluate our long-term investments for impairment of their value on a quarterly basis. The volatility of the equity markets and the uncertainty of the biotechnology industry may result in fluctuations in the value of our investments in public companies. The value of our investments in private companies can fluctuate significantly. In past periods, market conditions have caused us to write-down the value of our private company investments, sometimes substantially, and market conditions may cause us to write down additional amounts. In addition, we have in the past written down the value of our debt investments in companies experiencing financial difficulties. Impairment could result in future charges to our earnings. Decreases in the value of our strategic investments may cause our losses to increase. As of June 30, 2004, the total aggregate value of our long-term investments was \$13.2 million. We incurred charges related to write-downs in the valuation of long-term investments of \$2.7 million during the six months ended June 30, 2004.

We have a large amount of debt and our debt service obligations may prevent us from taking actions that we would otherwise consider to be in our best interests.

As of June 30, 2004, we had total consolidated debt of \$417.6 million and stockholders' equity of \$52.6 million. In February 2004 and March 2004, we issued the \$250 million of notes offered by this prospectus. The indentures pursuant to which our outstanding convertible subordinated notes were issued do not limit the issuance of additional indebtedness, and the indenture under which the notes offered by this prospectus were issued specifically permits us to issue additional notes that will be treated as a single class with these notes. Our substantial leverage could have significant negative consequences for our future operations, including:

increasing our vulnerability to general adverse economic and industry conditions;

limiting our ability to obtain additional financing for working capital, capital and research and development expenditures, and general corporate purposes;

requiring the dedication of a substantial portion of our expected cash flow or our existing cash to service our indebtedness, thereby reducing the amount of our cash available for other purposes, including working capital and capital expenditures;

limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we compete; or

placing us at a possible competitive disadvantage compared to less leveraged competitors and competitors that have better access to capital resources.

In the past five years, we have had negative cash flow from operations. We likely will not generate sufficient cash flow from our operations in the future to enable us to meet our anticipated fixed charges, including our debt service requirements with respect to our outstanding convertible subordinated notes. As of June 30, 2004, \$166.5 million aggregate principal amount of our 5.5% convertible subordinated notes due 2007 were outstanding. Our annual interest payments for the 5.5% notes through 2006, assuming none of these notes are converted, redeemed, repurchased

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or exchanged, are \$9.2 million, and an additional \$4.6 million in interest is payable in 2007. Our annual interest payments for the 3 1/2% notes through 2010, assuming none of these notes are converted, redeemed, repurchased or exchanged, are \$8.8 million, and an additional \$4.4 million in interest is payable in 2011. We intend to fulfill our debt service obligations from our existing cash and marketable securities. If we are unable to generate cash from our operations or raise additional cash through financings

sufficient to meet these obligations, we will need to use existing cash or liquidate marketable securities in order to fund these obligations, which may delay or curtail our research, development and commercialization programs.

Risks Relating to Intellectual Property and Legal Matters

We are involved in patent litigation, which, if not resolved favorably, could require us to pay damages.

In October 2001, Invitrogen Corporation, or Invitrogen, filed an action against us in federal court, alleging infringement of three patents. The complaint seeks unspecified money damages and injunctive relief. In November 2001, we filed our answer to Invitrogen's patent infringement claims, and asserted seven counterclaims against Invitrogen, seeking declaratory relief with respect to the patents at issue, implied license, estoppel, laches and patent misuse. We are also seeking our fees, costs and expenses. Invitrogen filed its answer to our counterclaims in January 2002. In February 2003, we added a counterclaim for unfair business practices. On February 9, 2004, the Court ordered a stay of all proceedings pending disposition of the appeal in a related case of a judgment invalidating the same patents that are asserted in this case.

Our defenses against the suit brought by Invitrogen may be unsuccessful. At this time, we cannot reasonably estimate the possible range of any loss or damages resulting from this suit due to uncertainty regarding the ultimate outcome. If the case goes forward, we expect that the Invitrogen litigation will result in future legal and other costs to us, regardless of the outcome, which could be substantial.

We are involved in contractual arbitration, which could be costly to us.

We are in an arbitration with Iconix Pharmaceuticals, Inc., or Iconix, with respect to payments that Iconix alleges we owe it pursuant to a contract. Iconix initiated the arbitration process under the contract seeking final and binding arbitration. An arbitration panel has been selected and a hearing will be held in two phases, the first of which was held in October 2004 and the second of which is scheduled for the first quarter of 2005. In the first phase of the hearing, Iconix alleged that we are obligated to make payments to it in the aggregate amount of \$28.25 million and that the payments presently due to Iconix, discounted to a present day value, amount to \$22.6 million. We expect to receive a decision from the arbitration panel with respect to the first phase of the hearing by the end of 2004. Based on Iconix's amended demand for arbitration, we understand Iconix is also seeking return of a \$4.5 million license fee paid to us and recovery of amounts paid to a third-party supplier. The second phase of the hearing will address Iconix's claim for the return of the \$4.5 million license fee paid to us and recovery of amounts paid to a third-party supplier, as well as our counterclaims against Iconix. There can be no assurance as to the ultimate outcome of the arbitration and, at this time, we cannot predict the financial impact to us of the results of the arbitration. Regardless of the outcome, we could incur substantial costs and diversion of management time as a result of the arbitration.

If we are subject to additional litigation and infringement claims, they could be costly and disrupt our drug discovery and development efforts.

The technology that we use to make and develop our drug products, the technology that we incorporate in our products, and the products we are developing may be subject to claims that they infringe the patents or proprietary rights of others. The success of our drug discovery and development efforts will also depend on our ability to develop new compounds, drugs and technologies without infringing or misappropriating the proprietary rights of others.

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From time to time we may receive notices from third parties alleging patent or copyright infringement, claims regarding trade secrets or other contract claims. Receipt of these notices could result in significant costs as a result of the diversion of the attention of management from our drug discovery and development efforts. Except for Invitrogen and Iconix, no third party has a current filed patent lawsuit or arbitration against us. If a successful claim were brought against us, we would have to attempt to license the technology from the claimant or to spend time and money to design around the technology. Any such license of the technology may not be available at reasonable terms, or at all.

We may, however, be involved in future lawsuits or other legal proceedings alleging patent infringement or other intellectual property rights violations. In addition, litigation or other legal proceedings may be necessary to:

assert claims of infringement;

enforce our patents;

protect our trade secrets or know-how; or

determine the enforceability, scope and validity of the proprietary rights of others.

We may be unsuccessful in defending or pursuing these lawsuits or claims. Regardless of the outcome, litigation can be very costly and can divert management's efforts. An adverse determination may subject us to significant liabilities or require us or our collaborators to seek licenses to other parties' patents or proprietary rights. We or our collaborators may also be restricted or prevented from manufacturing or selling a drug product that we develop. Further, we or our future collaborators may not be able to obtain any necessary licenses on acceptable terms, if at all.

We may be unable to adequately protect or enforce our proprietary information, which may result in its unauthorized use, a loss of revenue under a collaboration agreement or loss of sales to generic versions of our products or otherwise reduce our ability to compete.

Our business and competitive position depend upon our ability to protect our proprietary technology, including any drug products that we create. Despite our efforts to protect this information, unauthorized parties may attempt to obtain and use information that we regard as proprietary. For example, one of our collaborators may disclose proprietary information pertaining to our drug discovery efforts. Any patents issued in connection with our drug discovery efforts may not be broad enough to protect all of the potential uses of the product.

Additionally, when we do not control the prosecution, maintenance and enforcement of certain important intellectual property, such as a drug compound in-licensed to us, the protection of the intellectual property rights may not be in our hands. In the case of Reverset, we do not control the intellectual property rights with respect to the compound and therefore may be unable to protect those rights. If the entity that controls the intellectual property rights related to Reverset does not adequately protect those rights, our rights may be impaired, which may impact our ability to develop, market and commercialize Reverset.

Our means of protecting our proprietary rights may not be adequate, and our competitors may:

independently develop substantially equivalent proprietary information, products and techniques;

otherwise gain access to our proprietary information; or

design around patents issued to us or our other intellectual property.

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We pursue a policy of having our employees, consultants and advisors execute proprietary information and invention agreements when they begin working for us. However, these agreements may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure. If we fail to maintain trade secret and patent protection, our potential, future revenues may be decreased.

If the effective term of our patents is decreased due to changes in the United States patent laws or if we need to refile some of our patent applications, the value of our patent portfolio and the revenues we derive from it may be decreased.

The value of our patents depends in part on their duration. A shorter period of patent protection could lessen the value of our rights under any patents that we obtain and may decrease the revenues we derive from our patents. The United States patent laws were amended in 1995 to change the term of patent protection from 17 years from patent issuance to 20 years from the earliest effective filing date of the application. Because the

average time from filing to issuance of biotechnology applications is at least one year and may be more than three years depending on the subject matter, a 20-year patent term from the filing date may result in substantially shorter patent protection. Also, we may need to refile some of our applications claiming large numbers of genes or other additional subject matter and, in these situations, the patent term will be measured from the date of the earliest priority application. This would shorten our period of patent exclusivity and may decrease the revenues that we might obtain from the patents.

If patent application filing fees are significantly increased, our expenses related to intellectual property or our intellectual property strategy may be adversely affected.

Our ability to license proprietary genes may be dependent on our ability to obtain patents. We have a large portfolio of issued United States patents covering human full-length genes, the proteins they encode and the antibodies directed against them and a significant number of pending applications. If the United States Patent and Trademark Office and other patent offices where we file our patent applications increase the fees associated with filing and prosecuting patent applications we would incur higher expenses and our intellectual property strategy could be adversely affected.

International patent protection is particularly uncertain and costly, and if we are involved in opposition proceedings in foreign countries, we may have to expend substantial sums and management resources.

Biotechnology patent law outside the United States is even more uncertain and costly than in the United States and is currently undergoing review and revision in many countries. Further, the laws of some foreign countries may not protect our intellectual property rights to the same extent as United States laws. For example, certain countries do not grant patent claims that are directed to the treatment of humans. We may participate in opposition proceedings to determine the validity of our foreign patents or our competitors' foreign patents, which could result in substantial costs and diversion of our efforts.

If product liability lawsuits are successfully brought against us, we could face substantial liabilities and may be required to limit commercialization of our products and our results of operations could be harmed.

The clinical trials and marketing of medical products that are intended for human use entails an inherent risk of product liability. If any product that we or any of our collaborators develops causes injury or is found to be unsuitable during clinical trials, manufacturing or sale, we may be held liable. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities, including substantial damages to be paid to the victims and legal costs, or we may be required to limit commercialization of our products. Although we currently carry a product liability insurance policy that provides coverage for liabilities arising from our clinical trials, it may not fully cover our potential liabilities. In addition, we may determine that we should increase our coverage upon the addition of new clinical trials, and this insurance may be prohibitively expensive to us or our collaborators and may not fully cover our potential liabilities. Our inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of pharmaceutical products we develop, alone or with our collaborators. Additionally, any product liability lawsuit could cause injury to our reputation, recall of products, participants to withdraw from clinical trials, and potential collaborators to seek other partners, any of which could impact our results of operations.

Because our activities involve the use of hazardous materials, we may be subject to claims relating to improper handling, storage or disposal of these materials that could be time consuming and costly.

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We are subject to various environmental, health and safety laws and regulations governing, among other things, the use, handling, storage and disposal of regulated substances and the health and safety of our employees. Our research and development processes involve the controlled use of hazardous and radioactive materials and biological waste resulting in the production of hazardous waste products. We cannot completely

eliminate the risk of accidental contamination or discharge and any resultant injury from these materials. If any injury or contamination results from our use or by the use by third party collaborators of these materials, we may be sued and our liability may exceed our insurance coverage and our total assets. Further, we may be required to indemnify our collaborators against all damages and other liabilities arising out of our development activities or products produced in connection with these collaborations. Compliance with the applicable environmental and workplace laws and regulations is expensive. Future changes to environmental, health, workplace and safety laws could cause us to incur additional expense or may restrict our operations or impair our research, development and production efforts.

Risks Related to the Notes and Common Stock

The notes are subordinated in right of payment to our senior indebtedness and are structurally subordinated to all indebtedness and other liabilities of our subsidiaries.

The notes are unsecured and subordinated in right of payment to our existing and future senior indebtedness, but *pari passu* in right of payment with our 5.5% convertible subordinated notes due 2007. As of June 30, 2004, we had no senior indebtedness outstanding. Because the notes are subordinated to our senior indebtedness, in the event of (1) our liquidation or insolvency, (2) a payment default on our senior indebtedness (as defined in Description of Notes Subordination of Notes), (3) a covenant default on our senior indebtedness entitling holders of senior indebtedness to accelerate their indebtedness or (4) acceleration of the notes, we will be permitted to make payment on the notes only after our senior indebtedness has been paid in full. After paying our senior indebtedness in full, we may not have sufficient assets remaining to pay any or all amounts due on the notes. The indenture for the notes does not restrict the amount of indebtedness, including senior indebtedness, that we may incur.

In addition, the notes are effectively subordinated to all existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries. At June 30, 2004, our subsidiaries had approximately \$2.4 million of liabilities outstanding. The indenture for the notes does not restrict the amount of indebtedness or other liabilities that our subsidiaries may incur. We expect from time to time to incur additional indebtedness and other liabilities, which could affect our ability to pay our obligations under the notes. See Description of Notes Subordination of Notes.

We cannot assure you that an active trading market for the notes will develop.

There has been no public market for the notes. We do not intend to list the notes on any national securities exchange or to seek the admission of the notes for trading on The Nasdaq Stock Market. The initial purchasers of the notes have advised us that they currently intend to make a market in the notes, but they are not obligated to do so, and if they do make a market in the notes they may stop at any time. As a result, we cannot assure you that a market will develop for the notes. Future trading prices of the notes will depend on many factors, including prevailing interest rates, the market for similar securities, general economic conditions and our financial condition, performance and prospects. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in the prices of securities similar to the notes. We cannot assure you that the market, if any, for the notes will be free from similar disruptions or that any such disruption may not adversely affect the prices at which you may sell your notes.

We may not have the funds necessary to finance the repurchase of the notes or may otherwise be restricted from making such repurchase if required by holders pursuant to the indenture.

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At any time prior to maturity following a designated event under the indenture, holders may require us to repurchase their notes at a price of 100% of the principal amount of the notes, plus any accrued and unpaid interest and any liquidated damages to the repurchase date. However, it is possible that we will not have sufficient funds available at such time to make the required repurchase of notes. Our 5.5% convertible subordinated notes due 2007 contain similar provisions that give the option to those securityholders to require us to repurchase those notes upon certain events that may also constitute designated events under the indenture. As a

result, following a designated event, we may be required to repurchase a significant amount of indebtedness along with the notes and we may not have sufficient funds to repurchase all such indebtedness at that time. As of June 30, 2004, there was approximately \$166.5 million principal amount outstanding of our 5.5% convertible subordinated notes due 2007.

In addition, any future credit agreements or other agreements relating to our indebtedness could contain provisions prohibiting the repurchase of the notes under certain circumstances, or could provide that a designated event constitutes an event of default under that agreement. If any agreement governing our indebtedness prohibits or otherwise restricts us from repurchasing the notes when we become obligated to do so, we could seek the consent of the lenders to repurchase the notes or attempt to refinance this debt. If we do not obtain such a consent or refinance the indebtedness, we would not be permitted to repurchase the notes without potentially causing a default under that indebtedness. Our failure to repurchase tendered notes would constitute an event of default under the indenture, which might constitute a default under the terms of our other indebtedness, causing much or all of our indebtedness to become due simultaneously when we are unable to pay it.

Because the price of our common stock has been volatile historically, it may be difficult for you to resell the notes or the common stock issuable upon conversion of the notes.

The market price of our common stock, like that of the common stock of many other pharmaceutical and biotechnology companies, has been and is likely to be highly volatile. In addition, the stock market has experienced extreme price and volume fluctuations. This volatility has significantly affected the market prices of securities of many pharmaceutical and biotechnology companies for reasons frequently unrelated to or disproportionate to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock. Prices for our common stock will be determined in the market place and may be influenced by many factors, including variations in our financial results, announcements about us or about our competitors, including technological innovations, the introduction of new products or services, or the failure of a new drug in clinical trials; litigation and other developments relating to our patents or other proprietary rights or those of our competitors; conditions in the life sciences, biotechnology or pharmaceutical industries; governmental regulation and legislation; sales of a substantial amount of our securities; and investors' perceptions of us, changes in recommendations by securities analysts as well as their perceptions of general economic, industry and market conditions. In the past, companies that have experienced volatility in the market prices of their stock have been the object of securities class action litigation. If we were the object of securities class action litigation, it could result in substantial costs and a diversion of management's attention and resources.

The trading prices for the notes could be directly affected by the trading prices for our common stock, which are impossible to predict.

The price of our common stock could be affected by possible sales of our common stock by investors who view the notes as a more attractive means of equity participation in our company and by hedging or arbitrage trading activity that may develop involving our common stock. The hedging or arbitrage could, in turn, affect the trading prices of the notes.

The conversion rate of the notes may not be adjusted for all dilutive events.

The conversion rate of the notes is subject to adjustment for certain events, including, but not limited to, the issuance of stock dividends on our common shares, the issuance of certain rights or warrants, subdivisions or combinations of our common shares, certain distributions of assets, debt securities, capital stock or cash to holders of our common shares and certain issuer tender or exchange offers as described under "Description of Notes - Conversion of Notes - Conversion Rate Adjustments." The conversion rate will not be adjusted for other events, such as an issuance of common shares for cash, that may adversely affect the trading price of the notes or the common shares. We cannot assure you that an event that adversely affects the value of the notes or our common stock, but does not result in an adjustment to the conversion rate, will not occur.

Conversion of the notes will dilute the ownership interest of existing stockholders, including holders who had previously converted their notes.

The conversion of some or all of the notes will dilute the ownership interests of existing stockholders. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could depress the price of our common stock.

If you hold notes, you will not be entitled to any rights with respect to our common stock, but you will be subject to all changes made with respect to our common stock.

If you hold notes, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock) but you will be subject to all changes affecting the common stock. You will have rights with respect to our common stock only if and when we deliver shares of common stock to you upon conversion of your notes and, to a limited extent, under the conversion rate adjustments applicable to the notes. For example, in the event that an amendment is proposed to our certificate of incorporation or bylaws requiring stockholder approval and the record date for determining the stockholders of record entitled to vote on the amendment occurs prior to delivery of common stock to you, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers or rights of our common stock.

We have various mechanisms in place to discourage takeover attempts, which may reduce or eliminate our stockholders' ability to sell their shares for a premium in a change of control transaction.

Various provisions of our certificate of incorporation and bylaws and of Delaware corporate law may discourage, delay or prevent a change in control or takeover attempt of our company by a third party that is opposed by our management and board of directors. Public stockholders who might desire to participate in such a transaction may not have the opportunity to do so. These anti-takeover provisions could substantially impede the ability of public stockholders to benefit from a change of control or change in our management and board of directors. These provisions include:

no cumulative voting for directors, which would otherwise allow less than a majority of stockholders to elect director candidates;

control by our board of directors of the size of our board of directors;

limitations on the ability of stockholders to call special meetings of stockholders;

advance notice requirements for nominations of candidates for election to our board of directors or for proposing matters that can be acted upon by our stockholders at stockholder meetings; and

the ability of our board of directors to issue, without stockholder approval, preferred stock with rights that are senior to those of our common stock.

In addition, our board of directors has adopted a stockholder rights plan, the provisions of which could make it more difficult for a potential acquirer of Incyte to consummate an acquisition transaction. Also, Section 203 of the Delaware General Corporation Law may prohibit large

stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or consolidating with us.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein contain forward-looking statements that involve risks and uncertainties. These statements relate to future periods, future events or our future operating or financial plans or performance. These statements can often be identified by the use of forward-looking terminology such as expects, believes, intends, anticipates, estimates, plans, or the negative of the terms, and other similar expressions. These forward-looking statements include statements in this prospectus under the captions "The Company" and "Risk Factors" as to the development, formulation, manufacturing and commercialization of our compounds and our product candidates; the increase in our drug discovery and development efforts; the expected timing, progress and other information regarding our preclinical testing and clinical trials; conducting clinical trials internally; our collaboration and strategic alliance efforts; anticipated benefits and disadvantages of entering into collaboration agreements; regulatory approval; the safety, effectiveness and potential benefits of our product candidates and other compounds under development; potential uses for our product candidates and our other compounds; our ability to manage expansion of our drug discovery and development operations; future required expertise relating to clinical trials, manufacturing, sales and marketing and for licenses to technology rights; the receipt of or payments to collaborators resulting from milestones or royalties; charges and expenses related to the closure of our Palo Alto location; difficulties resulting from the discontinuation of certain of our information product-related activities, including the amendment, termination or transition of customer contracts; the management of multiple locations; expected expenses and expenditure levels; expected revenues and sources of revenues; expected losses; our profitability; the adequacy of our capital resources; the need to raise additional capital; the costs associated with resolving matters currently in arbitration and litigation; our expectations regarding competition; our long-term investments, including anticipated expenditures, losses and expenses; costs associated with prosecuting, defending and enforcing patent claims and other intellectual property rights; our ability to obtain, maintain or increase coverage of product liability and other insurance; adequacy of our product liability insurance; our indebtedness; and listing of the notes on a stock exchange or stock market.

These forward-looking statements reflect our current views with respect to future events, are based on assumptions and are subject to risks and uncertainties. These risks and uncertainties could cause actual results to differ materially from those projected and include, but are not limited to, our ability to discover, develop, formulate, manufacture and commercialize a drug candidate or product; our ability to obtain additional capital when needed; the risk that previous preclinical testing or clinical trial results are not necessarily indicative of future clinical trial results; continuing trends with respect to reduced pharmaceutical and biotechnology research spending; risks relating to the development of new products and their use by us and our potential collaborators; our ability to in-license a potential drug compound or drug candidate; the cost of accessing, licensing or acquiring potential drug compounds or drug candidates developed by other companies; the risk of significant delays or costs in obtaining regulatory approvals; the ability to obtain regulatory approval; the impact of technological advances and competition; the ability to compete against third parties with greater resources than ours; competition to develop and commercialize similar drug products; the risk of unanticipated delays in research and development efforts; uncertainties relating to the transition of our operations to, and the continuing access and use of, our Delaware headquarters; our ability to obtain patent protection for our discoveries and to continue to be effective in expanding our patent coverage; the impact of changing laws on our patent portfolio; developments in and expenses relating to litigation and arbitration; the results of businesses in which we have made investments; and the risks set forth under "Risk Factors." Given these risks and uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by federal securities laws, we undertake no obligation to update any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

PROCEEDS FROM THE OFFERING

We will not receive any proceeds from the sale of the notes or the underlying shares of common stock offered by this prospectus. All proceeds from the sale of the shares will be for the account of the selling securityholders. See [Selling Securityholders](#) and [Plan of Distribution](#) below.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of the periods indicated is as follows:

	<u>Year Ended December 31,</u>					<u>Six Months Ended</u>
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>June 30, 2004</u>
Ratio of Earnings to Fixed Charges	NM	NM	NM	NM	NM	NM

- (1) The ratio of earnings to fixed charges is computed by dividing income (loss) before taxes and losses from joint venture plus fixed charges by fixed charges. Fixed charges consist of interest expense, including interest expense from capital leases, and the estimated portion of rental expense deemed by us to be representative of the interest factor of rental payments under operating leases, plus amortization of debt issuance expenses. Earnings were insufficient to cover fixed charges for the years ended December 31, 1999, 2000, 2001, 2002 and 2003 by approximately \$21.9 million, \$28.2 million, \$182.3 million, \$135.8 million and \$166.0 million, respectively, and for the six months ended June 30, 2004 by approximately \$101.1 million.
- (2) NM Not meaningful

DESCRIPTION OF NOTES

We issued the notes under a contract called an indenture, dated as of February 19, 2004 between Incyte, as issuer, and U.S. Bank National Association, as trustee. The following description is a summary of the material provisions of the notes, the indenture and the registration rights agreement. We urge you to read the indenture, the notes and the registration rights agreement in their entirety because they, and not this description, define your rights as a holder of the notes. You may request copies of these documents at our address shown under the caption Documents Incorporated by Reference. The terms of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939.

As used in this Description of Notes section, references to Incyte, we, our or us refer solely to Incyte Corporation and not to our consolidated subsidiaries, unless the context otherwise requires.

General

The notes are general unsecured obligations of Incyte. Our payment obligations under the notes are subordinated to our senior indebtedness as described under Subordination of Notes, but are *pari passu* in right of payment with our 5.5% convertible subordinated notes due 2007. The notes are not obligations of or guaranteed by any of our subsidiaries. The notes are convertible into common stock as described under Conversion of Notes.

We issued initially notes with a principal amount of \$250,000,000. The notes are issued only in denominations of \$1,000 and multiples of \$1,000. We use the term note in this prospectus to refer to each \$1,000 principal amount of notes. The notes will mature on February 15, 2011, unless earlier converted or repurchased.

We may, without the consent of the holders, reopen the indenture and issue additional notes under the indenture with the same terms and with the same CUSIP numbers as the notes covered by this prospectus in an unlimited aggregate principal amount, provided that no such additional notes may be issued unless fungible with the notes covered by this prospectus for U.S. federal income tax purposes. We may also from time to time repurchase the notes in open market purchases or negotiated transactions without prior notice to holders.

Neither we nor any of our subsidiaries are subject to any financial covenants under the indenture. In addition, neither we nor any of our subsidiaries are restricted under the indenture from paying dividends, making investments, incurring debt, including senior indebtedness, granting liens or mortgages, or issuing or repurchasing our securities.

Holders are not afforded protection under the indenture in the event of a highly leveraged transaction or a change in control of us except to the extent described below under Repurchase at Option of the Holder Upon a Designated Event.

We will pay interest, and liquidated damages, if any, on February 15 and August 15 of each year, beginning August 15, 2004, to record holders at the close of business on the preceding February 1 and August 1, as the case may be. Interest will be computed on the basis of a 360-day year composed of twelve 30-day months.

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We will maintain an office or agency in the Borough of Manhattan, The City of New York, where we will pay the principal and premium, if any, on the notes and where a holder may present the notes for conversion, registration of transfer or exchange for other denominations, which shall initially be an office or agency of the trustee. We may pay interest by check mailed to the holder's address as it appears in the note register, provided that a holder with an aggregate principal amount in excess of \$2.0 million shall be paid, at the holder's written election, by wire transfer in immediately available funds. However, payments to The Depository Trust Company, New York, New York, which we refer to as DTC, will be made by wire transfer of immediately available funds to the account of DTC or its nominee.

The notes are not subject to a sinking fund provision and are not subject to defeasance or covenant defeasance under the indenture.

Conversion of Notes

A holder may convert any of their notes, in whole or in part, into common stock at any time prior to the close of business on the maturity date of the notes, subject to prior redemption or repurchase of the notes.

The number of shares of common stock that a holder will receive upon conversion of their notes will be determined by multiplying the number of \$1,000 principal amount notes converted by the conversion rate on the date of conversion. A holder may convert their notes in part so long as such part is \$1,000 principal amount or an integral multiple of \$1,000.

If we call notes for redemption, a holder may convert the notes only until the close of business on the business day immediately preceding the redemption date unless we fail to pay the redemption price. If a holder has submitted their notes for repurchase upon a designated event, the holder may convert their notes only if they withdraw their repurchase election. Upon conversion of notes, a holder will not receive any cash payment of interest or liquidated damages. Our delivery to the holder of the full number of shares of our common stock into which the note is convertible, together with any cash payment for such holder's fractional shares will be deemed to satisfy our obligation to pay

the principal amount of the note; and

accrued but unpaid interest and liquidated damages, if any, attributable to the period from the most recent interest payment date to the conversion date.

As a result, accrued but unpaid interest and liquidated damages, if any, to the conversion date is deemed to be paid in full rather than cancelled, extinguished or forfeited.

Notwithstanding the preceding paragraph, if notes are converted after a record date but prior to the next succeeding interest payment date, holders of such notes at the close of business on the record date will receive the interest payable on such notes on the corresponding interest payment date notwithstanding the conversion. Such notes, upon surrender for conversion, must be accompanied by funds equal to the amount of interest payable on the notes so converted; provided that no such payment need be made (1) if we have specified a redemption date that is after a record date but on or prior to the next interest payment date, (2) if we have specified a repurchase date following a designated event that is after a record date but on or prior to the next succeeding interest payment date or (3) to the extent of any overdue interest at the time of conversion with respect to such note.

The initial conversion rate for the notes is 89.1385 shares of common stock per \$1,000 principal amount of notes, subject to adjustment as described below, which represents an initial conversion price of approximately \$11.22. We will not issue fractional shares of common stock upon conversion of notes. Instead, we will pay cash in lieu of fractional shares based on the last reported sale price of the common stock on the trading day prior to the conversion date. Except as described above, holders will not receive any accrued interest or dividends upon conversion.

To convert notes into common stock a holder must do the following (or comply with DTC procedures for doing so in respect of the holder's beneficial interest in notes evidenced by a global note):

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complete and manually sign the conversion notice on the back of the note or facsimile of the conversion notice and deliver this notice to the conversion agent;

surrender the note to the conversion agent;

if required, furnish appropriate endorsements and transfer documents;

if required, pay all transfer or similar taxes; and

if required, pay funds equal to interest payable on the next interest payment date.

The date upon which a holder complies with these requirements is the conversion date under the indenture.

Conversion Rate Adjustments

We will adjust the conversion rate if any of the following events occurs:

(1) We issue common stock as a dividend or distribution to all holders of our common stock.

(2) We issue to all holders of common stock certain rights or warrants to purchase our common stock, for a period expiring within 45 days of the record date for such issuance, at a price per share that is less than the average closing sale prices of our common stock for the 10 trading days preceding the date fixed for determination of stockholders entitled to receive such rights or warrants.

(3) We subdivide or combine our common stock.

(4) We distribute to all holders of our common stock, shares of our capital stock, evidences of indebtedness or assets, including cash or securities but excluding rights or warrants specified above and dividends or distributions specified above.

If we distribute to all holders of our common stock capital stock of, or similar equity interests in, a subsidiary or other business unit of ours, then, unless we distribute such capital stock or similar equity interests to holders of notes in such distribution, the conversion rate will be adjusted based on the market value of the securities so distributed relative to the market value of our common stock, in each case based on the average closing sales price of those securities (where such closing sale prices are available) for the 10 trading days commencing on and including the fifth trading day after the date on which ex-dividend trading commences for such distribution on the Nasdaq National Market or such other national or regional exchange or market on which the securities are then listed or quoted.

If we distribute cash to all holders of our common stock, excluding any dividend or distribution in connection with our liquidation, dissolution or winding up, the conversion rate will be adjusted by multiplying:

the conversion rate by

a fraction, the numerator of which will be the current market price of our common stock on the record date and the denominator of which will be the current market price of our common stock on the record date minus the amount per share of such dividend or distribution.

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(5) We or one of our subsidiaries makes a payment in respect of a tender offer or exchange offer for our common stock to the extent that the cash and value of any other consideration included in the payment per share of common stock exceeds the closing sale price per share of common stock on the trading day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer.

Current market price of our common stock on any day means the average of the closing price per share of our common stock for each of the 10 consecutive trading days ending on the earlier of the day in question and the day before the ex-date with respect to the issuance or distribution requiring such computation. For purposes of this paragraph, ex-date means the first date on which the shares of our common stock trade on the applicable exchange or in the applicable market, regular way, without the right to receive such issuance or distribution.

To the extent that we have a rights plan in effect upon conversion of the notes into common stock, a holder will receive, in addition to the common stock, the rights under the rights plan, unless prior to any conversion, the rights have separated from the common stock, in which case the conversion rate will be adjusted at the time of

separation as if we distributed to all holders of our common stock, shares of our capital stock, evidences of indebtedness or assets as described above, subject to readjustment in the event of the expiration, termination or redemption of such rights.

In the event of:

any reclassification of our common stock;

a consolidation, merger or combination involving us; or

a sale or conveyance to another person or entity of all or substantially all of our property and assets;

in which holders of our common stock would be entitled to receive stock, other securities, other property, assets or cash for their common stock, upon conversion of your notes a holder will be entitled to receive the same type of consideration that they would have been entitled to receive if they had converted the notes into our common stock immediately prior to any of these events.

We may, from time to time, increase the conversion rate if our board of directors has made a determination that this increase would be in our best interests. Any such determination by our board will be conclusive. In addition, we may increase the conversion rate if our board of directors deems it advisable to avoid or diminish any income tax to holders of common stock resulting from any stock or rights distribution. See [Material United States Federal Income Tax Considerations U.S. Holders Constructive Dividends](#).

The holders of the notes may, in certain circumstances, be deemed to have received a distribution subject to U.S. federal income tax as a dividend. In addition, non-U.S. holders of notes in certain circumstances may be deemed to have received a distribution subject to U.S. federal withholding tax requirements. See [Material United States Federal Income Tax Considerations U.S. Holders Constructive Dividends and Non-U.S. Holders Distributions on Common Stock](#).

Except as described above in this section, we will not adjust the conversion rate for any issuance of our common stock or convertible or exchangeable securities or rights to purchase our common stock or convertible or exchangeable securities.

Optional Redemption by Incyte

Beginning February 20, 2007, we may redeem the notes in whole or in part at the following prices expressed as a percentage of the principal amount:

Redemption Period	Price
Beginning on February 20, 2007 and ending on February 14, 2008	102.0%
Beginning on February 15, 2008 and ending on February 14, 2009	101.5%
Beginning on February 15, 2009 and ending on February 14, 2010	101.0%

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Beginning on February 15, 2010 and ending on February 14, 2011

100.5%

and 100% if redeemed on February 15, 2011. In each case, we will pay interest and liquidated damages, if any, to, but excluding, the redemption date, unless the redemption date falls after a record date but on or prior to the next succeeding interest payment date, in which case we instead will pay the full amount of accrued and unpaid interest and liquidated damages, if any, on such interest payment date to the holder of record on the close of business on the corresponding record date.

We are required to give notice of redemption by mail to holders not more than 60 but not less than 20 days prior to the redemption date.

If less than all of the outstanding notes are to be redeemed, the trustee will select the notes to be redeemed in principal amounts of \$1,000 or multiples of \$1,000 by lot, pro rata or by another method the trustee considers fair

and appropriate. If a portion of a holder's notes is selected for partial redemption and that holder converts a portion of their notes, the converted portion will be deemed to the extent practicable to be of the portion selected for redemption.

We may not redeem the notes if we have failed to pay any interest on the notes and such failure to pay is continuing, or if the principal amount of the notes has been accelerated. We will notify the noteholders if we redeem the notes.

Repurchase at Option of the Holder Upon a Designated Event

If a designated event occurs at any time prior to the maturity of the notes, a holder may require us to repurchase their notes, in whole or in part, on a repurchase date that is not less than 20 nor more than 35 business days after the date of our notice of the designated event. The notes will be repurchased only in integral multiples of \$1,000 principal amount.

We will repurchase the notes at a price equal to 100% of the principal amount to be repurchased, plus accrued and unpaid interest and liquidated damages, if any, to, but excluding, the repurchase date. If such repurchase date falls after a record date and on or prior to the corresponding interest payment date, we will pay the full amount of accrued and unpaid interest payable on such interest payment date to the holder of record on the close of business on the corresponding record date.

We will mail to all record holders a notice of a designated event within 10 days after it has occurred. We are also required to deliver to the trustee a copy of the designated event notice. If a holder elects to require us to repurchase their notes, they must deliver to us or our designated agent, prior to the close of business on the repurchase date specified in our designated event notice, a repurchase notice and any notes to be repurchased, duly endorsed for transfer. We will promptly pay the repurchase price for notes surrendered for repurchase following the repurchase date.

A holder may withdraw any written repurchase notice by delivering a written notice of withdrawal to the paying agent prior to the close of business on the repurchase date. The withdrawal notice must state:

the principal amount of the withdrawn notes;

if certificated notes have been issued, the certificate number of the withdrawn notes (or, if the notes are not certificated, the withdrawal notice must comply with appropriate DTC procedures); and

the principal amount, if any, which remains subject to the repurchase notice.

Payment of the repurchase price for a note for which a repurchase notice has been delivered and not withdrawn is conditioned upon book-entry transfer or delivery of the note, together with necessary endorsements, to the paying agent at its corporate trust office in the Borough of Manhattan, The City of New York, or any other office of the paying agent, at any time after delivery of the repurchase notice. Payment of the repurchase price for the note will be made promptly following the later of the repurchase date and the time of book-entry transfer or delivery of the note. If the paying agent holds money sufficient to pay the repurchase price of the note on the repurchase date, then, on and after the business day following the repurchase date:

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the note will cease to be outstanding;

interest will cease to accrue; and

all other rights of the holder will terminate, other than the right to receive the repurchase price upon delivery of the note.

This will be the case whether or not book-entry transfer of the note has been made or the note has been delivered to the paying agent.

A designated event will be deemed to have occurred upon a fundamental change or a termination of trading.

A fundamental change is any transaction or event (whether by means of an exchange offer, liquidation, tender offer, consolidation, merger, combination, reclassification, recapitalization or otherwise) in connection with which more than 90% of our common stock is exchanged for, converted into, acquired for or constitutes solely the right to receive, consideration, of which more than 10% is not common stock, depository receipts, ordinary shares or other certificates representing common equity interests that:

are listed on, or immediately after the transaction or event will be listed on, a United States national securities exchange, or

are approved, or immediately after the transaction or event will be approved, for quotation on the Nasdaq National Market or any similar United States system of automated dissemination of quotations of securities prices.

A termination of trading will be deemed to have occurred if our common stock (or other common stock into which the notes are then convertible) is neither listed for trading on a United States national or regional securities exchange nor approved for trading on the Nasdaq National Market.

We will comply with any applicable provisions of Rule 13e-4 and any other applicable tender offer rules under the Exchange Act in the event of a designated event.

These designated event repurchase rights could discourage a potential acquirer of Incyte. However, this designated event repurchase feature is not the result of management's knowledge of any specific effort to obtain control of us by means of a merger, tender offer or solicitation, or part of a plan by management to adopt a series of anti-takeover provisions. The term designated event is limited to specified transactions and may not include other events that might adversely affect our financial condition or business operations. Our obligation to offer to repurchase the notes upon a designated event would not necessarily afford a holder protection in the event of a highly leveraged transaction, reorganization, merger or similar transaction involving us. No notes may be repurchased by us at the option of holders upon a designated event if the principal amount of the notes has been accelerated and such acceleration has not been rescinded.

We may be unable to repurchase the notes in the event of a designated event. If a designated event were to occur, we may not have enough funds to pay the repurchase price for all tendered notes. Any future credit agreements or other agreements relating to our indebtedness may contain provisions prohibiting repurchase of the notes under certain circumstances, or expressly prohibit our repurchase of the notes upon a designated event or may provide that a designated event constitutes an event of default under that agreement. If a designated event occurs at a time when we are prohibited from repurchasing notes, we could seek the consent of our lenders to repurchase the notes or attempt to refinance this debt. If we do not obtain consent, we would not be permitted to repurchase the notes. Our failure to repurchase tendered notes would constitute an event of default under the indenture, which might constitute a default under the terms of our other indebtedness. In these circumstances, or if a designated event would constitute an event of default under our senior indebtedness, the subordination provisions of the indenture would restrict payments to the holders of notes.

Subordination of Notes

The notes are subordinated to the prior payment in full of all of our Senior Indebtedness (as defined below). The notes also are effectively subordinated to all Indebtedness (as defined below) of our subsidiaries. The subordination of the notes will not prevent the occurrence of any event of default under the indenture. In addition, the notes are *pari passu* in right of payment with our 5.5% convertible subordinated notes due

2007.

No payments on account of the notes or on account of the purchase or acquisition of notes may be made if a default in any payment with respect to Senior Indebtedness has occurred and is continuing. If (1) there is a

default on any Senior Indebtedness other than a payment default that occurs that permits the holders of that Senior Indebtedness to accelerate its maturity and (2) the Trustee and Incyte receive the notice required by the indenture, no payments may be made on the notes for up to 179 days in any 365-day period unless the default is cured or waived. By reason of this subordination, in the event of our insolvency, holders of the notes may recover less, ratably, than holders of our Senior Indebtedness.

In the event that any holder of the notes receives any kind of payment or distribution of our assets in contravention of any of the subordination provisions of the indenture before all Senior Indebtedness is paid in full, then the payment or distribution will be held by the recipient in trust for the benefit of holders of Senior Indebtedness or their representatives to the extent necessary to make payment in full of all Senior Indebtedness remaining unpaid.

Any right that we have to receive the assets of any of our subsidiaries upon that subsidiary's liquidation or reorganization, and the consequent right of the holders of the notes to receive a portion of these assets, will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors.

Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the notes or to make any funds available for any payment. In addition, the payment of dividends and the making of loans and advances by our subsidiaries to us may be subject to statutory, contractual or other restrictions and are dependent upon the earnings or financial condition of those subsidiaries and subject to various business considerations. As a result, we may be unable to gain access to the cash flow or assets of our subsidiaries.

As of June 30, 2004, we had approximately \$166.5 million in aggregate principal amount of 5.5% convertible subordinated notes due 2007 and we had no Senior Indebtedness outstanding. The indenture does not limit the amount of additional Indebtedness, including Senior Indebtedness, that we can create, incur, assume or guarantee, nor does the indenture limit the amount of indebtedness or other liabilities that any of our subsidiaries can create, incur, assume or guarantee.

We are obligated to pay reasonable compensation to the trustee and to indemnify the trustee against certain losses, liabilities or expenses incurred by it in connection with its duties relating to the notes. The trustee's claims for these payments will generally be senior to those of the holders of the notes in respect of all funds collected or held by the trustee.

The term "Indebtedness" means, with respect to any person, and without duplication:

all indebtedness or obligations for (i) borrowed money, or (ii) evidenced by bonds, debentures, notes or similar instruments, in either case except accounts payable and accrued liabilities incurred in the ordinary course of business in connection with obtaining materials or services;

all reimbursement obligations with respect to letters of credit, bank guarantees or bankers' acceptances;

all obligations in respect of leases of real or personal property or assets which are required to be accounted for as capital lease obligations under generally accepted accounting principles;

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all obligations with respect to interest rates, swaps, caps, collar agreements, foreign currency hedges, exchanges, purchase or similar agreements;

all indebtedness of others guaranteed by us;

all indebtedness secured by a lien on our assets; and

all deferrals, renewals, extensions and refundings of, or amendments, modifications or supplements to, any indebtedness, obligation or liability of the kind or type described in bullets above.

The term "Senior Indebtedness" means

the principal of and premium, if any, and interest on, and fees, costs, enforcement expenses, collateral protection expenses and other reimbursement or indemnity obligations in respect of all of our Indebtedness or obligations of us to any person for money borrowed that is evidenced by a note, bond, debenture, loan agreement, or similar instrument or agreement;

commitment or standby fees due and payable to lending institutions with respect to credit facilities available to us;

all of our noncontingent obligations (1) for the reimbursement of any obligor on any letter of credit, banker's acceptance, or similar credit transaction, (2) under interest rate swaps, caps, collars, options, and similar arrangements, and (3) under any foreign exchange contract, currency swap agreement, futures contract, currency option contract, or other foreign currency hedge;

all of our obligations for the payment of money relating to capital lease obligations;

any liabilities of others described in the preceding clauses that we have guaranteed or which are otherwise our legal liability; and

renewals, extensions, refundings, refinancings, restructurings, amendments, and modifications of any such indebtedness or guarantee; other than any indebtedness or other obligation of us that by its terms is not superior in right of payment to the notes.

The term "Senior Indebtedness" does not include:

any Indebtedness that by its express terms is not senior to the notes or is pari passu or junior to the notes; or

any Indebtedness we owe to any of our majority-owned subsidiaries;

our outstanding 5.5% convertible subordinated notes due 2007; or

the notes.

Merger and Sale of Assets by Incyte

The indenture provides that we may not consolidate with or merge with or into any other person or convey, transfer or lease all or substantially all of our properties or assets to another person, unless among other items:

we are the surviving person, or the resulting, surviving or transferee person, if other than us is organized and existing under the laws of the United States, any state thereof or the District of Columbia;

the successor person, if other than us, assumes, by supplemental indenture satisfactory in form to the trustee, all of our obligations under the notes and the indenture;

after giving effect to such transaction, there is no event of default under the indenture, and no event which, after notice or passage of time or both, would become an event of default; and

we have delivered to the trustee an officers certificate and an opinion of counsel each stating that such transaction complies with these requirements.

When such a person assumes our obligations in such circumstances, subject to certain exceptions, we shall be discharged from all obligations under the notes and the indenture.

Events of Default; Notice and Waiver

The following will be events of default with respect to a series of the notes under the indenture:

we fail to pay principal or premium, if any, when due at maturity, upon redemption, repurchase or otherwise on the notes, whether or not the payment is prohibited by subordination provisions;

we fail to pay any interest or liquidated damages, if any, on the notes, when due and such failure continues for a period of 30 days, whether or not the payment is prohibited by subordination provisions of the indenture;

we fail to provide timely notice of a designated event;

we fail to perform or observe any of the covenants in the indenture for 60 days after written notice to us from the trustee (or to us and the trustee from the holders of at least 25% in principal amount of the outstanding notes);

payment defaults or acceleration of indebtedness (if such acceleration is not withdrawn, cancelled or otherwise annulled within 10 days), where the aggregate amount of defaulted or accelerated principal, premium, if any, and interest is in excess of \$10 million;

we fail to deliver shares of our common stock upon conversion of the notes within the time period required by the indenture, and such failure continues for a period of 5 days; or

certain events involving our bankruptcy, insolvency or reorganization.

The trustee may withhold notice to the holders of the notes of any default, except defaults in payment of principal, premium, interest or liquidated damages, if any, on the notes. However, the trustee must consider it to be in the interest of the holders of the notes to withhold this notice.

If an event of default occurs and continues, the trustee or the holders of at least 25% in principal amount of a series of notes affected thereby then outstanding may declare the principal, premium, if any, and accrued interest and liquidated damages, if any, on the outstanding notes to be immediately due and payable. In case of certain events of bankruptcy or insolvency involving us, the principal, premium, if any, and accrued interest and liquidated damages, if any, on the notes will automatically become due and payable. However, if we cure all defaults, except the nonpayment of principal, premium, if any, interest or liquidated damages, if any, that became due as a result of the acceleration, and meet certain other conditions, with certain exceptions, this declaration may be cancelled and the holders of a majority of the principal amount of outstanding notes may waive these past defaults.

Payments of principal, premium, if any, or interest or liquidated damages, if any, on the notes that are not made when due will accrue interest from the required payment date at the annual rate of 1% above the then applicable interest rate for the notes.

The holders of a majority of outstanding notes will have the right to direct the time, method and place of any proceedings for any remedy available to the trustee, subject to limitations specified in the indenture.

No holder of the notes may pursue any remedy under the indenture, except in the case of a default in the payment of principal, premium, if any, or interest or liquidated damages, unless:

the holder has given the trustee written notice of an event of default;

the holders of at least 25% in principal amount of a series of notes affected thereby then outstanding make a written request to the trustee to pursue the remedy;

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the holder or holders have offered reasonable security or indemnity to the trustee against any costs, liability or expense of the trustee;

the trustee does not receive an inconsistent direction from the holders of a majority in principal amount of the notes; and

the trustee fails to comply with the request within 60 days after receipt of the request and offer of indemnity.

Modification and Waiver

The consent of the holders of a majority in principal amount of the outstanding notes is required to modify or amend the indenture. However, a modification or amendment requires the consent of the holder of each outstanding note if it would:

extend the fixed maturity of any note;

reduce the rate or extend the time for payment of interest or liquidated damages, if any, of any note;

reduce the principal amount or premium of any note;

reduce any amount payable upon redemption or repurchase of any note;

adversely change our obligation to repurchase any note upon a designated event;

impair the right of a holder to institute suit for payment on any note;

change the currency in which any note is payable;

impair the right of a holder to convert any note or reduce the number of shares of common stock or the amount of any other property receivable upon conversion;

adversely modify, in any material respect, the subordination provisions of the indenture;

reduce the quorum or voting requirements under the indenture;

subject to specified exceptions, modify certain provisions of the indenture relating to modification or waiver of provisions of the indenture;

reduce the percentage of notes required for consent to any modification of the indenture; or

change our obligation to maintain an office or agency in the Borough of Manhattan in the City of New York.

We are permitted to modify certain provisions of the indenture without the consent of the holders of the notes.

Form, Denomination and Registration

The notes are issued:

in fully registered form;

without interest coupons; and

in denominations of \$1,000 principal amount and integral multiples of \$1,000.

Global Note, Book-Entry Form

Notes are evidenced by one or more global notes. We deposited the global note or notes with DTC and registered the global notes in the name of Cede & Co. as DTC's nominee. Except as set forth below, a global note may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

Beneficial interests in a global note may be held directly through DTC if such holder is a participant in DTC, or indirectly through organizations that are participants in DTC (called participants). Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in clearing house funds. The laws of some states require that certain persons take physical delivery of securities in definitive form. As a result, the ability to transfer beneficial interests in the global note to such persons may be limited.

Holders who are not participants may beneficially own interests in a global note held by DTC only through participants, or certain banks, brokers, dealers, trust companies and other parties that clear through or maintain a custodial relationship with a participant, either directly or indirectly (called indirect participants). So long as Cede & Co., as the nominee of DTC, is the registered owner of a global note, Cede & Co. for all purposes will be considered the sole holder of such global note. Except as provided below, owners of beneficial interests in a global note will:

not be entitled to have certificates registered in their names; and

not be considered holders of the global note (other than in an enforcement by such owner of a beneficial interest to exchange such beneficial interest for notes in certificated form).

We will pay interest, and liquidated damages, if any, and the redemption price and the repurchase price of a global note to Cede & Co., as the registered owner of the global note, by wire transfer of immediately available funds on each interest payment date or the redemption or repurchase date, as the case may be. Neither we, the trustee nor any paying agent will be responsible or liable:

for the records relating to, or payments made on account of, beneficial ownership interests in a global note; or

for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

Neither we, the trustee, registrar, paying agent nor conversion agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations. DTC has advised us that it will take any action permitted to be taken by a holder of notes, including the presentation of notes for exchange, only at the direction of one or more participants to whose account with DTC interests in the global note are credited, and only in respect of the principal amount of the notes represented by the global note as to which the participant or participants has or have given such direction. DTC has advised us that it is:

a limited purpose trust company organized under the laws of the State of New York, and a member of the Federal Reserve System;

a clearing corporation within the meaning of the Uniform Commercial Code; and

a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes to the accounts of its participants. Participants include securities brokers, dealers, banks, trust companies and clearing corporations and other organizations. Some of the participants or their representatives, together with other entities, own DTC. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

DTC has agreed to the foregoing procedures to facilitate transfers of interests in a global note among participants. However, DTC is under no obligation to perform or continue to perform these procedures, and may discontinue these procedures at any time.

We will issue the notes in definitive certificated form if DTC notifies us that it is unwilling or unable to continue as depository or DTC ceases to be a clearing agency registered under the Exchange Act and a successor

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depository is not appointed by us within 90 days. In addition, beneficial interests in a global note may be exchanged for definitive certificated notes upon request by or on behalf of DTC in accordance with customary procedures. We may determine at any time and in our sole discretion that notes shall no longer be represented by global notes, in which case we will issue certificates in definitive form in exchange for the global notes.

Registration Rights of the Noteholders

We entered into a registration rights agreement with the initial purchasers of the notes for the benefit of the holders of the notes and the common stock issuable on conversion of the notes. Under this agreement, we will use our reasonable best efforts to keep the shelf registration statement of which this prospectus forms a part effective until the date there are no longer any registrable securities.

When we use the term *registrable securities* in this section, we are referring to the notes and the common stock issuable upon conversion of the notes until the earliest of:

the effective registration under the Securities Act of 1933, or the Securities Act, and the resale of the registrable securities in accordance with the registration statement;

the expiration of the holding period with respect to the registrable securities under Rule 144(k) under the Securities Act;

the sale of the registrable securities pursuant to Rule 144 under the Securities Act; and

the registrable securities cease to be outstanding.

We may suspend the use of this prospectus under certain circumstances relating to pending corporate developments, public filings with the SEC and similar events. Any suspension period shall not exceed:

45 days in any three-month period; or

an aggregate of 90 days for all suspension periods in any 12-month period.

Notwithstanding the foregoing, we will be permitted to suspend the use of this prospectus for up to 60 days in any three-month period under certain circumstances, relating to possible acquisitions, financings or other similar transactions.

We will pay predetermined liquidated damages on the interest payment dates for the notes in the event the prospectus included in the registration statement is unavailable for periods in excess of those permitted above. Those additional amounts will accrue until such unavailability is cured:

in respect of any notes at a rate per year equal to 0.25% of the outstanding principal amount thereof for the first 90 days after the occurrence of the event and 0.50% of the outstanding principal amount thereof after the first 90 days; and

in respect of shares of common stock into which the notes have been converted at a rate per year equal to 0.25% of the then-applicable conversion price for the first 90 days after the occurrence of the event and 0.50% of the then-applicable conversion price after the first 90 days.

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A holder who elects to sell registrable securities pursuant to the shelf registration statement will be required to:

be named as a selling stockholder in the related prospectus;

deliver a prospectus to purchasers; and

be subject to the provisions of the registration rights agreement, including indemnification provisions.

Under the registration rights agreement we will:

pay all expenses of the shelf registration statement;

provide each registered holder copies of the prospectus;

notify holders when the shelf registration statement has become effective; and

take other reasonable actions as are required to permit unrestricted resales of the registrable securities in accordance with the terms and conditions of the registration rights agreement.

We have agreed to give notice to all holders of the effectiveness of the shelf registration statement by issuing a press release to Business Wire. In order to sell registrable securities, a holder must complete and deliver a notice and questionnaire (in substantially the form provided as an annex to the offering memorandum, dated February 12, 2004, relating to the private placement of the notes, or otherwise made available by us to holders) to us at least three business days prior to any intended distribution. Upon receipt of a completed questionnaire after effectiveness of the registration statement, together with any other information we may reasonably request following the effectiveness, we have agreed, within 15 business days of receipt, or within 15 business days of the end of any period during which we have suspended use of the prospectus, to file any amendments to the shelf registration statement or supplements to the related prospectus as are necessary to permit a holder to deliver a prospectus to purchasers of registrable securities, subject to our right to suspend the use of the prospectus. We have agreed to pay the predetermined liquidated damages described above to the holder if we fail to have a post-effective amendment to the shelf registration statement that is required to be declared effective under the Securities Act, declared effective within 45 days of the filing. If a holder does not complete and deliver a questionnaire or provide the other information we may request, that holder will not be named as a selling securityholder in the prospectus and will not be permitted to sell their registrable securities pursuant to the shelf registration statement.

Governing Law

The notes and the indenture shall be governed by, and construed in accordance with, the laws of the State of New York.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

General

The following is a discussion of the material U.S. federal income tax considerations applicable to purchasing, owning and disposing of the notes and the common stock issuable upon conversion thereof. This discussion does not address any tax considerations that may apply to Holders subject to special tax rules, such as banks, insurance companies, dealers in securities or currencies, persons that mark-to-market their securities, tax exempt entities, tax-deferred or other retirement accounts, persons subject to the alternative minimum tax, persons that hold notes as a position in a straddle or as part of a hedging, constructive sale or conversion transaction for U.S. federal income tax purposes, or U.S. Holders (as defined herein) that have a functional currency other than the U.S. dollar.

For purposes of this discussion, a U.S. Holder means a beneficial owner of notes that is, for U.S. federal income tax purposes:

an individual who is a citizen or resident of the United States,

a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any State thereof or the District of Columbia,

an estate the income of which is subject to U.S. federal income taxation regardless of its source or

a trust the administration of which is subject to the primary supervision of a court in the United States and for which one or more U.S. persons have the authority to control all substantial decisions.

The term U.S. Holder also includes certain former citizens and residents of the United States.

If a partnership holds notes, the U.S. federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. Partners of partnerships that will hold notes should consult their tax advisors.

As used herein, a Non-U.S. Holder is a beneficial owner of notes that is not a U.S. Holder.

This summary is based on currently existing provisions of the Code, Treasury Department regulations promulgated under the Code, and judicial and administrative interpretations thereof, all as in effect on the date hereof and all of which are subject to change, which change may be retroactive and may affect the tax consequences described herein.

This discussion is not intended to constitute a complete analysis of all tax considerations relevant to an investment in the notes or the common stock issuable upon conversion thereof. It does not take into account the individual circumstances of any particular prospective investor, nor does it address any aspect of estate or gift tax laws or of state, local or foreign tax laws. We strongly urge a prospective purchaser or Holder to consult its own tax advisor for advice concerning the application of the U.S. federal income tax laws to that Holder's particular situation, as well

as any tax consequences arising under state, local or foreign tax laws.

U.S. Holders

Payments of Interest

Interest paid on the notes will be included in the income of a U.S. Holder as ordinary income at the time it is received or accrued, in accordance with such Holder's regular method of accounting for U.S. federal income tax purposes.

We intend to take the position that a U.S. Holder of a note should be required to report liquidated damages, if any, as ordinary income for U.S. federal income tax purposes at the time it accrues or is received in accordance with the U.S. Holder's regular method of accounting. See Description of Notes Registration Rights of the

Noteholders. It is possible, however, that the Internal Revenue Service (IRS) may take a contrary position, in which case the timing, character and amount of income or gain may be different. Our determination is binding on U.S. Holders of notes, unless they explicitly disclose to the IRS on their tax returns for the year during which they acquire the note that they are taking a different position. U.S. Holders should consult their tax advisors concerning the treatment of liquidated damages paid by us.

Sale, Exchange or Retirement of Notes

A U.S. Holder's tax basis in a note generally will equal its cost. Subject to the market discount rules described below under *Market Discount and Bond Premium*, a U.S. Holder generally will recognize gain or loss on the sale, exchange (other than conversion) or retirement of a note equal to the difference between the amount realized on the disposition, excluding any amounts attributable to accrued but unpaid interest (which will be taxable as such), and the U.S. Holder's tax basis in the note. This gain or loss will be capital gain or loss and will generally be long-term capital gain or loss if the U.S. Holder has held the note for more than one year and otherwise will be short-term capital gain or loss. Long-term capital gains of individuals are subject to U.S. federal income tax at preferential rates, which have been reduced for long-term capital gains recognized on or after May 6, 2003, and before January 1, 2009. Short-term capital gains are taxed at rates applicable to ordinary income. The deductibility of capital losses is subject to limitations.

Market Discount and Bond Premium

If a U.S. Holder purchases a note for an amount less than its stated principal amount, the difference will be treated as market discount. Under the market discount rules, such Holder will be required, subject to a de minimis exception, to treat any gain on the sale, exchange, retirement or other disposition of the note as ordinary income to the extent of the market discount that has not previously been included in income and that is treated as having accrued on such note at the time of such payment or disposition. If a note with accrued market discount is converted into common stock pursuant to the conversion feature, the amount of such accrued market discount not previously included in income generally will be taxable as ordinary income upon disposition of the common stock. In addition, a U.S. Holder may be required to defer, until the maturity of the note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the note.

Any market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the note, unless a U.S. Holder elects to accrue under a constant yield method. Such Holder may elect to include market discount in income currently as it accrues (on either a ratable or constant yield method), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount in income currently, once made, applies to all market discount obligations acquired by a U.S. Holder on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

If you purchase a note for an amount in excess of its principal amount, plus accrued interest, you generally may elect to amortize that premium from the purchase date to the note's maturity date under a constant yield method. Amortizable premium, however, will not include any premium attributable to the value of a note's conversion feature. Amortizable premium can only offset interest income on a note and may not be deducted against other income. An election to amortize premium on a constant yield method, once made, generally applies to all debt obligations held or subsequently acquired by such Holder on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the IRS.

The rules regarding market discount and amortizable premium are complex, and U.S. Holders should consult their own tax advisors regarding these rules.

Conversion of the Notes

A U.S. Holder generally will not recognize any income, gain or loss upon conversion of a note into common stock except with respect to cash received in lieu of a fractional share of common stock. Cash received in lieu of a fractional share upon conversion will be treated as a payment in exchange for the fractional share of common stock. Accordingly, the receipt of cash in lieu of a fractional share of common stock generally will result in capital gain or loss (measured by the difference between the cash received for the fractional share and the Holder's adjusted tax basis in the fractional share).

A U.S. Holder's tax basis in the common stock received on conversion of a note will be the same as such Holder's adjusted tax basis in the note at the time of conversion (reduced by any basis allocable to a fractional share interest), and the holding period for the common stock received on conversion will generally include the holding period of the note converted.

Constructive Dividends

If at any time we were to make a distribution of property to our stockholders that would be taxable to the stockholders as a dividend for U.S. federal income tax purposes and, in accordance with the antidilution provisions of the notes, the conversion rate of the notes were increased, such increase might be deemed to be the payment of a taxable dividend to Holders of the notes. For example, an increase in the conversion rate in the event of distributions of our evidences of indebtedness, or assets, or an increase in the event of cash dividends may result in deemed dividend treatment to Holders of the notes, but, generally, an increase in the event of stock dividends or the distribution of rights to subscribe for common stock would not be so treated. In addition, in some circumstances, an adjustment, or the failure to provide for an adjustment on the conversion rate of the notes, may result in taxable dividend income to the holders of common stock.

Distributions on Common Stock

We have never paid any dividends and do not anticipate paying dividends for the foreseeable future. If we were to make any distributions on our common stock after a conversion, they would generally be treated as a dividend to the extent of our current or accumulated earnings and profits, calculated for U.S. federal income tax purposes. Distributions in excess of our current and accumulated earnings and profits would be treated as a non-taxable return of capital that reduced the U.S. Holder's basis in the common stock until the basis had been reduced to zero, and thereafter as capital gain. Dividends received by a corporate U.S. Holder may qualify for a dividends-received deduction, and, for taxable years beginning after December 31, 2002 and before January 1, 2009, dividends received by an individual may qualify for preferential rates of taxation; however, in each case, certain holding period requirements and other limitations may apply.

Sale, Exchange or Redemption of Common Stock

Upon the sale, exchange or redemption of common stock, a U.S. Holder generally will recognize capital gain or loss equal to the difference between the amount of cash and the fair market value of any property received upon the sale or exchange and such U.S. Holder's adjusted tax basis in the common stock. Such capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period in common stock is more than one year and otherwise will be short-term gain or loss. Long-term capital gains of individuals are subject to U.S. federal income tax at preferential rates, which have been reduced for long-term capital gains recognized on or after May 6, 2003, and before January 1, 2009. Short-term capital gains are taxed at rates applicable to ordinary income, which, for gains recognized on or after May 6, 2003, and before January 1, 2009, will be taxed at rates higher than those applicable to dividends. The deductibility of capital losses is subject to limitations.

Non-U.S. Holders

Payments of Interest

Interest on notes paid to a Non-U.S. Holder will not be subject to U.S. federal income tax unless (i) the interest is effectively connected with the conduct by the Non-U.S. Holder of a U.S. trade or business (and, if required under an applicable income tax treaty, is attributable to a permanent establishment maintained in the United States by the Non-U.S. Holder), (ii) the Non-U.S. Holder owns, actually, indirectly or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote, is a controlled foreign corporation related, directly or indirectly, to us through stock ownership or is a bank which acquired the notes in consideration for an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business or (iii) the Non-U.S. Holder fails to certify its nonresident status (as described below).

Except to the extent that an applicable income tax treaty otherwise provides, generally a Non-U.S. Holder will be taxed in the same manner as a U.S. Holder with respect to interest that is effectively connected with the Non-U.S. Holder's conduct of a U.S. trade or business. A corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or such lower rate as may be specified by an applicable income tax treaty) on any effectively connected interest on the notes.

To certify its nonresident status, a Non-U.S. Holder may provide an IRS Form W-8BEN (or appropriate substitute form) to us or our paying agent. If a Non-U.S. Holder holds the notes through a financial institution or other agent acting on the Holder's behalf, the Non-U.S. Holder will be required to provide appropriate documentation to the agent. The agent will then be required to provide certification to us or our paying agent, either directly or through other intermediaries. If a Non-U.S. Holder is engaged in a U.S. trade or business, it would be required to provide to the withholding agent a properly executed IRS Form W-8ECI (or appropriate substitute form) in lieu of the certification of nonresident status to avoid withholding tax. Non-U.S. Holders should consult their tax advisors concerning certification requirements.

Sale, Exchange, Conversion or Redemption of the Notes or Common Stock

Gain recognized by a Non-U.S. Holder on the sale, exchange (including conversion) or retirement of notes will not be subject to U.S. federal income tax unless (i) the gain is effectively connected with the conduct by the Non-U.S. Holder of a U.S. trade or business (and, if required under an applicable income tax treaty, is attributable to a permanent establishment maintained in the United States by the Non-U.S. Holder), (ii) in the case of gain recognized by a Non-U.S. Holder who is an individual, he or she is present in the United States for a total of 183 days or more during the taxable year in which such gain is recognized and certain other conditions are met or (iii) in certain circumstances, if we are, or have been, a U.S. real property holding corporation within the meaning of Section 897(c)(2) of the Code for U.S. federal income tax purposes. We do not believe that we are currently a U.S. real property holding corporation or that we will become one in the future.

Except to the extent that an applicable income tax treaty otherwise provides, generally a Non-U.S. Holder will be taxed in the same manner as a U.S. Holder with respect to gain that is effectively connected with the Non-U.S. Holder's conduct of a U.S. trade or business. A corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or such lower rate as may be specified by an applicable income tax treaty) on any effectively connected gain on the notes.

Distributions on Common Stock

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Distributions, if any, made on our common stock after a conversion generally will be treated as a dividend to the extent of our current or accumulated earnings and profits, calculated for U.S. federal income tax purposes. Dividends paid on common stock held by a Non-U.S. Holder generally will be subject to U.S. withholding tax at a 30% rate, unless an applicable U.S. income tax treaty provides for the reduction or elimination of such withholding tax or the dividends are effectively connected with the Non-U.S. Holder's conduct of a U.S. trade or business. A Non-U.S. Holder generally will be required to provide an IRS Form W-8BEN (or appropriate substitute form) to claim a reduction or exemption from withholding.

Except to the extent that an applicable income tax treaty otherwise provides, generally a Non-U.S. Holder will be taxed in the same manner as a U.S. Holder with respect to dividends that are effectively connected with the Non-U.S. Holder's conduct of a U.S. trade or business. A corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or such lower rate as may be specified by an applicable income tax treaty) on any effectively connected dividends.

Distributions in excess of our current and accumulated earnings and profits will be treated as a nontaxable return of capital that reduces the U.S. Holder's basis in the common stock until the basis has been reduced to zero, and thereafter as capital gain. Such capital gain will generally not be taxable to a Non-U.S. Holder except under the circumstances described above relating to the sale, exchange, conversion or redemption of the notes or common stock.

A Non-U.S. Holder deemed to have received a constructive dividend in respect of a change in the conversion rate of the notes generally will be subject to the rules relating to the U.S. federal income tax treatment of dividends described herein. Any resulting withholding may be made on subsequent payments of interest and principal on the notes.

Backup Withholding Tax and Information Reporting

A U.S. Holder (other than an exempt recipient, including a corporation and certain other persons who, when required, demonstrate their exempt status) may be subject to backup withholding at the applicable statutory rate on, and to information reporting with respect to, payments of principal, premium, if any, and interest on the notes, payments of dividends on our common stock and to proceeds from the sale, exchange or other disposition of the notes or our common stock if the U.S. Holder fails to supply an accurate taxpayer identification number or otherwise fails to comply with applicable certification requirements. Backup withholding tax is not an additional tax and may be credited against a U.S. Holder's regular U.S. federal income tax liability or refunded by the IRS.

Non-U.S. Holders are generally exempt from information reporting and backup withholding provided, if necessary, they certify their nonresident status or otherwise demonstrate their exemption. Any backup withholding tax generally will be allowed as a credit or refund against the Non-U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

SELLING SECURITYHOLDERS

We originally issued the notes in a private placement to Morgan Stanley & Co. Incorporated, Piper Jaffray & Co. and SunTrust Capital Markets, Inc., as initial purchasers, in February and March 2004 pursuant to Section 4(2) of the Securities Act. The notes were resold by the initial purchasers to qualified institutional buyers pursuant to Rule 144A under the Securities Act. Those purchasers may have made subsequent transfers of the notes to purchasers that are qualified institutional buyers pursuant to Rule 144A. We have no knowledge whether the selling securityholders listed below received the notes on the initial distribution or through subsequent transfers after the close of the initial private placement. Selling securityholders, including their transferees, donees or pledgees or their successors, may offer and sell the notes and the underlying common stock pursuant to this prospectus.

The following table sets forth information as of November 3, 2004 regarding the principal amount of notes and the underlying common stock, beneficially owned by each selling securityholder, that may be offered using this prospectus. Information with respect to beneficial ownership is based upon information provided by or on behalf of the selling security holders.

Unless otherwise described below, to our knowledge, no selling securityholder nor any of its affiliates has held any position or office with, been employed by or otherwise has had any material relationship with us or our affiliates during the three years prior to the date of this prospectus.

A selling securityholder may offer all, some or none of the notes and shares of the common stock issuable upon conversion of the notes. Accordingly, no estimate can be given as to the amount or percentage of notes or our common stock that will be held by the selling securityholders upon termination of sales pursuant to this prospectus. In addition, the selling securityholders identified below may have sold, transferred or disposed of all or a portion of their notes since the date on which they provided the information regarding their holdings in transactions exempt from the registration requirements of the Securities Act. Information about the selling securityholders may change over time. Changed information will be set forth in an amendment to the registration statement, of which this prospectus is a part, or a supplement to this prospectus, as required by law.

Name	Principal Amount of Notes Beneficially Owned that may be Offered (\$)	Percentage of Notes Outstanding (%)	Number of Shares of Common Stock Beneficially Owned	Number of Shares of Common Stock that may be Offered (1)	Percentage of Common Stock Outstanding (%) (2)
1976 Distribution Trust FBO A.R. Lauder/Zinterhofer (3)	4,000	*	356	356	*
2000 Revocable Trust FBO A.R. Lauder/Zinterhofer (3)	2,000	*	178	178	*
Advent Convertible Master (Cayman) L.P. (3)	9,757,000	3.9	869,724	869,724	1.2
Akanthos Arbitrage Master Fund LP	1,000,000	*	89,138	89,138	*
Alcon Laboratories (3)	166,000	*	14,796	14,796	*
Alexandra Global Master Fund Ltd (24)	19,000,000	7.6	1,693,631	1,693,631	2.3
Alpha US Sub Fund 4, LLC (3)	308,000	*	27,454	27,454	*
Animi Master Fund Ltd. (27)	10,000,000	4.0	891,385	891,385	1.2
Alta Partners Holdings LDC	10,000,000	4.0	891,385	891,385	1.2
Arlington County Employees Retirement System (3)	296,000	*	26,385	26,385	*
Asante Health Systems (3)	56,000	*	4,991	4,991	*
Baker Biotech Fund I, L.P. (4)	7,793,000	3.1	2,174,811	694,656	2.9

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Baker Biotech Fund II, L.P. (4)	7,207,000	2.9	1,661,628	642,421	2.2
Barclays Global Investors					
Diversified Alpha Plus Funds (5)	1,096,000	*	97,695	97,695	*
BNP Paribas Equity Strategies, SNC (6)(23)	1,101,000	*	105,139	98,141	*
CIBC World Markets (9)	10,903,000	4.4	971,877	971,877	1.3

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<u>Name</u>	<u>Principal Amount of Notes Beneficially Owned that may be Offered (\$)</u>	<u>Percentage of Notes Outstanding (%)</u>	<u>Number of Shares of Common Stock Beneficially Owned</u>	<u>Number of Shares of Common Stock that may be Offered (1)</u>	<u>Percentage of Common Stock Outstanding (%) (2)</u>
City of New Orleans (3)	90,000	*	8,022	8,022	*
City University of New York (CUNY) (3)	66,000	*	5,883	5,883	*
CNM CA Master Account, L.P. (7)	500,000	*	44,569	44,569	*
Context Convertible Arbitrage Fund, L.P. (8)	4,600,000	1.8	410,037	410,037	*
Context Convertible Arbitrage Offshore, Ltd. (8)	11,016,000	4.4	981,949	981,949	1.3
CooperNeff Convertible Strategies (Cayman) Master Fund, LP (6)	1,185,000	*	105,629	105,629	*
Credit Opportunity Master Fund (3)	1,943,000	*	173,196	173,196	*
Credit Opportunity Master Fund 2 (3)	750,000	*	66,853	66,853	*
Credit Suisse First Boston LLC (9)	2,000,000	*	178,277	178,277	*
CSS, LLC (10)	750,000	*	66,853	66,853	*
Delaware Public Employees Retirement System (3)	528,000	*	47,065	47,065	*
D.E. Shaw Valence Portfolios, L.L.C. (11)(23)	4,200,000	1.7	748,948	374,381	1.0
D.E. Shaw Investment Group, L.L.C. (11)	800,000	*	127,210	71,310	*
Deutsche Bank Securities Inc. (9)	1,711,000	*	152,515	152,515	*
DKR SoundShore Strategic Holding Fund Ltd. (12)	3,000,000	1.2	267,415	267,415	*
Forest Fulcrum Fund LP (5)	1,989,000	*	177,296	177,296	*
Forest Global Convertible Fund, Ltd., Class A-5 (5)	7,971,000	3.2	710,522	710,522	1.0
Forest Multi-Strategy Master Fund SPC, on behalf of its Multi-Strategy Segregated Portfolio (5)	2,530,000	1.0	225,520	225,520	*
GLG Global Convertible Fund (25)	5,500,000	2.2	490,261	490,261	*
GLG Market Neutral Fund (25)	15,000,000	6.0	1,337,077	1,337,077	1.8
GLG Global Convertible UCITS Fund (25)	5,000,000	2.0	445,692	445,692	*
Geode U.S. Convertible Arbitrage Fund, a segregated account of Geode Capital Master Fund Ltd. (13)	2,000,000	*	178,277	178,277	*
Goldman, Sachs & Co. (9)	1,000,000	*	89,138	89,138	*
Grady Hospital Foundation (3)	58,000	*	5,170	5,170	*
HFR (3)	653,000	*	58,207	58,207	*
HFR CA Global Opportunity Master Trust (5)	502,000	*	44,747	44,747	*
HFR RVA Credit Opportunity Master Trust (3)	72,000	*	6,417	6,417	*
HFR RVA Select Performance Master Trust (5)	465,000	*	41,449	41,449	*

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<u>Name</u>	<u>Principal Amount of Notes Beneficially Owned that may be Offered (\$)</u>	<u>Percentage of Notes Outstanding (%)</u>	<u>Number of Shares of Common Stock Beneficially Owned</u>	<u>Number of Shares of Common Stock that may be Offered (1)</u>	<u>Percentage of Common Stock Outstanding (%) (2)</u>
Highbridge International LLC (14)(23)	10,000,000	4.0	891,385	891,385	1.2
KBC Financial Products USA Inc. (15)	2,900,000	1.2	258,501	258,501	*
KDC Convertible Arbitrage Master Fund L.P. (16)(23)	250,000	*	22,284	22,284	*
LDG Limited (17)	121,000	*	10,785	10,785	*
Lexington Vantage Fund c/o TQA Investors, LLC (17)	48,000	*	4,278	4,278	*
LLT Limited (5)	644,000	*	57,405	57,405	*
Lyxor (3)	1,146,000	*	102,152	102,152	*
Lyxor / Context Fund Ltd.(8)(23)	900,000	*	80,224	80,224	*
Lyxor/Convertible Arbitrage Fund Limited (6)	219,000	*	19,521	19,521	*
Maryland Retirement Agency (3)	1,416,000	*	126,220	126,220	*
Mohican VCA Master Fund (18)	550,000	*	49,026	49,026	*
MSS Convertible Arbitrage I c/o TQA Investors, LLC (17)	3,000	*	267	267	*
Municipal Employees (3)	112,000	*	9,983	9,983	*
National Bank of Canada (8)(23)	950,000	*	84,681	84,681	*
National Bank of Canada c/o Putnam Lovell NBF Securities Inc. (23)	1,250,000	*	111,423	111,423	*
New Orleans Firefighters Pension/Relief Fund (3)	1,044,000	*	93,060	93,060	*
Occidental Petroleum Corporation (3)	124,000	*	11,053	11,053	*
Piper Jaffray & Co. (9)	5,700,000	2.3	508,089	508,089	*
Pro Mutual (3)	386,000	*	34,407	34,407	*
Radcliffe SPC, Ltd. for and on behalf of the Class A Convertible Crossover Segregated Portfolio (19)	1,250,000	*	247,732	111,423	*
Raytheon Credit Opportunity Fund (3)	235,000	*	20,947	20,947	*
RBC Alternative Assets Fund Convertible Arbitrage (20)	325,000	*	28,970	28,970	*
Ritchie Convertible Arbitrage Trading (21)	450,000	*	40,112	40,112	*
Royal Bank of Canada (Norshield) (8)(23)	1,150,000	*	102,509	102,509	*
Salomon Brothers Asset Management, Inc. (23)	24,200,000	9.7	2,157,151	2,157,151	2.9
San Francisco City & County ERS (3)	652,000	*	58,118	142,175	*
Singlehedge US Convertible Arbitrage Fund (6)	270,000	*	24,067	24,067	*
Sphinx Convertible Arbitrage SPC (5)	700,000	*	62,396	62,396	*

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Name	Principal Amount of Notes Beneficially Owned that may be Offered (\$)	Percentage of Notes Outstanding (%)	Number of Shares of Common Stock Beneficially Owned	Number of Shares of Common Stock that may be Offered (1)	Percentage of Common Stock Outstanding (%) (2)
Sphinx Fund c/o TQA Investors, LLC (17)	139,000	*	12,390	12,390	*
Sturgeon Limited (6)	225,000	*	20,056	20,056	*
TQA Master Fund Ltd. (17)	1,986,000	*	177,029	177,029	*
TQA Master Plus Fund, Ltd. (17)	3,104,000	1.2	276,685	276,685	*
Univest Convertible Arbitrage Fund II Ltd. (Norshield) (8)	500,000	*	44,569	44,569	*
Univest Multi-Strategy Fund Convertible Arbitrage (20)	225,000	*	20,056	20,056	*
Wolverine Asset Management LLC (22)	1,884,000	*	167,936	167,936	*
WPG Convertible Arbitrage Overseas Master Fund (20)	950,000	*	84,681	84,681	*
WPG MSA Convertible Arbitrage Fund (20)	60,000	*	5,348	5,348	*
Xavex Convertible Arbitrage 4 Fund (5)	395,000	*	35,209	35,209	*
Xavex-Convertible Arbitrage 7 Fund c/o TQA Investors, LLC (17)	585,000	*	52,146	52,146	*
Xavex Convertible Arbitrage 9 Fund	1,000,000	*	89,138	89,138	*
Zurich Institutional Benchmarks Master Fund Ltd. (5)	77,000	*	6,863	6,863	*
Zurich Institutional Benchmarks Master Fund Ltd. c/o TQA Investors, LLC (17)	424,000	*	37,794	37,794	*
Unidentified Selling Securityholders (26)	26,883,000	10.8	2,396,310	2,396,310	3.30

* Less than 1%.

- (1) Assumes conversion of all of the holder's notes at a conversion rate of 89.1385 shares of common stock per \$1,000 principal amount of notes. However, this conversion rate will be subject to adjustment as described under Description of Notes Conversion of Notes. As a result, the number of shares of common stock issuable upon conversion of the notes may increase or decrease in the future.
- (2) Calculated based on Rule 13d-3(d)(i), using 73,553,260 shares of common stock outstanding as of September 30, 2004. In calculating this amount for each holder, we treated as outstanding the number of shares of common stock issuable upon conversion of all that holder's notes, but we did not assume conversion of any other holder's notes.
- (3) Advent Capital Management has sole voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes.
- (4) Julian C. Baker and Felix J. Baker share voting power and investment control over these notes. Julian C. Baker is a director of the Company. Julian C. Baker and Felix J. Baker are members of a group for purposes of Section 13(d)(3) of the Exchange Act that beneficially owns more than 5% of the Company's securities.
- (5) Forest Investment Management LP (Forest) has sole voting power and shared investment control over these notes and the shares of common stock issuable upon conversion of these notes. Forest is wholly owned by Forest Partners II, L.P., the sole General Partner of which is Michael A. Boyd Inc., which is solely owned by Mr. Michael A. Boyd.
- (6) CooperNeff Advisors, Inc. has sole investment control and shared voting control over these notes and the shares of common stock issuable upon conversion of these notes. Mr. Christian Menestrier is the CEO of CooperNeff Advisors, Inc.

- (7) CNM Partners, LLC is the investment advisor of the selling securityholder and has sole voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes. Messrs. Robert Krail, Mark Mitchell and Todd Pulvino are the investment principals of CNM Partners.
- (8) Mr. Michael Rosen and Mr. William Fertig exercise voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes as Co-Chairmen of Context Capital Management, LLC.
- (9) The selling securityholder is a majority-owned or wholly-owned subsidiary of a New York Stock Exchange traded company and a registered broker-dealer and is an underwriter of the notes and the underlying common stock within the meaning of the Securities Act.
- (10) Mr. Michael J. Carusillo, Mr. Clayton A. Struve and Mr. Nicholas D. Schoewe exercise voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes.
- (11) D.E. Shaw & Co. L.P., as either managing member or investment adviser, has voting and investment control over these notes and the shares of common stock issuable upon conversion of these notes. Julius Gaudio, Eric Wepsic and Anne Dinning, or their designees, exercise voting and investment control over these notes and the shares of common stock issuable upon conversion of these notes on D.E. Shaw & Co. L.P.'s behalf.
- (12) DKR Capital Partners L.P. (DKR LP) is a registered investment adviser with the Securities and Exchange Commission and as such, is the investment manager to DKR SoundShore Strategic Holding Fund Ltd. (the Fund). DKR LP has retained certain portfolio managers to act as the portfolio manager to the Fund managed by DKR LP. As such, DKR LP and certain portfolio managers have shared voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes. Mr. Michael Cavuoti has trading authority over the Fund.
- (13) Vincent Gubitosi, portfolio manager, has sole voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes.
- (14) Mr. Glenn Dubin and Mr. Henry Swieca, exercise voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes as principals of Highbridge Capital Management, trading advisor to Highbridge International LLC.
- (15) KBC Financial Products USA Inc. exercises voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes. Mr. Luke Edwards, Managing Director, exercises voting and investment control on behalf of KBC Financial Products USA Inc.
- (16) Mr. George Kellner exercises voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes.
- (17) Mr. Robert Butman, Mr. John Idone, Mr. Paul Bucci, Mr. George Esser and Mr. Bartholomew Tesoriero, exercise voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes as principals of TQA Investors, LLC.
- (18) Mr. Eric C. Hage and Mr. Daniel C. Hage exercise voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes.
- (19) Pursuant to an investment management agreement, RG Capital Management, L.P. (RG Capital) serves as the investment manager of Radcliffe SPC, Ltd.'s Class A Convertible Crossover Segregated Portfolio. RGC Management Company, LLC (Management) is the general partner of RG Capital. Steve Katznelson and Gerald Stahlecker serve as the managing members of Management. Each of RG Capital, Management and Messrs. Katznelson and Stahlecker disclaims beneficial ownership of the notes and the shares of common stock issuable upon conversion of these notes owned by Radcliffe SPC, Ltd. for an on behalf of the Class A Convertible Crossover Segregated Portfolio.
- (20) Ms. Sheri Kaplan exercises voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes.
- (21) Ritchie Capital Management, LLC is the investment advisor of the selling securityholder. A.R. Thane Ritchie exercises voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes as president of Ritchie Capital Management, LLC.
- (22) Mr. Chris Gust exercises voting power and investment control over these notes and the shares of common stock issuable upon conversion of these notes.
- (23) The selling securityholder is an affiliate of a broker-dealer.

- (24) Alexandra Investment Management, LLC, a Delaware limited liability company (Alexandra), serves as investment adviser to the selling securityholder (beneficial owner). By reason of such relationship, Alexandra may be deemed to share dispositive power or investment control over the notes and the shares of common stock issuable upon conversion of the notes. Alexandra disclaims beneficial ownership. As managing members of Alexandra, Messrs. Mikhail A. Filimonov and Dimitri Sogoloff may be deemed to share dispositive power or investment control over the notes and the shares of common stock issuable upon conversion of the notes. Messrs. Filimonov and Sogoloff disclaim beneficial ownership.
- (25) The selling securityholder is a publicly owned company listed on the Irish Stock Exchange. GLG Partners LP, an English limited partnership, acts as the investment manager of the fund and has voting and dispositive power over the securities held by the Fund. The general partner of GLG Partners LP is GLG Partners Limited, an English limited company. The shareholders of GLG Partners Limited are Noam Gottesman, Pierre Lagrange, Jonathan Green, Philippe Jabre and Lehman (Cayman) Limited, a subsidiary of Lehman Brothers, Inc., a publicly-held entity. GLG Partners LP, GLG Partners Limited, Noam Gottesman, Pierre Lagrange, Jonathan Green, Philippe Jabre and Lehman (Cayman) Limited disclaim beneficial ownership of the securities held by the Fund, except for their pecuniary interest therein.
- (26) Information about other selling securityholders will be set forth in an amendment to the registration statement, of which this prospectus is a part, or a supplement to this prospectus, as required by law. Assumes that any other holders of notes, or their future transferees, pledgees or donees or their successors, do not beneficially own any common stock other than the common stock issuable upon conversion of the notes at the initial conversion rate.

The sum of the listed principal amount of notes beneficially owned by selling securityholders may exceed \$250,000,000 because certain of the selling securityholders may have transferred notes pursuant to Rule 144A or otherwise reduced their position prior to selling pursuant to this prospectus, and as a result we have received beneficial ownership information from additional selling securityholders. The maximum principal amount of notes that may be sold under this prospectus will not exceed \$250,000,000.

- (27) Archeus Capital Management, LLC is the Investment Manager for The Animi Master Fund, Ltd., the selling securityholder. Accordingly, Archeus Capital Management, LLC has voting and dispositive power of the securities held by The Animi Master Fund, Ltd. Peter Hirsch is a Managing Member of Archeus Capital Management, LLC and its Chief Investment Officer on behalf of The Animi Master Fund, Ltd.

None of the selling securityholders who are affiliates of broker-dealers purchased the securities outside of the ordinary course of business or, at the time of the purchase of the securities, had any agreements or understandings, directly or indirectly, with any person to distribute the securities.

PLAN OF DISTRIBUTION

We will not receive any of the proceeds of the sale of the notes and the underlying common stock offered by this prospectus. The notes and the underlying common stock may be sold from time to time to purchasers:

directly by the selling securityholders; or

through underwriters, broker-dealers or agents who may receive compensation in the form of discounts, concessions or commissions from the selling securityholders or the purchasers of the notes and the underlying common stock.

The selling securityholders and any such broker-dealers or agents who participate in the distribution of the notes and the underlying common stock may be deemed to be underwriters within the meaning of the Securities Act. As a result, any profits on the sale of the underlying common stock by selling securityholders and any discounts, commissions or concessions received by any such broker-dealers or agents might be deemed to be underwriting discounts and commissions under the Securities Act. If the selling securityholders are deemed to be underwriters, the selling securityholders may be subject to certain statutory liabilities as underwriters under the Securities Act and the Exchange Act.

If the notes and the underlying common stock are sold through underwriters or broker-dealers, the selling securityholders will be responsible for underwriting discounts or commissions or agent's commissions.

The notes and the underlying common stock may be sold in one or more transactions at:

fixed prices;

prevailing market prices at the time of sale;

varying prices determined at the time of sale; or

negotiated prices.

These sales may be effected in transactions:

on any national securities exchange or quotation service on which the notes and underlying common stock may be listed or quoted at the time of the sale, including the Nasdaq National Market in the case of the common stock;

in the over-the-counter market;

in transactions otherwise than on such exchanges or services or in the over-the-counter market; or

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through the writing of options.

These transactions may include block transactions or crosses. Crosses are transactions in which the same broker acts as an agent on both sides of the trade.

In connection with the sales of the notes and the underlying common stock or otherwise, the selling securityholders may enter into hedging transactions with broker-dealers. These broker-dealers may in turn engage in short sales of the notes and the underlying common stock in the course of hedging their positions. The selling securityholders may also sell the notes and the underlying common stock short and deliver notes and the underlying common stock to close out short positions, or loan or pledge notes and the underlying common stock to broker-dealers that in turn may sell the notes and the underlying common stock.

To our knowledge, there are currently no plans, arrangements or understandings between any selling securityholders and any underwriter, broker-dealer or agent regarding the sale of the notes and the underlying common stock by the selling securityholders. We cannot assure you that any selling securityholder will sell any or all of the notes or the underlying common stock offered by them pursuant to this prospectus. Any notes or

underlying common stock covered by this prospectus that qualify for sale pursuant to Rule 144 or Rule 144A of the Securities Act may be sold under Rule 144 or Rule 144A rather than pursuant to this prospectus. In addition, we cannot assure you that any selling securityholder will not transfer, devise or gift the notes and the underlying common stock by other means not described in this prospectus.

Our common stock trades on the Nasdaq National Market under the symbol `INCY`. We do not intend to apply for listing of the notes on any securities exchange or for quotation through the Nasdaq National Market. Accordingly, no assurance can be given as to the development of liquidity or any trading market for the notes.

The selling securityholders and any other person participating in such distribution will be subject to the Exchange Act. The Exchange Act rules include, without limitation, Regulation M, which may limit the timing of purchases and sales of any of the notes and the underlying common stock by the selling securityholders and any such other person. In addition, Regulation M of the Exchange Act may restrict the ability of any person engaged in the distribution of the notes and the underlying common stock being distributed for a period of up to five business days prior to the commencement of such distribution. This may affect the marketability of the notes and the underlying common stock and the ability of any person or entity to engage in market-making activities with respect to the notes and the underlying common stock.

Any selling securityholder that is a registered broker-dealer is an underwriter within the meaning of Section 2(11) of the Securities Act with respect to the notes and the underlying common stock. To our knowledge, CIBC World Markets, Credit Suisse First Boston LLC, Goldman, Sachs & Co., Deutsche Bank Securities and Piper Jaffray & Co. are the only selling securityholders that are registered broker-dealers. Other than the performance of investment banking, advisory and other commercial services for us in the ordinary course of business, we do not have a material relationship with any of these broker-dealers, and none of these entities has the right to designate or nominate a member or members of our board of directors. These security holders purchased their notes in the open market, not directly from us, and we are not aware of any underwriting plan or agreement, underwriters or dealers compensation, or passive market making or stabilizing transactions involving the purchase or distribution of these securities by these securityholders.

Pursuant to the registration rights agreement that has been incorporated by reference as an exhibit to the registration statement of which this prospectus is part, we and the selling securityholders will each indemnify the other against specified liabilities, including liabilities under the Securities Act, or will be entitled to contribution in connection with these liabilities.

We have agreed to pay substantially all of the expenses incidental to the registration, offering and sale of the notes and the underlying common stock to the public other than commissions, fees and discounts of underwriters, brokers, dealers and agents.

LEGAL MATTERS

The validity of notes and common stock offered by this prospectus are being passed upon for us by Pillsbury Winthrop LLP.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, have audited our consolidated financial statements and schedule included in our Annual Report on Form 10-K for the year ended December 31, 2003, as set forth in their report thereon included therein and incorporated herein by reference. Our consolidated financial statements and schedule are incorporated by reference in reliance on Ernst & Young LLP's report,

given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements, and other information with the Securities and Exchange Commission. You may read and copy any materials we file with the Commission at the Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the Commission at 1-800-SEC-0330 for more information on its public reference room. The Commission also maintains an Internet website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the Commission.

We have filed with the Commission a registration statement that contains this prospectus on Form S-3 under the Securities Act of 1933. The registration statement relates to the notes and the common stock issuable on conversion of the notes offered by the selling securityholders. This prospectus does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. Please refer to the registration statement and its exhibits and schedules for further information with respect to the Company, the notes and the common stock. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete and, in each instance, we refer you to the copy of that contract or document filed as an exhibit to the registration statement. You may read and obtain a copy of the registration statement and its exhibits and schedules from the Commission, as described in the preceding paragraph.

DOCUMENTS INCORPORATED BY REFERENCE

The Commission allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and later information that we file with the Commission will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the Commission under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 between the date of the initial filing of the post-effective amendment to the registration statement of which this prospectus is a part and the effectiveness of the post-effective amendment, as well as between the date of this prospectus and the time this offering is completed. The documents we incorporate by reference are:

Our Annual Report on Form 10-K for the year ended December 31, 2003.

Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004.

Our current reports on Form 8-K filed with the Commission on February 2, February 12, February 13, March 8, and November 2, 2004.

The description of our common stock contained in our registration statement on Form 8-A filed under the Exchange Act on January 5, 1996.

The description of our Series A Participating Preferred Stock Purchase Rights contained in the registration statement on Form 8-A filed under the Exchange Act on September 30, 1998.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address and number:

Investor Relations

Incyte Corporation

Experimental Station

Route 141 & Henry Clay Road

Building E336

Wilmington, DE 19880

(302) 498-6700

PART II**INFORMATION NOT REQUIRED IN PROSPECTUS****Item 14. Other Expenses of Issuance and Distribution**

The following table sets forth the various expenses payable by the registrant in connection with the sale and distribution of the securities being registered hereby. Normal commission expenses and brokerage fees are payable individually by the selling securityholders. All amounts are estimated except the SEC registration fee.

	Amount
SEC registration fee	\$ 31,675
Printing and engraving costs	5,000
Accounting fees and expenses	25,000
Legal fees and expenses	50,000
Trustee and Transfer Agent fees and expenses	20,000
Miscellaneous	1,000
Total	\$ 132,675

Item 15. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law provides for the indemnification of officers, directors, and other corporate agents in terms sufficiently broad to indemnify such persons under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act. Article VII of the Registrant's Integrated Certificate of Incorporation, as amended (Exhibit 3(i)(a) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 and Article V of the Registrant's Bylaws (Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004) provide for indemnification of the Registrant's directors, officers, employees and other agents to the extent and under the circumstances permitted by the Delaware General Corporation Law. The Registrant has also entered into agreements with its directors and officers that will require the Registrant, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors or officers to the fullest extent not prohibited by law.

Item 16. Exhibits

Exhibit Number	Description of Document
4.1*	Indenture, dated as of February 19, 2004, between the registrant and U.S. Bank N.A., including the form of Note.
4.2*	Registration Rights Agreement, dated as of February 19, 2004, among the registrant and Morgan Stanley & Co. Incorporated, Piper Jaffray & Co. and SunTrust Capital Markets, Inc.

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- 5.1* Opinion of Pillsbury Winthrop LLP.
- 12.1* Computation of Ratios of Earnings to Fixed Charges.
- 23.1 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
- 23.3* Consent of Pillsbury Winthrop LLP (included in its opinion filed as Exhibit 5.1 to this Registration Statement).
- 24.1* Power of Attorney (see page II-3).
- 25.1* Statement of Eligibility under the Trust Indenture Act of 1939 of a Corporation Designated to Act as a Trustee on Form T-1.

* Filed previously

Item 17. Undertakings

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to the registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (i) and (ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act that is incorporated by reference in the registration statement shall be deemed to be a new registration

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statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3, and has duly caused this Post-Effective Amendment to Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Wilmington, State of Delaware, on November 3, 2004.

INCYTE CORPORATION

By /s/ DAVID C. HASTINGS

David C. Hastings
Executive Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Post-Effective Amendment to Registration Statement on Form S-3 has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
* <hr/>	President, Chief Executive Officer (Principal Executive Officer) and Director	November 3, 2004
Paul A. Friedman		
/s/ DAVID C. HASTINGS <hr/>	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	November 3, 2004
David C. Hastings		
* <hr/>	Vice President, Corporate Controller and Treasurer (Principal Accounting Officer)	November 3, 2004
Scott W. Hurley		
* <hr/>	Director	November 3, 2004
Barry M. Ariko		
* <hr/>	Director	November 3, 2004
Julian C. Baker		

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
*	Director	November 3, 2004
<hr/>		
Paul A. Brooke		
*	Director	November 3, 2004
<hr/>		
Frederick B. Craves		
*	Chairman	November 3, 2004
<hr/>		
Richard U. De Schutter		
*	Director	November 3, 2004
<hr/>		
Roy A. Whitfield		

*By /s/ DAVID C. HASTINGS
David C. Hastings

As Attorney-in-Fact

EXHIBIT INDEX
Exhibit

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25.1*	Statement of Eligibility under the Trust Indenture Act of 1939 of a Corporation Designated to Act as a Trustee on Form T-1.

* Filed previously

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loud applications until equivalent technology is either developed by us or, if available, identified. Furthermore, our cooperation with partners in the area of cloud includes the co-location of data centers that might expose SAP to additional risks in the area of security and data protection, as well as the potential for breached service-level agreements by partners.

We have administrative, technical, and physical security measures in place as well as contracts that require third-party data centers to have appropriate security and data protection and privacy measures in place. In this context, customers might demand to use only specific and/or local data centers. However, if these security measures are breached as a result of third-party action, employee error or malfeasance, or otherwise, and if, as a result, someone obtains unauthorized access to our customers' data, which may include personally identifiable information regarding users, our reputation could be damaged, our business may suffer, local data protection and privacy laws or regulations might be breached, and we could incur significant liability.

In addition, our insurance coverage might not cover claims against us for loss or security breach of data or other indirect or consequential damages. Moreover, 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 cloud applications, our reputation could be harmed and we could lose customers.

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 believe that we will increasingly be subject to intellectual property infringement claims as our solution portfolio grows; as we acquire companies with increased use of third-party code including open source code; as we expand into new industries with our offerings, resulting in greater overlap in the functional scope of offerings; 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, which could have an adverse effect on our business, financial profile, profit, cash flows, and reputation. 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.

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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 one of our products or third-party (not SAP) software upon which we depend.

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Claims and lawsuits against us could have an adverse effect 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 and could have an adverse effect on our reputation, business, financial position, profit, and cash flows.

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, which are the basis for our accounting for these litigations and claims under IFRS.

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

To expand our business, we acquire businesses, products, and technologies, and we expect to continue to make acquisitions in the future. Over time certain of these acquisitions have increased in size and in strategic importance for SAP. Management negotiation of potential acquisitions and alliances and integration of acquired businesses, products, or 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:

- Selection of the wrong integration model for the acquired company and/or technology
- Failure to properly evaluate the acquired business and its different business and licensing models
- Failure to successfully integrate acquired technologies or solutions into SAP's solution portfolio and strategy in a timely and profitable manner
- 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
- 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
- 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 acquisition due diligence process
- Legal and regulatory constraints (such as contract obligations, privacy frameworks, and agreements)
- 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
- An adverse effect on relationships with existing customers, partners, or third-party providers of technology or products
- Difficulties in integrating the acquired company's accounting, HR, 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
- Constraints in enforcing acquired companies' compliance with existing SAP security standards in a timely manner
- Difficulties in customer implementation projects combining technologies and solutions from both SAP and the acquired company

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 an adverse effect on our business, financial position, profit, and cash flows. 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 non-disclosure 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

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misappropriation by employees, partners, or other third parties. 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 an adverse effect on our competitive and financial positions, 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 an adverse 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. This could have an adverse effect on our reputation, business, financial position, profit, and cash flows.

SAP's business strategy focuses on certain business models that are highly dependent on a working cyberspace. A cybersecurity breach could have an adverse effect on our customers, our reputation, and our business.

The key cybersecurity risks currently applicable to us include state-driven economic espionage as well as competitor-driven industrial espionage, and criminal activities including, but not limited to, cyberattacks and mega breaches against cloud services and hosted on-premise software. This might result in, for example, disclosure of confidential information and intellectual property, defective products, production downtimes, supply shortages, and compromised data (including personal data). A failure of our cybersecurity measures could impact our compliance with legal demands (for example, Sarbanes-Oxley Act, Payment Card Industry Data Security Standard, data privacy) and expose our business operations as well as service delivery to the described risks, for example, virtual attack, disruption, damage, and/or unauthorized access. Additionally, we 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, which could have an adverse effect on our reputation, business, financial position, profit, and cash flows.

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

SAP is highly dependent on the exchange of a wide range of information across our global operations and on the availability of our infrastructure. With regards to our physical environment, we face several key security risks such as industrial and/or economic espionage, serious

and organized crime, and other illegal activities, as well as violent extremism and terrorism. We might be endangered by threats including, but not limited to, 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. These could have an adverse effect on our business, financial profile, profit, and cash flows.

Our insurance coverage might not be sufficient and we might be subject to uninsured losses.

We maintain insurance coverage to protect us against a broad range 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 may be beyond the limits, or outside the scope, of coverage of our 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, which could have an adverse effect on our business, financial position, profit, and cash flows. 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.

Through Sapphire Ventures (formerly SAP Ventures), our consolidated venture investment funds, we plan to continue investing in new and promising technology businesses. Many such investments initially generate net losses and require additional expenditures from their investors. Changes to planned business operations have, in the past affected, and may in the future affect, the performance of companies in which Sapphire Ventures holds investments, and that could have an adverse effect on the value of our investments in Sapphire Ventures, which could have an adverse effect on our business, financial position, profit, and cash flows. Furthermore, tax deductibility of capital losses and impairment in connection with equity securities are often restricted and could therefore have an adverse effect on our effective tax rate.

ITEM 4. INFORMATION ABOUT SAP

Our legal corporate name is SAP SE. SAP SE is translated in English to SAP European Company (Societas Europaea, or SE). SAP SE is organized in the Federal Republic of Germany under German and European law, see Item 10. Additional Information. Where the context requires in the discussion below, SAP SE also refers to our predecessor or previous legal forms and names, as

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the case may be, i.e. Systemanalyse und Programmentwicklung GbR (1972-1976), SAP Systeme, Anwendungen, Produkte in der Datenverarbeitung GmbH (1976-1988), SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung (1988-2005) and SAP AG (2005-2014). 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 2015 we integrated certain subsidiaries into the following significant SAP subsidiaries: SAP (UK) Limited, SAP France S.A., SAP America Inc., SuccessFactors, Inc., SAP Japan Co. Ltd., SAP Australia Pty Limited and SAP Nederland B.V.

For (i) a description of our principal capital expenditures and divestitures and the amount invested (including interests in other companies) since January 1, 2013 until the date of this report 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.

OVERVIEW OF THE SAP GROUP

Founded in 1972, SAP today is the global leader in business application and analytics software in terms of market share and the market leader in digital commerce. Further, SAP is the enterprise cloud company with the greatest number of users and the fastest-growing major database company. Our continued growth over more than four decades is attributable to relentless innovation, a diverse portfolio, our ability to anticipate everchanging customer requirements, and a broad ecosystem of partners. With approximately 300,000 customers in over 180 countries, the SAP Group includes subsidiaries in all major countries and employs approximately 77,000 people.

SAP is headquartered in Walldorf, Germany; our legal corporate name is SAP SE. Our ordinary shares are listed on the Frankfurt Stock Exchange, the Berlin Stock Exchange and the Stuttgart Stock Exchange. The principal trading market for the ordinary shares is Xetra, the electronic dealing platform of Deutsche Börse AG. American Depositary Receipts (ADRs) representing SAP SE ordinary shares are listed on the New York Stock Exchange (NYSE), and currently each ADR represents one ordinary share. As at December 31, 2015, our market capitalization was 90.1 billion on the DAX and US\$97.2 billion on the NYSE. SAP is a member of Germany's DAX, the Dow Jones EURO STOXX 50, and the Dow Jones Sustainability Index.

Our company culture puts our customers' success at the center of everything we do. With our vision to help the world run better and improve people's lives, and with Run Simple as our operating principle, we focus on helping our customers master complexity, and innovate and transform to become a sustainable digital business.

We derive our revenue from fees charged to our customers for the use of our cloud solutions, for licensing of on-premise software products and solutions, and transaction fees for activity on our business networks. Additional sources of revenue are support, professional services, development, training, and other services.

As at December 31, 2015, SAP SE directly or indirectly controlled a worldwide group of 255 subsidiaries in more than 180 countries to distribute our products, solutions, and services. Distributorship agreements are in place with independent resellers in many countries.

Our subsidiaries perform tasks such as sales and marketing, consulting, research and development, cloud delivery, customer support, training, or administration. For a list of subsidiaries, associates, and other equity investments, see the Notes to the Consolidated Financial Statements section, Note (33).

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The following table illustrates our most significant subsidiaries based on total revenues as of December 31, 2015. All subsidiaries are wholly owned by SAP SE.

Name of Subsidiary	Country of Incorporation
Germany	
SAP Deutschland SE & Co. KG, Walldorf	Germany
Rest of EMEA	
SAP (UK) Limited, Feltham	Great Britain
SAP (Schweiz) AG, Biel	Switzerland
SAP France, Levallois Perret	France
SAP Nederland B.V., s-Hertogenbosch	The Netherlands
SAP Italia Sistemi Applicazioni Prodotti in Data Processing S.p.A., Vimercate	Italy
United States	
SAP America, Inc., Newtown Square	USA
SAP Industries, Inc., Newtown Square	USA
SuccessFactors, Inc., South San Francisco	USA
Ariba, Inc., Palo Alto	USA
Concur Technologies, Inc., Bellevue	USA
Rest of Americas	
SAP Brasil Ltda, São Paulo	Brazil
Japan	
SAP Japan Co., Ltd., Tokyo	Japan
Rest of APJ	
SAP Australia Pty Ltd., Sydney	Australia
SAP (Beijing) Software System Co. Ltd., Beijing	China

STRATEGY AND BUSINESS MODEL

Helping our Customers Reimagine their Businesses

The world is experiencing unprecedented change that is transforming both our use of technology and society more broadly. People are connected in ways like never before. Entire industries have been disrupted by innovations that have brought the once unimaginable within reach. Technology trends such as hyperconnectivity, cloud computing, and Big Data go hand-in-hand with social and business trends that are changing how we live and work. Rapid urbanization, the sharing economy, enormous demographic change, and resource scarcity are demanding that leaders of tomorrow adapt to a world in which the pace of change continues to accelerate.

To remain competitive and create a sustainable competitive advantage businesses today must become

sustainable digital businesses. In fact, experts across industries know that in the new digital economy, only the most adaptive businesses will prevail. SAP provides what is needed to become a digital business. Our enduring vision is to help the world run better and improve people’s lives. Our vision is not just relevant in this time of change and disruption it is essential.

Complexity has become a problem of staggering proportions and stands in the way of digital transformation and innovation. It is what keeps companies from turning the trends of our time from the explosion of data to a rapidly growing middle class into business opportunities. Becoming a digital business means that companies must first cut through this complexity, as simplicity is a prerequisite for innovation. Companies must make their digital strategy a core part of their business strategy.

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We enable organizations to tackle complexity by unlocking their ability to Run Simple. This principle guides everything we do and powers our customers transformation into digital businesses. We offer what is required to support this transformation – our deep experience as a leader in enterprise software for more than 40 years; our solutions and services; and our global reach, which includes a base of approximately 300,000 customers across 25 distinct industries; and an ecosystem of thousands of partners.

Our digital approach is built on two critical elements – our SAP Cloud portfolio and the SAP HANA platform. And our strategy to become THE cloud company powered by SAP HANA refers not just to our own transformation but that of our customers – and their customers.

SAP Cloud powered by SAP HANA simplifies consumption and the user experience, while SAP HANA simplifies the IT landscape. SAP HANA enables business processes and analytics to run on the same platform, something that was simply not conceivable even five years ago.

With the release of SAP S/4HANA in 2015, our next-generation business suite, we have brought a new level of performance and simplicity to core business processes. And SAP HANA Cloud Platform is facilitating the development of a much broader and richer landscape of applications to support our customers’ needs.

With these capabilities, SAP partners with companies on every aspect of their digital transformation, helping them run better and improving people’s lives. As they become digital businesses, our customers are becoming more sustainable organizations by improving how they serve their customers, engaging and developing their workforce, increasing transparency of their suppliers

social performance, using resources more efficiently, and interacting with local communities. Our global business networks expand the world that our customers operate in, connecting them with a vast ecosystem of partners that creates more efficient, powerful, and simpler ways of managing such key functions as procurement, travel, and workforce management.

Furthermore, we connect all of these realms to core business processes, such as finance and logistics, for a seamless and simplified customer experience. And we provide deep industry expertise to help our customers design an IT strategy that best supports their business strategy. While each of these capabilities would bring value on its own, together they set us apart – we are unique in our ability to guide customers on all essential elements of their digital transformation, enabling them to reimagine their business and then realize their vision for the future.

SAP has big ambitions. We measure our success across both financial and non-financial indicators: revenue growth, profitability, customer loyalty, and employee engagement. And we are creating value for our customers by helping them to navigate a changed world so that they can find business opportunities across social, environmental, and economic dimensions.

With our broad portfolio of solutions, we are convinced that we can position our customers for greater success in the digital world. SAP can help our customers better serve their customers with the sophisticated experiences they have come to expect; reach new markets as the world’s cities expand; find new customers as millions of people join the modern economy; and innovate in the face of resource scarcity and ever changing technologies. Most of all, we can help them understand and capitalize on the ways that technology and societal trends intersect, so that – along with SAP – they can not only become better organizations, but also help create a better world.

Creating Societal Impact by Enabling our Customers to Innovate

As a software company that serves many of the world’s leading organizations, we have enormous opportunity to impact people and society by helping our customers innovate, run more efficiently, improve their IT security, and offer new products and services. For example, when major manufacturers gain greater transparency into their energy usage and create more efficient supply chains, they create a more positive impact on society while minimizing impact on environment. When banks offer mobile banking services to people who lack opportunities, they address inequality and promote economic growth. When healthcare companies utilize data in new and faster ways, they help patients gain access to potentially life-saving treatments.

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In addition, at SAP and within our ecosystem, we support job creation and economic prosperity through demand for highly qualified workers to develop, sell, implement, and enhance our software for our customers. As our customers grow their own businesses, they also create opportunities for others through new products and services as well as economic growth.

At the heart of realizing these possibilities is our ability to help our customers cut through complexity and direct their resources to the work that matters most: new innovations that help the world run better and improve people's lives. We work to create long-term value by addressing future needs as well as current ones, with the goal of helping to transform how people use software, conduct business, and live their lives.

To achieve our vision, SAP provides solutions and services to customers throughout the world based on our deep expertise in business processes across industries. As leader of the enterprise software market, we must continually adapt to new technology and business trends. For this reason, we rely on the people of SAP to drive our success—their intellectual and social capital provide us with key knowledge, expertise, and business relationships. Along with the financial capital of our investors, an engaged, highly skilled, and agile workforce is at the core of our business model.

Our organization must be as adaptable as our employees—and in recent years, we have made important shifts to our sales model to accommodate enormous changes in how companies use technology. In the past, our approach was focused on charging a one-time, upfront fee for a perpetual license to our software that is typically installed at the customer site. In addition, the customer usually concludes a support contract covering support, services, and software updates. As we have seen customer preferences evolve, we are increasingly delivering our solutions in the cloud through a software-as-a-service (SaaS) model. Depending on the solution, the customer pays either usage-based or periodic fees to use our software, which is hosted in the cloud, and accesses it over the Internet. Further, we receive transaction fees from business conducted over our business networks.

Despite these shifts, we still rely on the strengths of our direct sales organizations to drive most business development. As a global company, we set our sales go-to-market strategies at the global level, with our regional subsidiaries then adapting and executing them. Our customer-facing employees, in close collaboration with sales support and marketing, drive demand, build pipeline, and enhance relationships with customers. Our marketing efforts cover large enterprises as well as small and midsize enterprises, with our broad portfolio of

solutions and services addressing the needs of customers of all sizes across industries. Additional e-commerce and digitally native offerings further enable a low-touch or no-touch customer journey.

Our business model aligns with and supports our business strategy and puts us in a strong position to drive future growth. By helping organizations transform into digital businesses, we see enormous potential to increase our share of their overall IT spend while providing them with greater value. As our technology unlocks simplicity for our customers, they, in turn, bring new advances to their customers in areas that directly impact people's lives.

Our Goals for Sustained Business Success

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

Growth: SAP uses various revenue metrics to measure growth. We expect full-year 2016 non-IFRS cloud subscriptions and support revenue to be in a range of 2.95 billion to 3.05 billion at constant currencies (2015: 2.30 billion). Further, we expect full-year 2016 non-IFRS cloud and software revenue to increase by 6% to 8% at constant currencies (2015: 17.23 billion). Looking beyond 2016, we have raised our 2017 ambition to reflect the current currency exchange rate environment and excellent business momentum. Assuming a stable exchange rate environment going forward, SAP now expects non-IFRS cloud subscriptions and support revenue in a range of 3.8 billion to 4.0 billion in 2017. By 2017, SAP continues to expect its rapidly growing cloud subscriptions and support revenue to be close to software license revenue and is expected to exceed software license revenue in 2018. Non-IFRS total revenue is expected to reach 23.0 billion to 23.5 billion in 2017. Our high-level 2020 ambitions remain unchanged, with 2020 non-IFRS cloud subscriptions and support revenue expected to reach 7.5 billion to 8.0 billion and total revenue is expected to be in a range of 26 billion to 28 billion.

Profitability: SAP expects full-year 2016 non-IFRS operating profit to be in a range of 6.4 billion to 6.7 billion at constant currencies (2015: 6.35 billion). We expect non-IFRS operating profit to be in a range of 6.7 billion to 7.0 billion in 2017 and to be in a range of 8.0 billion to 9.0 billion in 2020.

Customer loyalty: SAP uses the Customer Net Promoter Score (NPS) as a key performance indicator (KPI) to measure customer loyalty. We aim to

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achieve a Customer NPS score of 25% in 2016 (2015: 22.4%). Due to changes in sampling, resulting from ongoing efforts to implement the survey process holistically in recently acquired entities, the 2015 score is not fully comparable with the prior year score.

Employee engagement: We use the employee engagement index to measure motivation and loyalty of our employees, how proud they are of our company, and how strongly they identify with SAP. We remain committed to achieving 82% employee engagement score in 2016 (2015: 81%).

These four corporate objectives affirm our commitment to innovation and sustainability, and help us deliver on our vision.

In addition to primary KPIs, which directly measure our performance on our four goals, we manage a number of secondary performance indicators, which influence the primary KPIs in a variety of ways.

Our main objectives are presented with more detail throughout the report. For more information on our strategic goals, see the Performance Management System section; Expected Developments section; Customers section; and Employees section.

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 2015, 2014, and 2013 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 software revenues, our on-premise support revenues and cloud subscriptions and support revenues are less subject to seasonality.

PRODUCTS, RESEARCH & DEVELOPMENT, AND SERVICES

Unlocking the Potential of Digital Transformation

For leading companies, the question is no longer whether they need to become a digital business, but how. The role of software has moved beyond enabling the realization of business strategy to becoming an intrinsic part of that strategy. In an increasingly complex landscape with the amount of stored data doubling every 18 months, speed, innovation, and agility are the new differentiators. It is not just about doing yesterday's work faster. Companies in every industry must take a unified approach to managing every aspect of their business, and they need solutions whose innovation matches their own ambitions to grow and win in the market.

In 2015, we unveiled one of the most important products in our history: SAP S/4HANA, our next-generation business suite, designed to provide the digital core our customers need to run their entire business in the new digital world. We expect SAP S/4HANA to drive our business for years to come, enabling companies to integrate their core business processes with running their key operations, from their supply chain to their workforce. With SAP S/4HANA, we provide companies a full business platform to reimagine their businesses and achieve the creation of their own next-generation products and services so critical in the digital economy.

SAP S/4HANA creates unique opportunities to simplify the IT landscape, helps reduce total cost of ownership with SAP HANA, and provides a simple and role-based user experience. Enterprises can now reduce their data footprint and work with larger data sets in one system to save hardware costs, operational costs, and time as well as reduce complexity.

After launching in February 2015, over 2,700 customers have chosen SAP S/4HANA, with approximately 100 customers live at the end of 2015.

Driving Simplicity and Innovation through SAP HANA and SAP HANA Cloud Platform

SAP HANA remains at the center of our strategy to help our customers transform their businesses. The SAP HANA platform combines database, data processing, integration, and application platform capabilities in-memory. By providing advanced capabilities such as predictive analytics on the same architecture, it further simplifies application development and processing across Big Data sources and structures.

The SAP HANA Vora engine adds a new dimension to these capabilities, allowing our customers to combine their business data with Big Data managed on Hadoop compute clusters. It simplifies ownership of Big Data and supports faster, interactive, and more precise decision making.

In addition to expanding our own portfolio, we are enabling others to develop a much broader landscape of applications through SAP HANA Cloud Platform, our strategic platform-as-a-service offering. Providing both ease and flexibility, this cloud platform allows our customers and partners to build, extend, run, and sell applications and services in the cloud. It includes infrastructure, data, and storage, as well as a toolbox of platform and application extension services. SAP HANA Cloud Platform also enables connectivity between SAP solutions, including on-premise software such as SAP Business Suite as well as software-as-a-service offerings such as SAP SuccessFactors solutions.

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Building on our experience, we are developing a suite of SAP solutions for the Internet of Things (IoT). The functionalities of our SAP HANA Cloud Platform IoT services help accelerate development and deployment, as well as improve the ability to manage real-time IoT and machine-to-machine applications. To support the development of these new innovations, we continue to leverage our customer co-innovation framework, which helps us address the evolving digitization needs of our customers.

The road to becoming a digital business is unique to every organization. Our portfolio supports our customers wherever they are on their journey. We want to offer the broadest integration in the industry, with customers seamlessly connecting SAP and third-party software across a range of environments to reduce IT complexity. At the same time, our user experience provides both elegance and ease-of-use across multiple devices and interfaces. Customers also have the benefits of efficiency and flexibility through a variety of deployment models.

Launching SAP S/4HANA

SAP S/4HANA represents a huge step forward in simplifying how applications are built, consumed, and deployed. It provides real-time, mission-critical industry-specific business processes across organizations and lines of business. As a basis, enterprises can now support end-to-end operations across key business functions through a fully digitized enterprise management solution named SAP S/4HANA Enterprise Management.

A prime example of our innovations is SAP S/4HANA Finance, a comprehensive solution for the office of the CFO. This solution brings enhanced functionality to a range of key areas from financial planning and analysis to collaborative finance operations. It also provides our customers with seamless flexibility, with deployment either on premise or in the cloud.

Beyond SAP S/4HANA Finance, the on-premise edition of SAP S/4HANA drives business value in other areas such as materials management as well as sales and distribution, among others, taking full advantage of a simplified data model and a responsive user experience.

Innovating for Industries and Lines of Business

As the market leader in enterprise application software, we offer end-to-end solutions specific to 25 industries and 12 lines of business, localized by country and for companies of any size.

Industries

Industry Sector	Industry Portfolio
Consumer	SAP for Consumer Products SAP for Life Sciences SAP for Retail
Discrete manufacturing	SAP for Wholesale Distribution SAP for Aerospace & Defense SAP for Automotive SAP for High Tech
Energy and natural resources	SAP for Industrial Machinery & Components SAP for Chemicals SAP for Mill Products SAP for Mining SAP for Oil & Gas SAP for Utilities
Financial services	SAP for Banking SAP for Insurance
Public services	SAP for Defense & Security SAP for Healthcare
Services	SAP for Higher Education & Research SAP for Public Sector SAP for Engineering, Construction & Operations SAP for Media SAP for Professional Services SAP for Sports & Entertainment SAP for Telecommunications SAP for Travel & Transportation

Lines of Business

Asset Management

Commerce
Finance
Human Resources
Manufacturing
Marketing
R&D/Engineering

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Sales
Service
Sourcing and Procurement
Supply Chain
Sustainability

In addition, we are building other functional innovations that serve each line of business. For example:

Human capital management (HCM): Our HCM solutions, including SAP SuccessFactors solutions, help organizations increase the value of their total workforce by developing, managing, engaging, and empowering their people. These solutions address the full range of HR needs, from hiring the right people and managing contingent workers to simplifying the way people work. We focus on delivering a simple and intuitive user experience through mobile device or desktop.

Customer engagement and commerce (CEC): Our CEC solutions comprise SAP and SAP Hybris software that serve the commerce, marketing, sales, and service lines of business, enabling business-to-business and business-to-consumer companies to provide real-time, consistent, contextual, and relevant experiences to their customers. Regardless of channel or device, these solutions deliver personalized engagement based on context and proven industry expertise and therefore go beyond traditional customer relationship management, which no longer meets the needs of today's consumer-driven market.

Providing users with Freedom, Flexibility, and Elegant Design

We believe digital transformation must include a focus on the user experience, as expectations by our customers and their customers have risen enormously in recent years. For many, mobile has become the technology of choice, providing simple, always-on access to information, processes, and services. To that end, key mobile services such as app creation and management, security, and extensibility are available as part of SAP HANA Cloud Platform, giving our customers simple access to the technologies that support new business models.

Providing an elegant, intuitive user experience, SAP Fiori has evolved since its introduction in 2013 into the new user experience (UX) for SAP software. It reflects a broader shift in software design that puts as much focus on how people actually use technology as on specific features and functions. SAP Fiori offers innovative new features such as improved contextual interaction and action-oriented personal notifications. The updated design delivers improvements while staying consistent with our original UX principles of being role-based, responsive, simple, coherent, and delightful.

We were awarded the prestigious Red Dot Award for the SAP Fiori UX design concept in the Interaction Category in September 2015.

Delivering Greater Value through the Power of Business Networks

In today's hyperconnected business landscape, how companies interact with the outside world is undergoing profound change. At SAP, we are helping to lead this transformation through our business networks, which are helping drive innovation in key areas that impact an organization's core operations. Our business network strategy is to bring the world's vast network of partners, suppliers, and services to best-in-class solutions that fulfill the needs of specific lines of business—all within a few clicks. Moving far beyond basic automation, our network solutions are enabling new processes and outcomes for customers. They are also part of a new wave of solutions that are more consumer-friendly and business-ready than in the past.

We recognize that business applications today must deliver an effortless user experience while ensuring that information and data flow back into the business and across networks in a secure way. These applications serve to maintain compliance while enabling choice. They are designed for a more digital, highly mobile, and interconnected world, and help drive greater value for employees, organizations, and the vast networks of partners and individuals they rely on.

Today, our business network portfolio includes SAP Ariba, Concur, and SAP Fieldglass solutions. Each is a leading provider of cloud applications, services, and cloud networks through open platforms that connect internal business processes to a global ecosystem of partners.

The Ariba Network is a leading marketplace used by approximately two million companies to discover, connect, and collaborate over US\$740 billion in commerce every year. The network connects companies across the full commerce process—from sourcing through payment settlement. It also provides insights and technology to help companies improve their operations and to connect and collaborate in new ways that are only possible in a networked environment.

Concur Travel & Expense is the world's leading travel and expense management system, with more than 32 million users. The Concur system goes beyond the basic automation of expense reports and provides visibility and insights that support better decision making for employee travel and spend, helping businesses to focus on what matters most.

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SAP Fieldglass solutions simplify the process of procuring and managing external workforce services. They provide visibility into service providers and non-employee workers and help improve compliance and cost control. As a centralized, single point of access to engage with more than 1.9 million external workers in approximately 130 countries, SAP Fieldglass solutions connect consultancies, staffing firms, independent contractors, and other service providers, so business users can procure services from anywhere in the world with just a few clicks. As an open platform, SAP Fieldglass also connects to financial, HR, payroll, and procurement systems.

Each of these three cloud network companies has made connecting to partners, suppliers, and services through an open platform a core part of their architecture and approach. Ultimately, we aim to go further, connecting all the world's networks. We are working to create platforms for networks and services that will further transform the business landscape with the purpose of creating new outcomes, services and experiences that make businesses run more simply and with greater opportunities for innovation.

Providing Real-Time, Advanced Analytics to Drive Better Decision Making

The speed of the digital economy demands that companies make informed decisions faster than ever before, as data can become obsolete in a matter of seconds. SAP HANA has vastly increased the efficiency with which our customers can use analytics to drive decision making. With transactions and analytics combined into a single in-memory platform, our customers can access a single source of truth for real-time planning, execution, reporting, analysis, and predictive modeling on very large volumes of data.

In 2015, we further simplified our offering with the introduction of the SAP Cloud for Analytics solution, a software as a service that aims to bring all analytics capabilities together for a richer user experience.

Based on SAP Cloud for Analytics, we also launched SAP Digital Boardroom, a multifaceted solution that offers executive decision makers new ease and elegance in accessing company data in real time, and the ability to engage in what-if queries and create visualizations. Designed to provide far greater transparency to board members, executives, and other decision makers, fully automated business intelligence capabilities in the solution not only improve the quality and speed of reporting, but also facilitate greater trust through more effective collaboration and decision making.

Whether in the cloud, on premise, or a combination of the two, our analytics solutions enable our customers to access immediate, actionable intelligence. Even as data

volumes grow exponentially, companies can simplify their business processes and gain insights to better manage every aspect of their organization from integrated planning to risk and compliance.

Among other features, key analytics solutions from SAP support:

- Trusted data discovery and agile visualization** to bring reliable data to life in real time through intuitive visualizations

- Advanced analytics** to combine the power of predictive processing with intuitive modeling and advanced data visualization

- Corporate performance management** to set and track measurable performance objectives through planning, budgeting, forecasting, and financial consolidation tools

Research and Development

With businesses shifting at an ever-accelerating pace towards digitalization and the cloud, leading our customers through change is more important than ever before. We do this every day by empowering our employees and collaborating with our customers to develop world-class software and next-generation solutions. SAP further strengthened our global research and development (R&D) efforts in 2015 by investing in our SAP Labs network and the new SAP Innovation Center Network.

Nearly all of our software products are developed at our 15 SAP Labs locations in 13 countries across the globe. This global reach means that we have access to leading talent worldwide; in addition, we can collaborate with top universities throughout the world and have access to major technology hubs as well as diverse and vibrant startup communities. By understanding trends in different regions, as well as the specific needs of our customers that operate there, SAP has a major strategic advantage in developing products and services for the future.

In addition to our SAP Labs, we also expanded from two SAP Innovation Center locations to an SAP Innovation Center Network of 10 locations across four continents. This network is a dedicated unit within our development organization that is responsible for identifying new markets for SAP and pioneering game-changing solutions using transformational technologies. Through the SAP Innovation Center Network, we can closely collaborate with customers, partners, and academia to explore trends such as machine learning and block chain, among others.

We have identified several key markets and opportunities that hold significant revenue potential and allow us to apply our unique capabilities. Currently, areas include future enterprise applications, personalized medicine,

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and smart cities. We are tackling a range of challenges facing these areas, from designing the future of business software to developing new approaches to treating cancer and helping decrease traffic congestion.

Our revitalized research organization has become an applied research entity with its main focus on machine learning for enterprise applications, personalized medicine, in-memory data management, and security. Our new research approach focuses sharply on potential business impact while collaborating with the best research institutions worldwide for selected topics.

Our innovation stems from many places, and we draw on the ideas of our customers, partners, startups, academia, and, most importantly, our own employees. Our overarching goal is to foster organic innovation and support the transformation of great ideas into profitable business. In support of this vision, we established a Company-wide intrapreneurship program that enables employees to develop their ideas in an internal incubator at SAP.

In addition to our employees, our customers provide us with unique insights about their business models and digitization challenges. We also work with customers on co-innovation and custom development projects. Our partners and their solutions enhance these efforts in a range of ways, such as at our SAP Co-Innovation Lab locations, which support engagements ranging from strategic alliances to key proofs of concept.

R&D Investment

SAP's strong commitment to R&D is reflected in our expenditures: In 2015, we increased our R&D expense (IFRS) by 515 million, to 2,845 million (2014: 2,331 million). We spent 13.7% of total revenue on R&D in 2015 (2014: 13.3%). Our non-IFRS R&D expense as a portion of total operating expenses declined slightly from 18.5% to 18.3% year-over-year.

At the end of 2015, our total full-time equivalent (FTE) count in development work was 20,938 (2014: 18,908). Measured in FTEs, our R&D headcount was 27% of total headcount (2014: 25%). Total R&D expense not only includes 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.

Research and Development (IFRS)

Patents

As a market 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 business solutions and services. Our investment in R&D has resulted in numerous patents. As at December 31, 2015, SAP holds a total of more than 7,224 validated patents worldwide. Of these, 893 were granted and validated in 2015.

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

Guiding our Customers through Every Step of their Digital Transformation

In addition to creating new solutions for the digital era, we recognize that we must partner with our customers to help them make the most of these innovations based on their unique needs and goals. Through our worldwide service and support, we guide companies at every stage of their digital transformation. We focus on creating and delivering strategies for our customers' digital journey, accelerating innovation, driving simplification of business and IT, and ensuring that expected business value is realized and continuously optimized.

In 2015, we radically simplified how we engage with our customers and deliver services, greatly harmonizing our portfolio. Under the new SAP ONE Service approach, we also introduced a new commercial model providing one service portfolio, out of one global organization, and under one contract.

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We see enormous potential for our customers to simplify their own businesses and seize new opportunities through SAP HANA, with SAP S/4HANA as their new digital core. For this reason, adoption of these innovations is a key pillar in our service and support strategy. To ensure the expected customer outcomes, we offer high-value services tailored to the various customer scenarios supporting the adoption of SAP S/4HANA:

System conversion: Customers changing their current SAP system to SAP S/4HANA

Landscape transformation: Customers consolidating their landscape or carving out selected entities or processes into a system running SAP S/4HANA

New implementation: Customers migrating from a third-party legacy system or installation of SAP S/4HANA for a new customer

In mid-2015, we also introduced SAP Activate, an innovation adoption framework to further support the fast and effective implementation of SAP S/4HANA. Offering a unique combination of SAP Best Practices and guided configuration, the new methodology provides ready-to-run digitized business processes optimized for SAP S/4HANA. It allows customers to flexibly choose the approach for their business needs, from a new implementation to an integration to a migration scenario.

As they continue on their path to digitization, we work with large enterprise customers to forge a co-engineering and co-innovation relationship, so that they can influence and shape existing SAP solutions while gaining early access to product innovation. We help define future software solution standards together with our customers in comprehensive engagements and serve as a trusted advisor during delivery of innovative solutions for the future.

ACQUISITIONS

Focusing on Organic Growth and Targeting Fill-in Technology through Acquisitions

As SAP prepares itself for the new digital economy, we may make acquisitions that advance our strategic goals. In 2015, SAP acquired Multiposting, a French cloud-computing company with more than 80 employees that provides software for the automatic posting of jobs and internships on the Internet. Multiposting is based in Paris and is a European leader in job posting solutions. With this acquisition, SAP plans to offer customers the best end-to-end cloud recruiting suite on the market, including the ability to efficiently post jobs to a global network of thousands of channels. The Multiposting solution will be available as part of the existing recruiting offering in our human capital management portfolio as well as in all its current forms – as a stand-alone product, as a Web service, and through import.

Organic growth is the primary driver of our growth strategy. We will invest in our own product development and technology innovation, improving the speed, number of projects, and innovations brought to market. We may also acquire targeted and fill-in technology and software to add to our broad solution offerings and improve coverage in key strategic markets. By doing so, we strive to best support our customers' needs for simplified operations. We do not anticipate significant acquisitions in 2016 or 2017.

For more information about our acquisitions, see the Notes to the Consolidated Financial Statements section, Note (4).

Investing in the Next Generation of Technology Leaders through Venture Activities

Through investments in venture capital funds managed by Sapphire Ventures (formerly called SAP Ventures), which comprises our consolidated investments in venture funds, SAP supports investments in entrepreneurs worldwide that aspire to build industry-leading businesses. Over the past 19 years, Sapphire Ventures has invested in more than 130 companies on five continents. Some of these companies have been acquired by third parties or have become publicly listed companies.

Sapphire Ventures aims to invest in the next generation of global category technology leaders as well as early-stage venture capital funds in enterprise and consumer technology. Specifically, Sapphire Ventures pursues opportunities in which it can help fuel growth by adding expertise, relationships, geographic reach, and capital. It invests globally with a particular focus on emerging companies and early stage funds in Europe, Israel, and the United States, as well as in Brazil, China, and India.

SAP's total commitment to Sapphire Ventures is US\$1.4 billion for use over the lifetime of its respective funds. Investments through the funds are currently ongoing.

For more information about our consolidated investment funds, see the Notes to the Consolidated Financial Statements section, Note (33).

PARTNER ECOSYSTEM

Working together to extend SAP's Reach in the Marketplace

SAP proudly works with a network of more than 13,000 partners worldwide that helps companies of all sizes tackle complexity, grow their business, and Run Simple. SAP partners extend our reach in the marketplace and accelerate our Company's growth, reaching thousands of new companies and millions of users each

year. Our partner community plays an

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important role in our success, delivering expertise through pioneering solutions to provide our mutual customers tools to succeed in the developing digital and services-based economy.

Partners add tremendous value to both SAP and customers. They sell our software and cloud services, develop complementary software and solutions, and provide a broad portfolio of implementation and professional services that support customers across all geographies and industries.

Last year we saw outstanding growth in SAP's partnerships. For example, partners were responsible for nearly 90% of new SAP software customers. SAP Business One, one of our core ERP solutions for small and midsize enterprises (SMEs) and sold exclusively through partners, reached its 50,000th customer. Nearly 55% of all SAP S/4HANA software license deals were won by partners and our cloud revenue through partners reported triple-digit growth. Together with our strategic technology and service partners, we created a number of powerful and compelling joint solutions and services that help customers transform and run their businesses simpler.

In the past year, SAP made several transformational moves designed to increase our joint success in the market, including:

SAP SME Solutions: More than 80% of SAP customers are small and midsize enterprises (SMEs), and we support the majority through our partner networks and other channels. To boost our reach, we introduced this SME-specific portfolio marketing approach and a Run Simple advertising and demand generation campaign around our core ERP solutions for SMEs: SAP Business All-in-One, SAP Business ByDesign, and SAP Business One. As growing businesses transform in the digital economy, SAP has equipped partners with these and other tools, solutions, and programs they need to drive more demand in this important market.

SAP Anywhere debut: Late in 2015, we launched SAP Anywhere, a revolutionary cloud solution that allows small businesses to connect with customers anytime, anywhere on any device. It is now available in China and is expected to be introduced in the United Kingdom and the United States in 2016. SAP Anywhere represents a new opportunity for partners. With our commitment to SAP Anywhere, Everywhere, our partners can resell a complete cloud-based solution that manages marketing, sales, and e-commerce activities in one complete front-office system using real-time analytics.

SAP PartnerEdge program enhancements: To build stronger relationships and increased business opportunities, SAP introduced the next generation of its flagship partner program in 2015. Among the improvements, we reduced the number of partner engagement options from more than 30 to just four Run, Build, Service, and Sell making it easier for partners to engage with SAP. We streamlined processes and relaunched the SAP PartnerEdge Web site to give partners easier access to resources and real-time visibility into their SAP business.

While reselling, implementation, and services are a large part of our ecosystem's effort, SAP partner innovation on our technology platforms is also essential to market penetration. Partners develop their own applications and solutions called SAP Solution Extensions, which can then be sold to customers and other partners. These partner-developed solutions are tested, validated, approved, and supported by SAP.

In addition, the SAP PartnerEdge program for Application Development, which grew to more than 1,100 active members in 2015, encourages partners to build complementary solutions on top of our technology platforms and quickly monetize those solutions through SAP e-commerce channels.

Partners also embed SAP technology within their offerings under an original equipment manufacturer (OEM) licensing agreement, giving customers SAP software functionality backed by partner industry knowledge and expertise.

2015 was a seminal year for our partner managed cloud business, where our partner recruitment and enablement success has expanded the number of customers benefiting from the flexibility, rapid time to value, and pay-as-you-go economics of a managed cloud with enterprise-class SAP solutions.

SAP will continue to drive business growth through partners in 2016, continuing to identify and recruit key partners and develop the innovative programs and initiatives that fuel our mutual success.

CUSTOMERS

Helping Customers Run Simple

When SAP customers Run Simple, it improves their ability ultimately to become best-run businesses that create more sustainable business models which, in turn, help us ensure our own long-term viability. That is why we strive to provide more than just software and services; we continually engage with our customers at every stage not only during the sales and implementation phases, but also through the sharing of best practices and innovations.

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One example of this strategy is our Customer Engagement Initiative. This program offers customers early insight into certain aspects of our planned innovations, so they can influence new developments. In addition, it offers customers the opportunity to network on topics of mutual interest. These networking opportunities take place at a variety of global events, including the SAPPHIRE NOW, SAP Select, SAP Forum, and SAP TechEd conferences, as well as virtual events.

Customer Focus Reflected in Customer Net Promoter Score

Customer loyalty is one of our four Company-wide strategic objectives, along with growth, profitability, and employee engagement. In 2015, our combined on-premise and cloud Customer NPS is 22.4% (2014: 19.1%). Due to changes in sampling, resulting from ongoing efforts to implement the survey process holistically in recently acquired entities, the 2015 score is not fully comparable with the prior year's score.

Our goal continues to be to best support our customers' success and the success of SAP. For example, we are expanding on the insights provided by our surveys through root cause analysis to gain a better understanding of customer problems, why they happened, and what needs to be done to prevent those problems from happening again.

Our combined on-premise and cloud NPS target for 2016 is 25%, 2.6 percentage points above our 2015 achievement.

For more information about the Customer NPS, see the Performance Management System section.

Strong Customer Demand

Our strategy focuses on offering solutions and services to help customers Run Simple today and tomorrow. To do so, we offer a spectrum, from complete suites to applications that are lean, focused, quick to implement, and highly mobile. In 2015, we saw customers embrace this strategy by licensing or subscribing to the full range of SAP software, from comprehensive solutions for large enterprises to the latest mobile apps.

Some examples by region include the following customers:

North America and Latin America (Americas) Region

Adobe, a multinational computer software company, has chosen the SAP Hybris Billing solution as its monetization and billing platform to support a new SaaS business model. Adobe seeks to support fast subscription-revenue growth on a flexible and scalable platform, while significantly reducing time to launch innovative and flexible offers and promotions.

American Airlines, the world's largest airline, has selected several SAP SuccessFactors solutions, as well as the SAP HANA Enterprise Cloud service and SAP HANA Cloud Platform. The company's goal is to enhance service to its employees and reduce operating costs while remaining focused on its core business.

Eastman Kodak, a technology company focused on imaging, selected the SAP S/4HANA suite to help reduce total cost of IT ownership. In addition, Kodak plans to establish an IT infrastructure to position its organization for future growth and innovation.

Hewlett Packard Enterprise Company (HPE) has committed to and invested in implementing one of the largest installations of the SAP S/4HANA Finance solution for their internal foundational platform to support its digital transformation. With SAP S/4HANA, HPE aims to be better able to take advantage of real-time access to operational and financial data with the goal of improving the speed of decision making and operating more efficiently; reducing the time for financial close; and delivering actionable intelligence throughout its business. The aim is to ensure HPE becomes more competitive in the marketplace.

Stara, a leader in agricultural machinery headquartered in Brazil, selected SAP HANA Cloud Portal, as well as SAP Cloud for Customer, SAP SuccessFactors Employee Central, and SAP SuccessFactors Talent Management solutions. Stara expects to simplify its business processes while improving sales efficiency through greater control of critical company information.

Asia Pacific Japan (APJ) Region

Boryung Pharmaceutical, one of the leading pharmaceutical manufacturers in South Korea, selected SAP S/4HANA Finance for its simple user experience, simple business solution, simple data model, and shorter go-live time.

La Trobe University in Australia went live with SAP S/4HANA Finance. As one of the first organizations globally to adopt SAP S/4HANA Finance, La Trobe University aims to benefit from instant insight across financial and operational processes to drive value through planning, analysis, prediction and simulation. They have a term for it; they call it Brilliant Basics.

Lenovo Group, a multinational computer technology company, is expanding its HANA footprint by moving data from all systems to the SAP HANA platform.

PetroChina, China's largest oil producer, has implemented SAP Business Warehouse powered by SAP HANA and SAP BusinessObjects Business Intelligence solutions. Since the system went live in late July, HR reporting performance is three to ten times faster than before, which has empowered HR director-level management to make strategic decisions based on Big Data analysis.

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St Barbara, an Australian-based, ASX-listed gold producer and explorer, selected the SAP SuccessFactors Performance & Goals solution. The solution has enabled St Barbara to replace its paper-based performance management process with a cloud-based solution that also supports its offshore locations.

Europe, Middle East, and Africa (EMEA) Region

ArcelorMittal, the world’s leading steel and mining company, selected SAP S/4HANA to streamline business processes, improve productivity, and decrease costs. The company seeks to enhance its position by serving an increasingly strong innovation agenda around the world.

Bosch Group, a leading global supplier of technology and services, has chosen SAP S/4HANA to rebuild its IT infrastructure, seeking a simplified and harmonized landscape that helps them offer connected services to customers.

City Football Group (CFG) is the owner of a number of soccer-related businesses including Manchester City Football Club and New York City Football Club. CFG and its clubs will implement a wide variety of cloud-based solutions powered by SAP HANA with the aim of simplifying their worldwide operations, scaling their business, increasing productivity, and enhancing the fan experience.

E.ON Group has chosen the limited runtime edition of SAP HANA; SAP Mobile Platform; and SAP SuccessFactors HCM Suite. The company, which is splitting into two entities, seeks to streamline its system landscape, replace homegrown software, and reduce its on-premise footprint.

Hydro, a global aluminium company based in Norway, selected SAP S/4HANA to replatform and renew its IT system landscape. With the suite, Hydro expects to have access to real time information, thereby running at optimal efficiency and safety, which are key elements of its strategic vision.

Helping Customers Invest

To help companies invest in SAP solutions and associated services and hardware, SAP Payment services offers customers payment plans. SAP Payment services can help preserve liquidity, provide an alternative to credit from customers’ existing banking relationships, and balance their budgetary priorities, while giving them the flexibility to choose their preferred solution.

ENVIRONMENTAL PERFORMANCE: ENERGY AND EMISSIONS

In 2015, we made significant progress toward our goals for the reduction of greenhouse gas emissions, taking advantage of the digitalization and green technology trends that are driving transformational changes across the global economy. These trends can have a significant

impact on energy consumption and greenhouse gas emissions. We are applying these trends to our own business and helping our customers apply them to their businesses. For example, by enabling business model transformation, using advances such as smart grids and the Internet of Things, SAP is helping connected digital business networks reduce overall carbon footprints.

Strengthening our Green Cloud

We see that energy consumption in data centers is closely related to innovation and customer adoption of our solutions. As we accelerate our shift to the cloud, we have tied our business strategy to our environmental strategy by creating a completely green cloud at SAP, referring to carbon neutrality, by purchasing 100% renewable electricity certificates and compensation by CO₂ offsets. In assessing our environmental impact, we focus on energy usage throughout SAP, as well as greenhouse gas emissions across our value chain.

Reducing Greenhouse Gas Emissions

Our goal is to reduce the net greenhouse gas (GHG) emissions from our operations to levels of the year 2000 by 2020. This target includes all direct and indirect emissions from running our business (GHG Protocol Scopes 1 and 2), as well as a selected subset of other indirect (Scope 3) emissions. We do not include all of our Scope 3 emissions in our target because we choose to focus on those emissions over which we have direct control or ability to influence. However, we are increasingly addressing both our upstream and downstream emissions to support a comprehensive carbon strategy for SAP.

Specifically, we are working to reduce our emissions through three primary approaches: increasing our operational efficiency combined with innovative approaches to the way we do things; purchasing high-quality renewable electricity certificates; and investing in high-quality carbon credits.

In addition to our long-term commitment for 2020, we have derived annual targets for our internal operational steering. Despite integrating new acquisitions in 2015, our total net emissions decreased to 455 kilotons CO₂ (2014: 500 kilotons). This decrease stems primarily from a reduction of business flights and compensation with carbon emission offsets. We are effectively compensating the emissions from those customer systems that have moved into our green cloud. Given the large size of our customers’ CO₂ footprints and our growth strategy in the cloud, we see significant potential to reduce both our own and our customers environmental impact.

Since the beginning of 2008, our focus on carbon emissions has generated a cumulative cost avoidance of

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346 million, compared to a business-as-usual scenario. This leads to an avoidance of 124 million in the past three years, with 39.8 million avoided in 2015 alone.

Investing in Environmental Innovations

We are pursuing new strategies to contend with the ongoing tension between growth in our business and our goal to reduce our emissions. One such approach is the introduction of carbon emission offsets for business flights in 2015. In addition to avoiding and reducing overall business flights, we began, in the second half of 2015, to offset selected business flights in the United States, as this is the country with the greatest number of business flights. This offset effort resulted in a compensation of 35 kilotons of CO₂.

SAP continues to invest in technology that enables virtual collaboration, supporting our efforts to reduce the need for employees to travel. In addition to our TelePresence and video conferencing platforms, new collaboration rooms based on the Skype for Business communications platform bring new features that enable teamwork across borders and time zones. More than 100 collaboration rooms have been installed throughout SAP with more planned for 2016. Because more employees adopt video chat as their preferred method of communication, more than 1,200 meeting spaces have been equipped with 360-degree cameras giving remote participants a more interactive experience. Skype for Business also enables each employee to video chat from their computer.

To further decrease car-related emissions, we plan to increase the portion of electric vehicles (or alternatives) in our company car fleet from the current 1% to 20% by 2020. At the end of 2015, we have 57 charging stations and 55 pure electric vehicles in our company car fleet at our headquarters in Walldorf, and approximately 300 e-cars globally. Our company car initiatives address a dilemma that has grown in recent years. As a result of our business expansion, the number of SAP employees eligible for a company car has increased annually. We want to ensure that we do not undo our efficiency gains with our growing car fleet.

In keeping with our existing policy for office buildings and data centers, all our electric company cars charged at SAP are powered with 100% renewable sources. In Germany, for example, we provide employees with an incentive to switch to electric alternatives by offering a battery subsidy that offsets the costs of using an electric vehicle. We believe that our electric car initiative will play a critical role in helping achieve our 2020 carbon reduction goal.

In 2015, emissions caused by SAP products in use at the sites of more than 300,000 customers were almost

15 times larger than SAP's own footprint, meaning these products caused approximately 6,800 kilotons of CO₂. By using 100% renewable electricity, we dramatically broaden our sustainability efforts and align them with our cloud strategy, reducing the carbon emissions of our cloud solutions to zero.

We continued to realize the benefits of our investment in the Livelihoods Fund, a unique investment fund whose returns consist of high-quality carbon credits. Several years ago, we made a commitment to investing 3 million covering a 20-year participation in the fund, which supports the sustainability of agricultural and rural communities worldwide. Projects of this fund focus on ecosystem restoration, agriculture, agroforestry, and rural energy. In eastern India, for example, the fund helped communities plant fruit trees to diversify food sources and address the overcultivation of soil. Instead of a charitable donation, we have made a long-term investment that brings benefits to society, the environment, and SAP. In 2015, we received carbon credits from the fund, which helped us to offset our carbon footprint by 23 kilotons.

Another important program in 2015 was the further implementation of ISO 14001 in SAP locations throughout the world. This well-accepted environmental management system is now in place at 32 of our locations worldwide, including our North America headquarters in Newtown Square, Pennsylvania, as well as in Palo Alto, San Francisco, Sunnyvale, and Dublin, California, both in the United States; and other countries including Austria, Canada, Czech Republic, France, Germany, Israel, Italy, and South Africa. New sites in Singapore and Switzerland, as well as Rio de Janeiro and São Paulo in Brazil, were certified in 2015. To act more quickly and achieve consistency, we created a template to roll out in other sites, enabling us to efficiently build a large global network where different sites interact and share best practices. Our goal is to continually increase the number of certified locations; we aim for total full-time equivalent (FTE) coverage of 70% by 2018. By end of 2015, SAP had an environmental management system (ISO 14001) in place in 15 countries and 32 single sites. This represents a total FTE coverage of 22.2%.

Measuring our Total Energy Consumed

Because our energy usage drives emissions, one of the most important measures for us is total energy consumed. This includes all energy that SAP generates or purchases to run our facilities, data centers, company cars, and corporate jets. Our total energy consumption increased to 965 gigawatt hours (GWh) in 2015, compared to 920 GWh in 2014.

This increase is due to growth in our workforce and business. In addition, as software usage shifts to the

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cloud, we are operating more of our customers' systems in our data centers, as well as other locations where we supplement our servers. This additional cloud operation, along with accompanying servers and facilities, consumes more energy. At the same time, we believe this shift has the opposite effect for our customers that are now able to simplify their technology and save energy through our shared infrastructure. This reduces overall IT-related energy consumption through our highly energy-efficient cloud provisioning.

Optimizing Efficiency in our Data Centers

Data centers are at the heart of how SAP provides solutions to our customers and represents a significant part of our total greenhouse gas emissions. At the same time, with our energy consumption rising as more of our business moves to the cloud, data centers have become a primary focus of our carbon reduction efforts and the adoption of our technology innovations and solutions towards our customers. We continue to drive efficiency and innovation around buildings, data center operations, and infrastructure. For example, in one of our largest data centers in St. Leon-Rot, Germany, we received an energy efficiency certificate from TÜV Rheinland, a leading provider of technical, safety, and certification services, with an efficiency score of 98.7%. One hundred percent of our energy usage that provides internal and external computation power comes from renewable sources. Our total data center electricity consumption at both our internal and external sites increased from 179 in 2014 to 249 GWh in 2015. In recognition of the exemplary actions SAP has taken to improve our data centers, we were awarded the European Datacentre Sustainability Award in 2015.

Reinforcing our Renewable Electricity Strategy

Our commitment to 100% renewable electricity in all of our internal and external data centers and facilities is one of the most significant steps toward making our operations more sustainable. In 2015, we mainly focused on wind and, to a lesser extent, on biomass. While we produce a small amount of renewable electricity through solar panels in some locations, we rely primarily on the purchase of renewable electricity certificates (RECs) to increase the renewable electricity in our energy mix. We procure RECs regionally that add value and drive change in the electricity market, adopting high-quality standards in our procurement guidelines that are aligned with two non-governmental organizations (NGOs). For example, we consider renewable electricity from biomass only if it is disconnected from coal or other fossil power plants and if the biomass itself is not related to deforestation. In addition, we require that power plants must be no more than 10 years old, as we aim to foster new innovation in the production of renewable electricity. Furthermore, SAP is not considering RECs from power plants that are currently supported by governments. As a vintage

requirement, we define that renewable electricity must be produced in the same year or the year before the reporting period will be applied.

In 2015, SAP joined the green initiative RE100 and is now one of the global corporations that have signed on to the RE100 initiative. RE100 is led by The Climate Group in partnership with CDP (formerly Carbon Disclosure Project) and the goal of the campaign is to have 100 of the world's most influential businesses committed to 100% renewable electricity.

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 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 patent cross-license agreements with several third parties.

We are named as a defendant or plaintiff 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 70 countries worldwide, we occupy roughly 1,615,000 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.

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The office and datacenter space we occupy includes approximately 305,000 square meters in the EMEA region, excluding Germany, approximately 410,000 square meters in the region North and Latin America, and approximately 350,000 square meters in the APJ Region.

With the acquisition of Concur in 2014, we added approximately 50,000 square meters to our real estate portfolio. This portfolio is included in the group portfolio disclosed above.

The space is being utilized for various corporate functions including research and development, our data centers, 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 2015, we continued with various construction projects and started new construction activities in several locations. The expansion of our data centers is again an important aspect of our investments planned for 2016. We aim to extend our office space to be able to cover future growth. We plan to cover all of these projects in full from operating cash flow. Our most important projects are:

In Bangalore, India, we want to add additional capacity of roughly 2,500 employees. We estimate the total cost to be approximately \$50 million, of which we had paid approximately \$7 million as at December 31, 2015. We expect to complete the construction of this office building in 2017.

In Ra'anana, Israel, we continued with the construction of a new building. We estimate the total cost of this project to be approximately \$60 million, of which we had paid approximately \$25 million as at December 31, 2015. We expect to complete the construction of this office building in 2016.

In our research center in Potsdam, Germany, we started a third construction phase to realize additional capacity for approximately 150 employees. With the extension of our research center, we aim to create the general conditions for further teams contributing innovations to SAP products in miscellaneous fields. We estimate the total cost to be approximately \$16 million, of which we had paid approximately \$11 million as at December 31, 2015. We expect to complete the construction of this office building in 2016.

In New York, New York, in the United States, we continued executing the leasehold improvements for our new office space. The project includes the consolidation of our New York City offices for approximately 450 employees. We estimate the total capital expenditures for this project to be approximately \$34 million, of which we had paid approximately \$3.5 million as at December 31, 2015. We expect to complete the leasehold improvements in 2016.

In Dubai, United Arab Emirates, we continued with our office consolidation project including an expansion of office space adding additional capacity for 100 employees. We estimate the total cost to be approximately \$11 million, of which we had paid approximately \$0.9 million as at December 31, 2015. We expect to complete the leasehold improvements in 2016.

In Walldorf, Germany, we started construction on a new office building for about 700 employees. We estimate the total cost to be approximately \$71 million, of which we had paid approximately \$0.5 million as of December 31, 2015. We expect to complete the construction in 2018.

In Walldorf, Germany, we also started construction on a new data center as well as a new power station. We estimate the total cost to be approximately \$58 million, of which we had paid approximately \$0.7 million as at December 31, 2015. We expect to complete the construction for both projects in 2017.

In Prague, Czech Republic, we started the expansion of an office building and began an office move. We estimate the total capital expenditures for this project to be approximately \$19 million. We expect to complete the project in 2016.

In Colorado Springs, Colorado, in the United States, we started construction on a new data center in 2015. We estimate the total cost of this project to be approximately \$75 million. We expect to complete the construction of this data center in 2017.

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In San Ramon, California, in the United States, we began an office move. We estimate the total cost of this move to be approximately 22 million. We expect to complete this project in 2017.

In Shanghai, China, we started an expansion of our office building. We estimate the total cost to be approximately 15 million, of which we had paid approximately 2 million as at December 31, 2015. We expect to complete the construction in 2016.

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 580 million in 2015 (2014: 666 million; 2013: 553 million). Principal capital expenditures in 2015 for property, plant, and equipment decreased compared to 2014 mainly due to lower replacement investments in hardware. Furthermore, compared to 2014, SAP did not have material acquisitions in 2015, resulting in fewer additions. The increase from 2013 to 2014 was due to the acquisition of Concur, the replacement and purchase of computer hardware and vehicles acquired in the normal course of business and investments in data centers. Principal capital expenditures for property, plant and equipment for the period from January 1, 2016 to the date of this report were 97 million.

Our capital expenditures for intangible assets such as acquired technologies and customer relationships amounted to 70 million in 2015 compared to 1,954 million in 2014 (2013: 419 million). Capital expenditures for intangible assets decreased from 2014 to 2015 because we only executed one small acquisition in 2015, while the increase from 2013 to 2014 was due to the acquisitions of Concur and Fieldglass in 2014. Our investments allocated to goodwill decreased to 27 million in 2015 from 6,072 million in 2014 (2013: 842 million). The decrease from 2014 to 2015 in the additions to goodwill was primarily attributable to executing only one small acquisition in 2015 compared to 2014 when we acquired Concur and Fieldglass. These 2014 acquisitions also caused the significant increase from 2013 to 2014 as we executed only a few small acquisitions in 2013. 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 conducts business, 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 (IFRS) of this report.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

OVERVIEW

For information on our principal sources of revenue and how the different types of revenue are classified in our income statement refer to Note (3b) to our Consolidated Financial Statements, section Revenue Recognition.

See Item 4. Information about SAP Products, Research & Development, 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 2015;
- our outlook for 2015 compared to our actual performance (non-IFRS);
- a discussion of our operating results for 2015 compared to 2014 and for 2014 compared to 2013;
- the factors that we believe will impact our performance in 2016; and
- our operational targets for 2016 (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.

ECONOMY AND THE MARKET

Global Economic Trends

In its most recent report, the European Central Bank (ECB) concludes that the global economy grew gradually and unevenly in 2015. The ECB finds that low oil prices, favorable financing conditions, and improving labor markets helped advanced economies perform better than in previous years. However, growth in emerging markets and developing economies remained relatively weak, according to the ECB. It cites tight global financing conditions and declining commodity prices as the causes.

For the Europe, Middle East, and Africa (EMEA) region, the ECB reports contrasting developments. According to its calculations, the gross domestic product of the euro area grew 1.5% in 2015. It finds that this recovery was mainly due to increasing domestic demand. The economies of Central and Eastern European countries were robust, according to the ECB, while Russia was in significant recession.

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The economic performance of the countries in the Americas region was also uneven. According to the ECB, the United States economy firmed in 2015, and weakened slightly only in the third quarter. However, a number of countries in Latin America slipped into recession; notably Brazil, where the downturn was mainly due to political uncertainty.

In the Asia Pacific Japan (APJ) region, Japan's economy struggled to gain momentum in 2015, the ECB notes. However, the ECB also points to a slight recovery in the third quarter and signs of growth at the end of the year. China refocused its economy in 2015, easing its monetary policy and introducing a new exchange rate regime in the summer, the ECB reports. This increased political uncertainty and economic growth slowed. The ECB writes that business-friendly reforms in India boosted investment and, after a temporary decline in the second quarter, led to an increase in economic growth from mid-year onwards.

The IT Market

Growth in the global IT market slowed from the second quarter of 2015, U.S. market research firm International Data Corporation (IDC) reports. It attributes this development to the contracting PC market, the encroachment on traditional IT business by cloud services, and weak economic performance in countries such as Brazil, China, and Russia. IDC lowered its forecast for IT market growth in 2015, and at the end of the year it expected the global IT market to have grown 4.9% year over year – still ahead of the economy as a whole.

However, according to IDC, IT spending did not grow evenly across the segments. It pointed to strong growth in cloud, mobile, and Big Data, with service providers increasing investment in server and data storage hardware. IDC reports that smartphone market expansion, which had been rapid in the previous year, slowed significantly in 2015 due to saturation. In 2015, the rate of smartphone market growth was closer to that of the IT market as a whole. Even the tablet market was unable to make up for this loss of momentum, IDC notes.

By contrast, worldwide spending on business software increased significantly, at 6.8% in 2015, according to IDC. The share of investment in cloud, mobile, and Big Data solutions continued to increase. However, according to IDC, this had an adverse effect on services, which grew only 2.8%.

IDC reports that IT spending in the Europe, Middle East, and Africa region (EMEA) increased 1.5% in 2015, and by as much as 5% in Western Europe due to the economic recovery there. In Germany, the IT market grew even more strongly at over 6%. In Russia, though, low oil

prices, depreciation of the ruble, and economic sanctions had a significant negative impact, IDC reports. It expects the Russian IT market declined 15% in 2015.

In the Americas region, the IT market grew 4.6% according to IDC. In its view, the U.S. market remained largely stable. It grew 3% overall, somewhat less than in the previous year, mainly due to the weakening market for smartphones and tablets. Software, on the other hand, grew strongly at 7% in the United States, according to IDC. In Brazil, IT investment increased 11% in 2015, though this increase has to be seen in the context of high inflation. IDC put growth in the Mexican IT market at almost 13%.

In the Asia Pacific Japan (APJ) region, IDC reports that the IT market there grew almost 6% in 2015. The IT markets in individual countries performed very differently. In Japan, IT spending remained constant year over year. In China, growth in the IT market slowed to 8% (2014: 12%). In India, however, in 2015 IT spending grew very strongly at 11%, according to IDC.

Impact on SAP

Once again, growth in the overall global economy and in the IT industry was relatively slow in a volatile market environment in 2015. This confronted SAP with considerable challenges. But our tremendous 2015 results validate our strategy of innovating across the core, the cloud, and business networks to help our customers become true digital enterprises. We once again succeeded in significantly expanding our business and outperformed the overall global economy and IT industry in all regions in 2015 with regards to revenue growth.

Our non-IFRS cloud and software revenue increased 12% at constant currencies in 2015. Both our core business and our cloud business contributed substantially to the increase. Our core business grew with non-IFRS software and support revenue increasing 6% at constant currencies. This was driven by a 4% year-over-year increase in our non-IFRS software revenue at constant currencies, while our resilient constant currency non-IFRS support revenue grew 7%. Support revenue is a robust feature of our core business model because a maintenance contract generally continues for as long as the customer uses the software. Our cloud business growth was strong as well. Non-IFRS cloud subscriptions and support revenue grew 82% over the year at constant currencies.

For more details about our regional performance, see the Revenue by Region section below.

In 2015, we again demonstrated that we are consistently pursuing our strategy for innovation and growth – and that globally we are able to generate growth that few other IT companies can match.

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Our 2015 operating profit-related internal management goals and published outlook were based on our non-IFRS financial measures. For this reason, in the next section we discuss performance against our outlook only in terms of non-IFRS numbers derived from IFRS measures. The subsequent section about IFRS operating results discusses numbers only in terms of the International Financial Reporting Standards (IFRSs). So the numbers in that section are not expressly identified as IFRS numbers.

We acquired Concur Technologies in December 2014, so Concur results are incorporated in our 2014 results only for December. We acquired Fieldglass in May 2014, so Fieldglass results are incorporated in our 2014 results only from May to December. Similarly, because we acquired hybris in August 2013, hybris results are incorporated in our 2013 results only from August to December.

Guidance for 2015 (Non-IFRS)

At the beginning of 2015, we projected, based on the strong momentum in our cloud business, that our non-IFRS cloud subscriptions and support revenue would end between 1.95 billion and 2.05 billion at constant currencies (2014: 1.10 billion). The upper end of this range represents a growth rate of 86% at constant currencies. The acquired companies Concur and Fieldglass were expected to contribute approximately 50 percentage points to this growth. SAP expected full-year 2015 non-IFRS cloud and software revenue to increase by 8% to 10% at constant currencies (2014: 14.33 billion). We also expected our full-year operating profit (non-IFRS) for 2015 to end between 5.6 billion and 5.9 billion (2014: 5.64 billion) at constant currencies. We anticipated an effective tax rate (IFRS) of between 25.0% and 26.0% (2014: 24.7%) and an effective tax rate (non-IFRS) of between 26.5% and 27.5% (2014: 26.1%).

To assist in understanding our 2015 performance as compared to our 2015 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	Recurring Revenue not Recorded Under IFRS	Acquisition-Related Charges	Share-Based Payments	Restructuring	Non-IFRS Financial Measure	Currency Effect on the Non-IFRS Financial Measure	Non-IFRS Financial Measure at Constant Currency
Cloud subscriptions and support	2,286	10	NA	NA	NA	2,296	297	1,999
Software licenses and support	14,928	2	NA	NA	NA	14,930	933	13,997
Cloud and software	17,214	11	NA	NA	NA	17,226	1,230	15,996
Total revenue ⁽¹⁾	20,793	11	NA	NA	NA	20,805	1,505	19,299
Operating profit ⁽¹⁾	4,252	11	738	724	621	6,348	443	5,904
Operating margin (in %)	20.5	0	3.5	3.5	3.0	30.5	0.1	30.6

(1) 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 is included in this table for the convenience of the reader.

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We achieved or exceeded the amended outlook guidance for revenue and operating profit we published at the beginning of the year.

Comparison of Forecast and Results for 2015

	Forecast for 2015	Results for 2015
Cloud subscriptions and support revenue (non-IFRS, at constant currencies)	1.95 billion to 2.05 billion	2.00 billion
Cloud and software revenue (non-IFRS, at constant currencies)	+8% to +10%	+12%
Operating profit (non-IFRS, at constant currencies)	5.6 billion to 5.9 billion	5.90 billion
Effective tax rate (IFRS)	25.0% to 26.0%	23.4%
Effective tax rate (non-IFRS)	26.5% to 27.5%	26.1%

Despite ongoing economic uncertainty throughout 2015, our new and existing customers continued to show a strong willingness to invest in our solutions.

At constant currencies, non-IFRS cloud subscriptions and support revenue grew from 1.1 billion in 2014 to 2.0 billion in 2015. That represents an increase of 82% at constant currencies. The increase includes effects relating to acquisitions not included, or not included in full, in the 2014 amount. Besides these positive acquisition effects our cloud line of business also continued to benefit from strong organic growth (32% at constant currencies), which surpassed our long-term growth expectations for 2015.

Starting with the reporting for the first quarter of 2015, SAP reports a new cloud related measure called new cloud bookings. This measure is an order entry measure that is determined by including all order entry of a given period that meets all of the following conditions:

The revenue from the orders is expected to be classified as cloud subscriptions and support revenue.

It results from purchases by new customers and incremental purchases by existing customers. Consequently, orders to renew existing contracts are not included.

The order amount is contractually committed (that is, variable amounts from pay-per-use and similar arrangements are not included). Consequently, due to their uncommitted pay-per-use nature, transaction-based fees from SAP Ariba and SAP Fieldglass solutions are not reflected in the new cloud bookings metric.

Amounts are annualized. That is, for contracts with durations of more than one year, the average annual order entry amount is included in the number.

Thus, the new cloud bookings measure is an indicator for our cloud-related sales success in a given period and for future cloud subscriptions revenue. New cloud bookings increased 100% in 2015 to 874 million (2014: 436 million). Concur contributed 169 million to new cloud bookings. In addition to the strong growth of the new cloud bookings the combination of our cloud backlog (unbilled future revenue based on existing customer contracts) and deferred cloud revenue that together reflect the committed future cloud subscriptions and support revenue climbed by 53% to 4.6 billion (2014: 3.0 billion). This committed business will drive cloud growth in 2016 and beyond.

Besides the cloud business also our core on-premise business showed an exceptional growth in 2015. Cloud and software revenue (non-IFRS) was 17.2 billion (2014: 14.3 billion). On a constant currency basis, the increase was 12% and based on that result significantly above the forecast for 2015.

Our total revenue (non-IFRS) rose 18% in 2015 to 20.8 billion (2014: 17.6 billion). On a constant currency basis, the increase was 10%.

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Operating expenses (non-IFRS) in 2015 were 14.5 billion (2014: 11.9 billion), an increase of 21%. On a constant currency basis the increase was 12%.

Our expense base in 2015 was impacted by the transformation to a fast-growing cloud business resulting in a significant higher share of more predictable revenue. The gross margins of our cloud offerings made good progress throughout 2015. Our gross margin (Non-IFRS) in our business network segment resulted in ~75% for 2015, already close to our long-term ambition of ~80%. This good result is based on an overall improved profitability as well as related to positive effects of the Concur acquisition. The revenue growth of our private cloud offering was more positive than expected. At the same time, the profitability of our private cloud offering could also be improved further; it is still negative but based on the good progress we saw throughout 2015, we expect break even in the course of 2016. Profitability in our public cloud offering was ~70% for 2015 compared to our long-term ambition of ~80%. Our overall cloud gross margin improved year over year from 64.3% in 2014 to 65.6% in 2015, despite incremental investments in the cloud infrastructure. These investments were necessary so as to be able in future periods to satisfy the increased

customer demand that can be seen in the significantly higher cloud backlog as well as the increased cloud bookings.

Efficiency improvements in both our core and our cloud business drove absolute operating profit growth. Non-IFRS operating profit in 2015 was 5.904 billion, an increase of 5% at constant currencies. The growth in our operating profit in 2015 reflects the continued success of our business transformation in combination with the strong top-line growth. In 2015, we had a positive impact from our Company-wide transformation program in the triple-digit million euro range. On the other hand, we had a net increase of more than 2,500 employees in 2015 as we continued to invest in innovation and growth markets. Thus, constant currency non-IFRS operating profit amounting to 5.904 billion slightly exceeded the range (5.6 billion to 5.9 billion) we had expected in our outlook.

We achieved an effective tax rate (IFRS) of 23.4% and an effective tax rate (non-IFRS) of 26.1%, which is below the outlook of 25.0% to 26.0% (IFRS) and 26.5% to 27.5% (non-IFRS). The reduction mainly results from taxes for prior years.

OPERATING RESULTS (IFRS)

This section on operating results (IFRS) discusses results only in terms of IFRS measures, so the IFRS numbers are not expressly identified as such.

Our 2015 Results Compared to Our 2014 Results (IFRS)**Revenue**

millions	2015	2014	Change in % 2015 vs 2014
Cloud subscriptions and support	2,286	1,087	110%
Software licenses	4,835	4,399	10%
Software support	10,093	8,829	14%
Software licenses and support	14,928	13,228	13%
Cloud and software	17,214	14,315	20%
Services	3,579	3,245	10%
Total revenue	20,793	17,560	18%

Total Revenue

Total revenue increased from 17,560 million in 2014 to 20,793 million in 2015, representing an increase of 3,233 million, or 18%. This growth reflects a 10% increase from new business and a 9% increase from currency effects. The growth in revenue resulted primarily from a 1,264 million rise in support revenue, a 1,199 million increase in cloud subscriptions and

support revenue, software license revenue increased 436 million and services revenue grew by 334 million. Cloud and software revenue climbed to 17,214 million in 2015, an increase of 20%. Cloud and software revenue represented 83% of total revenue in 2015 (2014: 82%). Service revenue increased 10% from 3,245 million in 2014 to 3,579 million, which was 17% of total revenue, in 2015.

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For more information about the breakdown of total revenue by region and industry, see the Revenue by Region and Industry section below.

Cloud and Software Revenue

Software licenses revenue results from the fees earned from selling or licensing software to customers. Revenue from cloud subscriptions and support refers to the income earned from contracts that permit the customer to access specific software solutions hosted by SAP during the term of its contract with SAP. Support revenue represents fees earned from providing technical support services and unspecified software upgrades, updates, and enhancements to customers.

Cloud subscriptions and support revenue increased from 1,087 million in 2014 to 2,286 million in 2015.

Despite a combination of a challenging macroeconomic and political environment and the accelerating industry shift to the cloud, we achieved a 436 million increase in software license revenue. This increase, from 4,399 million in 2014 to 4,835 million in 2015, reflects a 4% increase from new license business and a 6% increase from currency effects.

Our customer base continued to expand in 2015. Based on the number of contracts concluded, 13% of the orders we received for software in 2015 were from new customers (2014: 12%). The total value of software orders received increased 16% year-over-year. The total number of software license contracts increased 6% to 57,439 (2014: 54,120 contracts), while the average order value increased by 9%. Of all our software orders received in 2015, 27% were attributable to deals worth more than 5 million (2014: 22%), while 40% were attributable to deals worth less than 1 million (2014: 44%).

Our stable customer relations and continued investment in new software licenses by customers throughout 2015 and the previous year resulted in an increase in software support revenue from 8,829 million in 2014 to 10,093 million in 2015. The SAP Enterprise Support offering was the largest contributor to our software support revenue. The 1,264 million, or 14%, growth in software support revenue reflects a 7% increase from new support business and an 8% increase from currency effects. This growth is primarily attributable to SAP Product Support for Large Enterprises and SAP

Enterprise Support. The acceptance rate for SAP Enterprise Support among new customers slightly increased to 99% in 2015 (2014: 98%).

Software licenses and software support revenue rose 1,700 million, or 13%, from 13,228 million in 2014 to 14,928 million in 2015. This growth breaks down into a 6% increase from new software licenses and software support business and a 7% increase from currency effects.

Cloud and software revenue grew from 14,315 million in 2014 to 17,214 million in 2015, an increase of 20%. This reflects a 12% increase from new cloud and software business and a 9% increase from currency effects.

Services Revenue

Services Revenue combines revenue from professional services, premium support services, training services, messaging services and payment services. Professional services primarily relate to the installation and configuration of our cloud subscriptions and on-premise software products. Our premium support offering consists of high-end support services tailored to customer requirements. Messaging services are primarily transmission of electronic text messages from one mobile phone provider to another. Payment services are primarily delivered in connection with our travel and expense management offerings.

Services revenue increased 334 million, or 10%, from 3,245 million in 2014 to 3,579 million in 2015. This increase reflects a 2% increase from new services business and an 8% increase from currency effects.

A solid market demand led to an 8% increase of 222 million in consulting revenue and premium support revenue from 2,634 million in 2014 to 2,856 million in 2015. This increase reflects a 0% increase from new business and an 8% increase from currency effects. Consulting and premium support revenue contributed 80% of the total service revenue (2014: 81%). Consulting and premium support revenue contributed 14% of total revenue in 2015 (2014: 15%).

Revenue from other services increased 112 million, or 18%, to 723 million in 2015 (2014: 611 million). This reflects a 9% increase from new business and a 10% increase from currency changes.

Table of Contents**Revenue by Region and Industry****Revenue by Region**

millions	2015	2014	Change in % 2015 vs 2014
Germany	2,771	2,570	8%
Rest of EMEA	6,409	5,813	10%
EMEA	9,181	8,383	10%
United States	6,750	4,898	38%
Rest of Americas	1,678	1,591	5%
Americas	8,428	6,489	30%
Japan	667	600	11%
Rest of APJ	2,517	2,088	21%
APJ	3,185	2,688	18%
SAP Group	20,793	17,560	18%

Revenue by Industry

millions	2015	2014	Change in % 2015 vs 2014
Energy & Natural Resources	4,834	4,158	16%
Discrete Manufacturing	3,672	3,051	20%
Consumer	4,934	4,045	22%
Public Services	2,174	1,786	22%
Financial Services	1,881	1,697	11%
Services	3,298	2,824	17%
Total revenue	20,793	17,560	18%

*Revenue by Region***EMEA Region**

In 2015, the EMEA region generated 9,181 million in revenue, which was 44% of total revenue (2014: 8,383 million; 48%). This represents a year-over-year increase of 10%. Revenue in Germany increased 8% to 2,771 million in 2015 (2014: 2,570 million). Germany contributed 30% (2014: 31%) 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. Cloud and software revenue generated in the EMEA region in 2015 totaled 7,622 million (2014: 6,819 million). Cloud and software revenue represented 83% of all revenue in the region in 2015 (2014: 81%). Cloud subscriptions revenue rose 83% to 507 million in 2015 (2014: 277 million). This growth reflects a 69% increase from new cloud business and a 14% increase from currency effects. Software licenses and software support revenue rose 9%

to 7,115 million in 2015 (2014: 6,542 million). This growth reflects an 8% increase from new software license and software support business and a 1% increase from currency effects.

Americas Region

In 2015, 41% of our total revenue was generated in the Americas region (2014: 37%). Total revenue in the Americas region increased 30% to 8,428 million; revenue generated in the United States increased 38% to 6,750 million. This growth reflects a 16% increase from new business and a 22% increase from currency effects. The United States contributed 80% (2014: 75%) of all revenue generated in the Americas region. In the remaining countries of the Americas region, revenue increased 5% to 1,678 million. This reflects a 3% increase from new business and a 2% increase from currency effects. This revenue was primarily generated in Brazil, Canada, and Mexico. Cloud and software

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revenue generated in the Americas region in 2015 totaled 6,929 million (2014: 5,276 million). Cloud and software revenue represented 82% of all revenue in the Americas region in 2015 (2014: 81%). Cloud subscriptions revenue rose by 123% to 1,579 million in 2015 (2014: 709 million); currency effects were 34%, growth in new cloud business was 89%. Software licenses and software support revenue rose 17% to 5,350 million in 2015 (2014: 4,566 million). This growth reflects a 2% increase from new business; currency effects were 15%.

APJ Region

In 2015, 15% (2014: 15%) of our total revenue was generated in the APJ region, with the strongest revenue growth being achieved in India. Total revenue in the APJ region increased 18% to 3,185 million. In Japan, revenue increased 11% to 667 million. Revenue from Japan was 21% (2014: 22%) of all revenue generated in the APJ region. The revenue growth in Japan was attributable to a 6% increase from new business and a 5% increase from currency effects. In the remaining countries of the APJ region, revenue increased 21%. Revenue in the remaining countries of the APJ region was generated primarily in Australia, China, and India. Cloud and software revenue in the APJ region totaled

2,663 million in 2015 (2014: 2,221 million). That was 84% of all revenue from the region (2014: 83%). Cloud subscriptions revenue grew 98% to 200 million in 2015 (2014: 101 million). This growth reflects an 82% increase from new cloud business and a 17% increase from currency effects. Software licenses and software support revenue increased 16% to 2,463 million in 2015 (2014: 2,120 million). This increase reflects an 8% increase from new business and an 8% 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 2015, we achieved above-average growth in the following industry sectors, measured by changes in total revenue: Public Services (2,174 million, at a growth rate of 22%); Consumer (4,934 million, at a growth rate of 22%); and Discrete Manufacturing (3,672 million, at a growth rate of 20%). Revenue from the other industry sectors was Services (3,298 million, at a growth rate of 17%); Energy & Natural Resources (4,834 million, at a growth rate of 16%); and Financial Services (1,881 million, at a growth rate of 11%).

Operating Profit and Operating Margin

Total Operating Expenses

millions	2015	% of total revenue⁽¹⁾	2014	% of total revenue⁽²⁾	Change in % 2015 vs 2014
Cost of cloud and software	3,313	16%	2,557	15%	30%
Cost of services	3,313	16%	2,716	15%	22%
Research and development	2,845	14%	2,331	13%	22%
Sales and marketing	5,401	26%	4,304	25%	25%
General and administration	1,048	5%	892	5%	17%
Restructuring	621	3%	126	1%	>100%
TomorrowNow and Versata litigation	0	0%	309	2%	< 100%
Other operating income/expense, net	1	0%	4	0%	86%
Total operating expenses	16,541	80%	13,230	75%	25%

(1) Total revenue for 2015: 20,793 million.

(2) Total revenue for 2014: 17,560 million.

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millions, except for operating margin	2015	2014	Change in % 2015 vs 2014
Operating profit	4,252	4,331	2%
Operating margin (in %)	20.5%	24.7%	4.2pp

SAP continued to invest in innovation and its cloud business and generated record turnover in 2015. The strong growth in revenue, however, also led to an increase in compensation payments to our employees, while the climbing stock price translated into higher share-based payment expenses. As a result, our operating profit declined slightly by 2% to 4,252 million (2014: 4,331 million).

In 2015, our operating expenses increased 3,311 million or 25% to 16,541 million (2014: 13,230 million). The main contributors to that increase were our acquisition of Concur in December 2014, our greater investment- and revenue-related cloud subscriptions and support costs, our continued investment in sales activities, and higher restructuring expenses.

The effect of acquisition-related expenses, which were 738 million (2014: 562 million), of restructuring expenses, which were 621 million (2014: 126 million), and of a 724 million expense for share-based payments (2014: 290 million) weighed more heavily on operating profit than in the previous year. The record revenue generated increased the cost of bonus payments, and the improving performance of the share price in 2015 pushed share-based payment expenses higher. Continuing investment in the cloud infrastructure, in sales activities around the world, and in research and development also affected operating profit. Our employee headcount (measured in full-time equivalents, or FTEs) increased by 2,579 year-over-year.

These short-term, negative effects on operating profit largely represent investments in the future and were in part offset by the increase in revenue.

The overall result of these effects on operating profit was a 4.2 percentage point narrowing of our operating margin in 2015 to 20.5% (2014: 24.7 %).

Changes to the individual elements in our cost of revenue were as follows:

Cost of Cloud and Software

Cost of cloud and software 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 expenses relating to intangibles,

and license fees and commissions paid to third parties for databases and the other complementary third-party products sublicensed by us to our customers.

In 2015, the cost of cloud and software increased 30% to 3,313 million (2014: 2,557 million).

Significant costs included an additional 539 million year-over-year to extend our cloud business in response to the sustained strength of customer demand, with an associated increase in the expense of delivering and operating cloud applications, a 164 million revenue-related increase in the license fees we pay to third parties, and a 74 million rise in the cost of providing custom development projects. These investments contributed to revenue growth. Our margin on cloud subscriptions and support narrowed 0.4 percentage points to 55.3% (2014: 55.8%). This decrease was primarily due to increasing expenses related to the extension of our cloud infrastructure. These expenses represent an investment in our fast-growing cloud business of the future, and were in part already offset by a significant increase in cloud subscriptions and support revenue.

The gross margin on cloud and software, defined as cloud and software profit as a percentage of cloud and software revenue, narrowed to 80.8% in 2015 (2014: 82.1%). This change is driven by the revenue mix effect with a rising cloud subscriptions and support revenue share while both cloud subscriptions and support margin as well as software license and support margin only changed marginally.

Cost of Services

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

Although we were able to increase our service revenue by 10% year-over-year to 3,579 million in 2015 (2014: 3,245 million), our service business continues to be greatly affected as we trend away from classic software licensing and consulting revenue toward more subscription revenue from cloud solutions. We are also

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investing in our SAP ONE Service organization. As a result, cost of service rose 22% to 3,313 million (2014: 2,716 million). Our gross margin on services, defined as services profit as a percentage of services revenue, narrowed to 7.4% (2014: 16.3%).

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.

Due to growing personnel costs because of the 11% increase in our headcount by the end of the year, and the revenue-related year-over-year increase in compensation payments, our R&D expense increased by 22% to 2,845 million in 2015 from 2,331 million in 2014. R&D expense as a percentage of total revenue increased to 13.7% (2014: 13.3%). For more information, see Item 4. Information About SAP Products, Research & Development, and Services.

Sales and Marketing Expense

Sales and marketing expense consists mainly of personnel costs, direct sales costs, and the cost of marketing our products and services.

Our sales and marketing expense rose 25% from 4,304 million in 2014 to 5,401 million in 2015. The increase was mainly the result of greater personnel costs as we expanded our global sales force, and of increased expenditure for bonus payments prompted by the strong revenue growth. The ratio of sales and marketing expense to total revenue, expressed as a percentage, increased to 26.0% year-over-year (2014: 24.5%), an increase of 1.5 percentage points.

General and Administration Expense

Our general and administration expense consists mainly of personnel costs to support our finance and administration functions.

General and administration expense increased 17% from 892 million in 2014 to 1,048 million in 2015. That this expense grew less rapidly than revenue is primarily the result of careful cost management. Consequently, the ratio of general and administration expense to total revenue dropped slightly in 2015 to 5.0% (2014: 5.1%).

Segment Information (Non-IFRS)

In 2015, SAP had two reportable segments: the Applications, Technology, and Services segment; and the SAP Business Network segment. These are the components of SAP that our Executive Board regularly reviews to assess the performance of our Company and to make resource allocation decisions.

Revenue and profit figures for each of our operating segments are calculated in line with our internal management reporting and therefore differ from the corresponding revenue and profit in our Consolidated Statements of Income prepared according to IFRS. For more information about our segment reporting, the activities that our two segments derive their revenues from, financial performance measures, and reconciliation from our internal management reporting to our external IFRS reporting, see the Notes to the Consolidated Financial Statements section, Note (28), and the Performance Management System section.

The financial data presented for 2015 contain all revenues and expenses from Concur and Fieldglass, whereas the prior year's comparison figures only include their financial data as of their respective acquisition dates. Fieldglass was acquired on May 2, 2014; Concur on December 4, 2014.

Applications, Technology & Services Segment

millions, unless otherwise stated			Change in %	Change in % (Constant Currency)
(Non-IFRS)	2015	2014	Change in %	
Segment revenue	19,126	16,871	13%	6%
Gross margin (in %)	72%	73%	1pp	1pp
Cloud subscription and support margin (in %)	53%	55%	2pp	5pp
Segment profit	7,918	7,099	12%	4%
Segment margin (in %)	41%	42%	1pp	1pp

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In 2015, the Applications, Technology & Services segment revenue increased 13% (6% at constant currencies) to 19,126 million (2014: 16,871 million).

This increase was driven mainly by strong growth in software support revenue, which increased 14% (7% at constant currencies) to 10,061 million and a 10%

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increase in software licenses (5% at constant currencies) to 4,836 million. As a consequence of continuous strong demand in the human capital management, customer engagement and commerce, and SAP HANA Enterprise Cloud business, cloud subscriptions and support revenue in the Applications, Technology & Services segment grew 64% (45% at constant currencies) to 961 million.

The increase of cloud subscriptions and support revenue and software support revenue results in an increasing revenue share of more predictable revenue streams in this segment of 2 percentage points from 56% in 2014 to 58% in 2015. Software license revenue attributable to this segment increased 10% (5% at constant currencies) to 4,835 million (2014: 4,381 million).

The segment's cost of revenue during the same time period increased 17% (9% at constant currencies) to

5,343 million (2014: 4,564 million). This increase in expenses was primarily the result of greater investment in expanding our cloud infrastructure and in providing and operating our cloud applications, as well as additional personnel expenses to support the growth of the SAP HANA Enterprise Cloud service. The cloud subscriptions and support margin for the segment, therefore, decreased by 2.2 percentage points to 52.9% (50.4% at constant currencies). Segment gross profit increased 12% in 2015 (5% at constant currencies) to 13,784 million (2014: 12,307 million), which resulted in a decrease of the segment gross margin from 72.9% to 72.1% (72.1% at constant currencies). Segment profit increased 12% (4% at constant currencies) to 7,918 million (2014: 7,099 million), while the segment margin decreased by 0.7 percentage points to 41.4% (41.3% at constant currencies).

SAP Business Network Segment

millions, unless otherwise stated

(Non-IFRS)	2015	2014	Change in %	Change in % (Constant Currency)
Segment revenue	1,614	644	150%	116%
Gross margin (in %)	67%	66%	1pp	0pp
Cloud subscription and support margin (in %)	75%	75%	0pp	1pp
Segment profit	312	105	199%	139%
Segment margin (in %)	19%	16%	3pp	2pp

In 2015, revenue from the SAP Business Network segment, which combines all of our business network solutions, increased 150% (116% at constant currencies) to 1,614 million (2014: 644 million). Concur and Fieldglass, which were acquired in 2014, together contributed 909 million (2014: 107 million) to the segment's revenue. SAP internal analyses show that more than US\$740 billion in commerce is conducted on the network annually.

The segment's cost of revenue increased 144% in 2015 (114% at constant currencies) to 530 million (2014: 217 million), of which 299 million in expenses are attributable to Concur and SAP Fieldglass (2014: 28 million). The cloud subscriptions and support margin for the segment decreased by 0.4 percentage points to 74.9% (74.5% at constant currencies). The SAP Business Network segment achieved a segment gross profit of 1,084 million in 2015 (2014: 427 million), an increase of 154% (117% at constant currencies). This resulted in an increase of the segment gross margin from 66.3% to 67.2% (66.5% at constant currencies). Segment profit increased 199% year on year

(139% at constant currencies) to 312 million (2014: 105 million), resulting in an increase in the segment margin of +3.1 percentage points to 19.4% (18.0% at constant currencies).

Financial Income, Net

Financial income, net, changed to 5 million (2014: 25 million). Our finance income was 241 million (2014: 127 million) and our finance costs were 246 million (2014: 152 million).

Finance income mainly consists of gains from disposal of equity securities and interest income from loans and receivables, financial assets (cash, cash equivalents, and current investments), and income of derivatives.

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Finance costs mainly consist of interest expense on financial liabilities (135 million in 2015 compared to 93 million in 2014) due to higher average indebtedness and negative effects from derivatives (72 million in 2015 compared to 28 million in 2014). For more information about financing instruments, see the Notes to the Consolidated Financial Statements section, Note (17b).

Table of Contents**Income Tax**

Our effective tax rate decreased to 23.4% in 2015 (2014: 24.7%). The year-over-year decrease in the effective tax rate mainly resulted from changes in taxes for prior

years. For more information on income taxes, see the Notes to the Consolidated Financial Statements section, Note (10).

Our 2014 Results Compared to Our 2013 Results (IFRS)**Revenue**

millions	2014	2013	Change in % 2014 vs 2013
Cloud subscriptions and support	1,087	696	56%
Software licenses	4,399	4,516	3%
Software support	8,829	8,293	6%
Software licenses and support	13,228	12,809	3%
Cloud and software	14,315	13,505	6%
Services	3,245	3,310	2%
Total revenue	17,560	16,815	4%

Total Revenue

Total revenue increased from 16,815 million in 2013 to 17,560 million in 2014, representing an increase of 746 million, or 4%. This growth reflects a 5% increase from changes in volumes and prices and a 1% decrease from currency effects. The growth in revenue resulted primarily from a 391 million increase in cloud subscriptions and support revenue and a 536 million rise in software support revenue. Services revenue declined 65 million and software licenses revenue declined 117 million. Cloud and software revenue climbed to 14,315 million in 2014, an increase of 6%. Cloud and software revenue represented 82% of total revenue in 2014 (2013: 80%). Services revenue declined 2% from 3,310 million in 2013 to 3,245 million, which was 18% of total revenue in 2014.

For more information about the breakdown of total revenue by region and industry, see the Revenue by Region and Industry section below.

Cloud and Software Revenue

Software licenses revenue results from the fees earned from selling or licensing software to customers. Revenue from cloud subscriptions and support refers to the income earned from contracts that permit the customer to access specific software solutions hosted by SAP during the term of its contract with SAP. Software support revenue represents fees earned from providing technical support services and unspecified software upgrades, updates, and enhancements to customers.

Cloud subscriptions and support revenue increased from 696 million in 2013 to 1,087 million in 2014.

A combination of a challenging macroeconomic and political environment in Russia, Ukraine, and some Latin American markets and the accelerating industry shift to the cloud resulted in a 117 million decline in software licenses revenue. That decline, from 4,516 million in 2013 to 4,399 million in 2014, reflects a 3% decrease in new software business.

Our customer base continued to expand in 2014. Based on the number of contracts concluded, 12% of the orders we received for software in 2014 were from new customers (2013: 16%). The total value of software orders received declined 3% year-over-year. The total number of software license contracts decreased 3% to 54,120 (2013: 55,909 contracts), while the average order value increased by 1%. Of all our software orders received in 2014, 22% were attributed to deals worth more than 5 million (2013: 24%), while 44% were attributed to deals worth less than 1 million (2013: 44%).

Our stable customer base, continued investment in software by customers throughout 2014 and the previous year, resulted in an increase in software support revenue from 8,293 million in 2013 to 8,829 million in 2014. The SAP Enterprise Support services offering was the largest contributor to our support revenue. The 536 million, or 6%, growth in software support revenue reflects an 8% increase from new support business and a 1% decrease from currency effects. This growth is primarily attributable to SAP Product Support for Large Enterprises and SAP Enterprise Support. The acceptance rate for SAP Enterprise Support among new

customers remained high at 98% in 2014.

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Software licenses and support revenue rose 419 million, or 3%, from 12,809 million in 2013 to 13,228 million in 2014. This growth breaks down into a 4% increase from new business and a 1% decrease from currency effects.

Cloud and software revenue grew from 13,505 million in 2013 to 14,315 million in 2014, an increase of 6%. This reflects a 7% increase from new cloud and software business and a 1% decrease from currency effects.

Services Revenue

Services Revenue combines revenue from professional services, premium support services, training services, messaging services and payment services.

Professional services primarily relate to the installation and configuration of our cloud subscriptions and on-premise software products. Our premium support offering consists of high-end support services tailored to customer requirements. Messaging services are primarily transmission of electronic text messages from one mobile phone provider to another. Payment services are delivered in connection with our travel and expense management offerings.

Services revenue decreased 65 million, or 2%, from 3,310 million in 2013 to 3,245 million in 2014. This decline reflects a 1% decrease in new services business and a 1% decrease from currency effects.

Revenue by Region and Industry

Revenue by Region

millions	2014	2013	Change in % 2014 vs 2013
Germany	2,570	2,513	2%
Rest of EMEA	5,813	5,462	6%
EMEA	8,383	7,975	5%
United States	4,898	4,487	9%
Rest of Americas	1,591	1,746	9%
Americas	6,489	6,233	4%
Japan	600	631	5%
Rest of APJ	2,088	1,975	6%
APJ	2,688	2,606	3%
SAP Group	17,560	16,815	4%

Revenue by Industry

millions	2014	2013	Change in % 2014 vs 2013
Energy & Natural Resources	4,158	4,077	2%
Discrete Manufacturing	3,051	2,987	2%
Consumer	4,045	3,778	7%
Public Services	1,786	1,691	6%
Financial Services	1,697	1,633	4%
Services	2,824	2,649	7%
Total revenue	17,560	16,815	4%

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.

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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).

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EMEA Region

In 2014, the EMEA region generated 8,383 million in revenue, which was 48% of total revenue (2013: 7,975; 47%). This represents a year-over-year increase of 5%. Revenue in Germany increased 2% to 2,570 million in 2014 (2013: 2,513 million). Germany contributed 31% (2013: 32%) 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. Cloud and software revenue generated in the EMEA region in 2014 totaled 6,819 million (2013: 6,428 million). Cloud and software revenue represented 81% of all revenue in the region in 2014 (2013: 81%). Cloud subscriptions and support revenue rose 58% to 277 million in 2014 (2013: 176 million). This growth reflects a 57% increase from new cloud business and a 1% increase from currency effects. Software licenses and support revenue rose 5% to 6,542 million in 2014 (2013: 6,252 million). This growth reflects a 5% increase from new business and a 1% decrease from currency effects.

Americas Region

In 2014, 37% of our total revenue was generated in the Americas region (2013: 37%). Total revenue in the Americas region increased 4% to 6,489 million; revenue generated in the United States increased 9% to 4,898 million. This growth reflects an 8% increase from new business and a 1% increase from currency effects. The United States contributed 75% (2013: 72%) of all revenue generated in the Americas region. In the remaining countries of the Americas region, revenue declined 9% to 1,591 million. This reflects a 5% decrease in new business and a 4% decrease from currency effects. This revenue was principally generated in Brazil, Canada, and Mexico. Cloud and software revenue generated in the Americas region in 2014 totaled 5,276 million (2013: 4,922 million). Cloud and software revenue represented 81% of all revenue in the Americas region in 2014 (2013: 79%). Cloud subscriptions and support revenue rose by 55% to 709 million in 2014 (2013: 457 million); currency effects were 0%. Software licenses and support revenue rose 2% to 4,566 million in 2014 (2013: 4,465 million). This growth reflects a 3% increase from new business; currency effects were almost 0%.

APJ Region

In 2014, 15% (2013: 15%) of our total revenue was generated in the APJ region, with the strongest revenue growth being achieved in Australia. Total revenue in the APJ region increased 3% to 2,688 million. In Japan, revenue decreased 5% to 600 million. Revenue from Japan was 22% (2013: 24%) of all revenue generated in the APJ region. The decline in revenue from Japan was attributable to a 2% increase from new business and a 7% decrease from currency effects. In the remaining countries of the APJ region, revenue increased 6%. Revenue in the remaining countries of the APJ region was generated primarily in Australia, China, and India. Cloud and software revenue in the APJ region totaled 2,221 million in 2014 (2013: 2,155 million). That was 83% of all revenue from the region (2013: 83%). Cloud subscriptions and support revenue grew 59% to 101 million in 2014 (2013: 64 million). This growth reflects a 60% increase from new cloud business and a 1% decrease from currency effects. Software licenses and support revenue increased 1% to 2,120 million in 2014 (2013: 2,092 million). This increase reflects a 4% increase from new business and a 2% decrease 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 2014 we achieved above-average growth in the following industry sectors, measured by changes in total revenue: Services (2,824 million, at a growth rate of 7%); Consumer (4,045 million, at a growth rate of 7%); Public Services (1,786 million, at a growth rate of 6%); and Financial Services (1,697 million, at a growth rate of 4%). Revenue from the other industry sectors: Energy and Natural Resources (4,158 million, at a growth rate of 2%); and Discrete Manufacturing (3,051 million, at a growth rate of 2%).

Table of Contents**Operating Profit and Operating Margin****Total Operating Expenses**

millions	2014	% of total revenue ⁽¹⁾	2013	% of total revenue ⁽²⁾	Change in % 2014 vs 2013
Cost of cloud and software	2,557	15%	2,370	14%	8%
Cost of services	2,716	15%	2,660	16%	2%
Research and development	2,331	13%	2,282	14%	2%
Sales and marketing	4,304	25%	4,131	25%	4%
General and administration	892	5%	866	5%	3%
Restructuring	126	1%	70	0%	80%
TomorrowNow and Versata litigation	309	2%	31	0%	< 100%
Other operating income/expense, net	4	0%	12	0%	65%
Total operating expenses	13,230	75%	12,336	73%	7%

(1) Total revenue for 2014: 17,560 million.

(2) Total revenue for 2013: 16,815 million.

Operating Profit and Operating Margin

millions, except for operating margin	2014	2013	Change in % 2014 vs 2013
Operating profit	4,331	4,479	3%
Operating margin (in %)	24.7%	26.6%	2.0pp

In 2014, SAP continued to invest in innovation and made substantial advances in the cloud business. In addition and among other influences, negative currency effects and the difficult economic situation in Latin America and Russia affected our profitability. As a result, our operating profit in 2014 was 4,331 million, a little less than in the previous year (2013: 4,479 million).

In 2014, our operating expenses increased 894 million or 7% to 13,230 million (2013: 12,336 million). The increase relates primarily to an expense in connection with the TomorrowNow and Versata litigation, restructuring costs, continuing investment in our sales organization, and a rise in personnel and infrastructure costs, especially for our cloud business.

The effect of acquisition-related expenses, which were 562 million (2013: 555 million), of restructuring expenses, which were 126 million (2013: 70 million), and of a 309 million expense relating to the TomorrowNow and Versata litigation weighed more heavily on operating profit than in the previous year. Continuing investment in sales activities around the world and in the cloud also affected operating profit. Our

employee headcount (measured in full-time equivalents, or FTEs) increased 7,834 year-over-year. Acquisitions accounted for more than 5,500 of the added FTEs.

Those negative effects on operating profit were in part offset by the reduced cost of share-based compensation programs totaling 290 million (2013: 327 million) resulting from the declining year-over-year performance of the stock and by savings in general administration costs.

The overall result of these effects on operating profit was a 2.0 percentage point narrowing of our operating margin in 2014 to 24.7% (2013: 26.6%).

Changes to the individual elements in our cost of revenue were as follows:

Cost of Cloud and Software

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Cost of cloud and software 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 expenses relating to intangibles,

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and license fees and commissions paid to third parties for databases and the other complementary third-party products sublicensed by us to our customers.

In 2014, the cost of cloud and software increased 8% to 2,557 million (2013: 2,370 million).

Significant costs included an additional 180 million to extend our cloud business, especially outside the United States, with an associated increase in the expense of delivering and operating cloud applications, and a 34 million rise in the cost of providing customer support. They both represent investments that contributed to revenue growth. Our margin on cloud subscriptions and support widened 0.9 percentage points to 55.8% (2013: 54.8%). This improvement in margin was achieved primarily through strong growth in our cloud subscriptions and support revenue despite the increased expense we incurred to extend our cloud infrastructure. At the same time, the license fees we pay to third parties decreased by 49 million.

The gross margin on our cloud and software, defined as cloud and software profit as a percentage of cloud and software revenue, remained constant year-over-year at 82% in 2014 (2013: 82%).

Cost of Services

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

Our consulting business is being greatly affected as we trend away from classic software licensing and consulting revenue toward more subscription revenue from cloud solutions. As a result, our services revenue decreased while our services expense increased by 2% from 2,660 million in 2013 to 2,716 million in 2014. Our gross margin on services, defined as services profit as a percentage of services revenue, narrowed to 16% (2013: 20%).

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.

Although our personnel costs grew because of the 6% increase in our headcount by the end of the year, our R&D expense increased only 2% to 2,331 million in 2014 from 2,282 million in 2013. R&D expense as a percentage of total revenue was slightly less year-over-year at 13.3% (2013: 13.6%). For more information, see Item 4. Information About SAP Products, Research & Development, and Services.

Sales and Marketing Expense

Sales and marketing expense consists mainly of personnel costs, direct sales costs, and the cost of marketing our products and services.

Our sales and marketing expense rose 4% from 4,131 million in 2013 to 4,304 million in 2014. The increase was mainly the result of greater personnel costs as we expanded our global sales force and of the reallocation and re-tasking of employees to sales-related work. By increasing our sales force we accelerated our revenue growth. The ratio of sales and marketing expense to total revenue, expressed as a percentage, decreased slightly to 24.5% year-over-year (2013: 24.6%) because costs grew less rapidly than revenue.

General and Administration Expense

Our general and administration expense consists mainly of personnel costs to support our finance and administration functions.

General and administration expense increased 3% from 866 million in 2013 to 892 million in 2014. That this increase was modest compared to the growth in our revenue is primarily the result of careful cost management. The ratio of general and administration expense to total revenue was unchanged in 2014 at 5% (2013: 5%).

Segment Information (Non-IFRS)

The segment information below for 2014 and 2013 is presented based on the reportable segments created in 2015 (Applications, Technology & Services segment and the SAP Business Network Segment). These segments are the components of SAP that our Executive Board regularly reviews to assess the performance of our company and to make resource allocation decisions.

Revenue and profit figures for each of our operating segments are calculated in line with our internal management reporting and therefore differ from the corresponding revenue and profit in our Consolidated Statements of Income prepared according to IFRS. For more information about our segment reporting, the activities that our two segments derive their revenues from, the financial performance measures, and a reconciliation from our internal management reporting to

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our external IFRS reporting, see the Notes to the Consolidated Financial Statements section, Note (28), and the Performance Management System section.

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The financial data presented for 2014 contains the revenue and expenses from Concur and SAP Fieldglass as of their respective acquisition dates. Their financial data is not included in the prior-year amounts, as Concur and SAP Fieldglass were acquired on December 4, 2014, and May 2, 2014, respectively.

Applications, Technology & Services Segment

millions, unless otherwise stated

(Non-IFRS)	2014	2013	Change in %	Change in % (Constant Currency)
Segment revenue	16,871	16,386	3%	4%
Gross margin (in %)	73%	74%	1pp	1pp
Cloud subscriptions and support margin (in %)	55%	70%	15pp	15pp
Segment profit	7,099	7,056	1%	1%
Segment margin (in %)	42%	43%	1pp	1pp

In 2014, Applications, Technology & Services segment revenue increased 3% (4% at constant currencies) to 16,871 million (2013: 16,386 million). This increase was mainly driven by strong growth in software support revenue, which increased 6% (8% at constant currencies) to 8,806 million, offset by a decrease in software licenses of 3% (3% at constant currencies) to 4,381 million. As a consequence of a continuous strong demand in the human capital management, Customer Engagement and Commerce, and SAP HANA Enterprise Cloud lines of business, cloud subscriptions and support revenue in the Applications, Technology & Services segment grew 42% (42% at constant currencies) to 585 million (2013: 413 million).

The increase of cloud and software revenue did mainly result from a strong increase in cloud subscriptions and support revenue and software support revenue, whereas software licenses revenue slightly decreased. This overall results in an increase in the revenue share of more predictable revenue streams in this segment of three percentage points from 53% in 2013 to 56% in 2014. Software licenses revenue attributable to this segment decreased 3% (3% at constant currencies) to 4,381 million (2013: 4,519 million). This decline was

due to a combination of challenging macroeconomic and political environments in Russia, Ukraine, and some Latin American markets and the accelerating industry shift to the cloud.

The segment's cost of revenue during the same time period increased 6% (7% at constant currencies) to 4,564 million (2013: 4,312 million). This increase in expenses was the result of greater investment in expanding our cloud infrastructure and in providing and operating our cloud applications. The cloud subscriptions and support margin for the segment, therefore, decreased by 15 percentage points to 55.1% (55.1% at constant currencies). Segment gross profit increased 2% in 2014 (3% at constant currencies) to 12,307 million (2013: 12,074 million) which resulted in a decrease of the segment gross margin of 0.7 percentage points to 72.9% (0.8 percentage points to 72.9% in constant currencies). Segment profit increased 1% year on year to 7,099 million (2013: 7,056 million) and was unchanged on a constant currency basis, resulting in a narrowing of the segment margin by one percentage point to 42.1% (41.9% at constant currencies).

SAP Business Network Segment

millions, unless otherwise stated

(Non-IFRS)	2014	2013	Change in %	Change in % (Constant Currency)
Segment revenue	644	460	40%	39%
Gross margin (in %)	66%	65%	1pp	1pp
Cloud subscriptions and support margin (in %)	75%	76%	0pp	0pp
Segment profit	105	99	5%	2%

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Segment margin (in %)

16%

22%

5pp

6pp

57

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In 2014, revenue from the SAP Business Network segment, which combines all of our business network solutions, increased 40% (39% at constant currencies) to \$644 million (2013: \$460 million). This figure includes \$107 million in segment revenue attributable to SAP Fieldglass and Concur, which were acquired in 2014 and are reflected in these results for the first time.

The segment's cost of revenue increased 36% in 2014 (37% at constant currencies) to \$217 million, of which \$28 million in expenses are attributable to Concur and SAP Fieldglass. The cloud subscriptions and support margin for the segment decreased by 0.5 percentage points to 75.2% (0.4 percentage points to 75.3% in constant currencies). The SAP Business Network segment thus achieved a gross profit of \$427 million in 2014, an increase of 42% (41% at constant currencies) which resulted in an increase of the segment gross margin of 1.0 percentage points to 66.3% (0.7 percentage points to 66.0% in constant currencies). Segment profit increased year-over-year by 5% (2% at constant currencies) to \$105 million (2013: \$99 million), resulting in a narrowing of the segment margin by 5 percentage points to 16.2% (15.8% at constant currencies).

Financial Income, Net

Financial income, net, changed to \$25 million (2013: \$66 million). Our finance income was \$127 million (2013: \$115 million) and our finance costs were \$152 million (2013: \$181 million).

Finance income mainly consists of interest income from loans, financial assets (cash, cash equivalents, and current investments) and income of derivatives. This increase is attributable to a higher average liquidity and slightly higher interest rates than in 2013.

Finance costs mainly consist of interest expense on financial liabilities (\$93 million in 2014 compared to \$131 million in 2013). The decrease year-over-year is mainly due to positive effects from interest rate derivatives and due to lower average indebtedness. For more information about financing instruments, see the Notes to the Consolidated Financial Statements section, Note (17b).

Income Tax

Our effective tax rate increased slightly to 24.7% in 2014 (2013: 24.4%). 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 74% of our total revenue in 2015 (2014: 71%) was attributable to operations in non-euro participating countries. That revenue had to be translated into euros for financial reporting purposes. Fluctuations in the exchange value of the euro had a favorable impact of \$1,504 million on our total revenue for 2015, an unfavorable impact of \$143 million on our total revenue for 2014 and an unfavorable impact of \$734 million on our total revenue for 2013.

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 Item 5, discusses at times the effect of currency movements which are calculated in the same manner.

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 centrally 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.

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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

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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 quickly repay financial debt, to acquire businesses, to pay dividends on our shares, and to buy back SAP shares on the open market. On December 31, 2015, 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 2015.

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 debt repayments and 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).

To expand our business, we have made acquisitions of businesses, products, and technologies. 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. In recent years, we were able to repay additional debt within a short period of time due to our persistently strong free cash flow. For more information about the financial debt, see the Cash Flows and Liquidity section.

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 so doing, ensure a high level of independence, confidence, and financial flexibility.

The long-term credit rating for SAP SE is A by Standard and Poor's and A2 by Moody's, both with stable outlook. Since their initial assignment in September 2014, the ratings and outlooks have not changed.

Our general intention is to remain in a position to return liquidity to our shareholders by distributing annual dividends totaling more than 35% of our profit after tax. There are currently no plans for future share buybacks.

Capital Structure

	2015		2014		
	millions	% of Total equity and liabilities	millions	% of Total equity and liabilities	D in %
Equity	23,295	56	19,534	51	19
Current liabilities	7,867	19	8,574	22	8
Non-current liabilities	10,228	25	10,457	27	2
Liabilities	18,095	44	19,031	49	5
Total equity and liabilities	41,390	100	38,565	100	7

In 2015, we repaid 1,270 million in bank loans that we had taken to finance the Concur acquisition and refinanced another part of this loan through the issuance of a three-tranche Eurobond of 1.75 billion in total with maturities of two to ten years. We also repaid a

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550 million Eurobond and a US\$300 million U.S. private placement tranche at their maturity. Thus, the ratio of total financial debt to total equity and liabilities decreased by 7 percentage points to 22% at the end of 2015 (29% as at December 31, 2014).

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Total financial debt consists of current and non-current bank loans, bonds, and private placements. For more information about our financial debt, see the Notes to the Consolidated Financial Statements section, Note (17).

As part of our financing activities in 2016, the Company intends to repay a US\$600 million U.S. private placement tranche when it matures and a further substantial portion of our outstanding bank loan.

Total liabilities on December 31, 2015, mainly comprised financial liabilities of 9,522 million (of which 8,681 million are non-current). Financial liabilities on

December 31, 2015, consisted largely of financial debt, which included amounts in euros (6,994 million) and U.S. dollars (2,202 million). On December 31, 2015, approximately 64% of financial debt was held at variable interest rates, partially swapped from fixed into variable using interest rate swaps. Total liabilities on December 31, 2015, also comprised non-financial liabilities. Most of these non-financial liabilities result from employee-related obligations.

For more information about financial and non-financial liabilities, see the Notes to the Consolidated Financial Statements section, Note (18).

Cash Flows and Liquidity

Group liquidity on December 31, 2015, primarily comprised amounts in euros and U.S. dollars. Current investments are included in other financial assets in the statement of financial position. Financial debts are included within financial liabilities in the statement of financial position.

Group Liquidity of SAP Group

millions	2015	2014	D
Cash and cash equivalents	3,411	3,328	83
Current investments	148	95	53
Group liquidity	3,559	3,423	136
Current financial debt	567	2,157	1,590
Net liquidity 1	2,992	1,266	1,726
Non-current financial debt	8,607	8,936	329
Net liquidity 2	5,615	7,670	2,055

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 Consolidated Financial Statements.

Group Liquidity Development

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Net liquidity is Group liquidity less total financial debt as defined above.

The increase in Group liquidity compared to 2014 was mainly due to cash inflows from our operations and financing activities in issuing bonds. They were offset by cash outflows for dividend payments and repayments of borrowings.

For information about the impact of cash, cash equivalents, current investments, and our financial liabilities on our income statements, see the analysis of our financial income, net, in the Operating Results (IFRS) section.

Analysis of Consolidated Statements of Cash Flows

millions	Years ended December 31,			Change in % 2015 vs. 2014	Change in % 2014 vs. 2013
	2015	2014	2013		
Net cash flows from operating activities	3,638	3,499	3,832	4%	9%
Net cash flows from investing activities	334	7,240	1,781	95%	>100%
Net cash flows from financing activities	3,356	4,298	1,589	< 100%	< 100%

Analysis of Consolidated Statements of Cash Flows: 2015 compared to 2014

Net cash provided by operating activities increased 4% year-over-year to 3,638 million in 2015 (2014: 3,499 million). Payments in connection with the restructuring of 204 million to employees and 272 million to insurance policies have offset partly the non-recurring effect from litigations in 2014. In 2015, days sales outstanding (DSO) for receivables, defined as the average number of days from the raised invoice to cash receipt from the customer, increased six days to 71 days (2014: 65 days).

Cash outflows from investment activities decreased significantly to 334 million in 2015 (2014: 7,240 million). Cash outflows from purchase of intangible assets and property, plant, and equipment remained stable. Cash outflows in 2014 had resulted mainly from business combinations of Concur and Fieldglass. For more information about current and planned capital expenditures, see the Investment Goals section.

Net cash outflows from financing activities were 3,356 million in 2015, compared to net cash inflows of 4,298 million in 2014. The 2015 cash outflows had resulted from repayments of 1,270 million bank loans, 550 million Eurobonds and US\$300 million private placements. We refinanced another part of the bank loan through the issuance of a three-tranche Eurobond of 1,750 million in total. Cash inflows in 2014 were the result of issuing a 2,750 million Eurobond and drawing two tranches (of 1,270 million and 3,000 million) of a bank loan. Cash outflows in 2014 arose chiefly from repayments of 1,086 million borrowings and US\$1,160 million convertible bonds that we assumed in connection with our acquisition of Concur.

The dividend payment of 1,316 million made in 2015 exceeded the amount of 1,194 million in the prior year resulting from the increased dividend paid per share from 1.00 to 1.10.

Analysis of Consolidated Statements of Cash Flows: 2014 Compared to 2013

Net cash provided by operating activities decreased 9% year-over-year to 3,499 million in 2014 (2013: 3,832 million). Payments in connection with the TomorrowNow and Versata litigation had a 555 million negative effect on net cash provided by operating activities. A 61 million increase to 1,356 million in our income tax payments also negatively affected net cash provided by operating activities. In 2014, days sales outstanding (DSO) for receivables, defined as the average number of days from the raised invoice to cash receipt from the customer, increased three days to 65 days (2013: 62 days).

Cash outflows from investment activities increased significantly to 7,240 million in 2014 (2013: 1,781 million). The increase resulted principally from the Concur, Fieldglass, and SeeWhy acquisitions. For more information about current and planned capital expenditures, see the Investment Goals section.

Net cash inflows from financing activities were 4,298 million in 2014, compared to net cash outflows of 1,589 million in 2013. Cash inflows in 2014 were the result of issuing a 2,750 bond and drawing two tranches (of 1,270 million and 3,000 million) of a loan. Cash outflows arose chiefly from repayments of borrowings (1,086 million) and the repayment of convertible bonds that we assumed in connection with our acquisition of Concur (US\$1,160 million). The 2013 cash outflows had resulted chiefly from dividends paid and the repayment of a 600 million bond.

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The dividend payment of 1,194 million made in 2014 was greater than that of 1,013 million in the prior year because the dividend paid per share increased from 0.85 to 1.00.

Credit Facilities

Other sources of capital are available to us through various credit facilities, if required.

We are party to a revolving 2.0 billion credit facility contract with maturity in November 2020. The credit line may be used for general corporate purposes. A possible future withdrawal is not subject to any financial covenants. Borrowings under the facility bear interest at the Euro Interbank Offered Rate (EURIBOR) or London Interbank Offered Rate (LIBOR) for the respective optional currency plus a margin ranging from 0.3% to 0.525%. We pay a commitment fee of 0.079% 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, 2015, SAP SE had additional available credit facilities totaling 471 million. Several of our foreign subsidiaries have credit facilities available that allow them to borrow funds at prevailing interest rates. As at December 31, 2015, approximately 49 million was available through such arrangements. There were immaterial borrowings outstanding under these credit facilities from our foreign subsidiaries as at December 31, 2015.

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 do not believe we have forms of material off-balance sheet arrangements that would require disclosure other than those already disclosed.

CONTRACTUAL OBLIGATIONS

The table below presents our on- and off-balance sheet contractual obligations as of December 31, 2015:

Contractual obligations millions	Total	Payments due by period			More than 5 years
		Less than 1 year	1-3 years	3-5 years	
Financial liabilities ⁽¹⁾	10,127	863	3,759	1,822	3,683
Derivative financial liabilities ⁽¹⁾	132	74	29	29	0
Operating lease obligations ⁽³⁾	1,347	294	410	246	396
Purchase obligations ⁽³⁾	872	428	260	118	66
Capital contribution commitments ⁽³⁾	111	111	0	0	0
Other non-current non-financial liabilities ⁽²⁾	331	0	201	36	94
Total	12,920	1,770	4,660	2,251	4,239

(1) For more information on financial liabilities and derivative financial liabilities see Note (24) to our Consolidated Financial Statements.

(2) For more information on other non-current non-financial liabilities see Note (17c) to our Consolidated Financial Statements.

(3) See Note (22) to our Consolidated Financial Statements for additional information about operating lease obligations, purchase obligations, and capital contribution commitments. Our expected contributions to our pension and other post-employment benefit plans are not included in the table above. For more information on these contributions see Note (18a) to our Consolidated Financial Statements.

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

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Our software license agreements and our cloud subscription 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

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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 Products, Research & Development, and Services. For information on our R&D costs see Item 5. Operating and Financial Review and Prospects Operating Results (IFRS) 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 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 intangible assets;
- 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.

EXPECTED DEVELOPMENTS

Future Trends in the Global Economy

In its most recent report, the European Central Bank (ECB) forecasts moderate growth in the world economy and it expects that this growth will vary across regions and countries in 2016. It foresees more favorable prospects for advanced economies than for emerging markets and developing economies. Geopolitical risks, especially of heightened tensions in the Middle East, could undermine global economic performance, the ECB warns.

In the Europe, Middle East, and Africa (EMEA) region, the ECB expects the euro-area economy to recover slightly more rapidly in 2016 than in the previous year. It suggests that low oil prices, increased publicsector spending on assistance for refugees, and its own monetary measures may encourage that acceleration. In Central and Eastern Europe, the ECB expects economic activity to remain stable but for performance to vary from country to country. The European Union's structural funds and strong consumer spending may be principal factors behind such growth. In Russia, on the other hand, the economic situation is expected to remain difficult. The ECB expects further cuts in public spending as a consequence of declining oil revenue.

The ECB's forecasts for 2016 for a number of major countries in the Americas region are cautious. For the United States, the ECB expects that economic growth may slow following the Federal Reserve's move on interest rates in December 2015. The ECB expects political uncertainty, a tightening of monetary policy, and more restrictive financing conditions to continue to weigh on Brazil's economy.

For the Asia Pacific Japan (APJ) region, the ECB expects that wage increases and low oil prices will improve consumer spending in Japan. Japan's exports should also pick up. For China, though, the ECB expects that economic growth will continue to slow following the refocusing of its economy. It believes that the prospects for India's economy are positive in 2016.

Table of Contents**Economic Trends Year-Over-Year GDP Growth**

In %	2014e	2015p	2016p
World	3.4	3.1	3.4
Advanced economies	1.8	1.9	2.1
Developing and emerging economies	4.6	4.0	4.3
Europe, Middle East, and Africa (EMEA)			
Euro area	0.9	1.5	1.7
Germany	1.6	1.5	1.7
Central and Eastern Europe	2.8	3.4	3.1
Middle East and			
North Africa	2.8	2.5	3.6
Sub-Saharan Africa	5.0	3.5	4.0
Americas			
United States	2.4	2.5	2.6
Canada	2.5	1.2	1.7
Central and South America, Caribbean	1.3	0.3	0.3
Asia Pacific Japan (APJ)			
Japan	0.0	0.6	1.0
Asian developing economies	6.8	6.6	6.3
China	7.3	6.9	6.3

e = estimate; p = projection

Source: International Monetary Fund (IMF), World Economic Outlook Update January 2016, Subdued Demand, Diminished Prospects, as of January 19, 2016, p. 6.

IT Market: The Outlook for 2016

The worldwide IT market is at the dawn of a new era, according to U.S. market research firm IDC. It expects IT market growth to decline in a number of emerging economies, notably Brazil, China, and Russia. For a decade, these countries were the driving force in all segments of the global IT market while the advanced economies were already focusing on the transition from traditional technologies to innovations such as cloud and mobile computing. IDC expects that the growth in traditional IT will also slow in the emerging markets and developing economies in the years ahead. It believes that cloud, mobile, and Big Data will offer the main opportunities for growth. In view of that prediction, IDC expects the worldwide IT market to grow just 2.8% in 2016. Hardware spending is expected to increase by about 1%, and software spending by almost 7% (mainly due to software-as-a-service and platform-as-a-service solutions).

In the Europe, Middle East, and Africa (EMEA) region, IDC expects overall IT market growth to decelerate to 2% in 2016. Notably, the IT market in Western Europe is

expected to grow just 1% to 2% in the coming years. The IT market in Germany is not expected to grow much above these rates either, according to IDC. The institute believes that IT spending in Russia might recover as early as 2016 and grow 6% as a result of short-term government stimulus measures.

IDC expects the Americas region IT spending to increase 3.7% in 2016. It believes the IT market in the United States will grow at a similar rate and that, with 7% growth, the software segment will again be the fastest to expand there. For Brazil, IDC expects that the government will pursue a strict program of economic reform in the next few years, which could slow growth in the IT market to a rate of 3% or 4%. IDC forecasts that the IT market in Mexico will also grow by about 3% annually in the next few years.

In the Asia Pacific Japan (APJ) region, IDC believes growth in the IT market might reach 2.5%. However, growth rates again are expected to vary from country to country. IDC expects the IT market in Japan will grow by about 3% in 2016. It anticipates that China's IT market

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will expand only in the low to middle single-digit percentage range in the years ahead. The IT market in

India, on the other hand, might continue to grow by rates at or above 10% a year, according to IDC.

Trends in the IT Market

Increased IT Spending Year-Over-Year

In %	2014e	2015p	2016p
World			
Total IT	4.5	4.9	2.8
Hardware	5.2	5.5	1.1
Packaged software	5.6	6.8	6.8
Applications	6.9	7.3	7.1
IT services	3.0	2.8	3.0
Europe, Middle East, and Africa (EMEA)			
Total IT	3.9	4.6	2.0
Packaged software	4.0	4.8	5.2
Applications	4.5	5.4	5.6
IT services	2.2	1.9	2.6
Americas			
Total IT	4.2	4.6	3.7
Packaged software	6.8	8.4	7.3
Applications	8.5	8.9	7.8
IT services	2.8	2.8	2.6
Asia Pacific Japan (APJ)			
Total IT	5.9	5.9	2.5
Packaged software	4.5	4.9	8.0
Applications	5.6	5.1	7.7
IT services	5.3	4.6	4.6

e = estimate, p = projection

Source: IDC Worldwide Black Book Pivot V3.1, 2015

Impact on SAP

SAP expects to outperform the global economy and the IT industry again in 2016 in terms of revenue growth.

Our 2015 results validate our strategy of innovating across the core, the cloud, and business networks to help our customers become true digital enterprises.

Our innovation cycle for SAP S/4HANA is well underway and the completeness of our vision in the cloud has distinguished SAP from both legacy players and point solution providers. We have beaten our guidance for 2015 on cloud and software as well as on operating income.

In 2015, we have transformed our Company and made it leaner by shifting investments from non-core activities to strategic growth areas enabling us to capture the growth opportunities in the market.

We are well-positioned for the future as reflected in the increase of our ambition for 2017.

We plan to continue to invest in countries in which we expect significant growth, helping us reach our ambitious 2016 outlook targets and medium-term aspirations for 2017 and 2020.

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We are confident we can achieve our medium-term targets for 2017 and 2020, assuming that the economic

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environment and IT industry develop as currently forecasted. Balanced in terms of regions as well as industries, we are well-positioned with our product offering to offset smaller individual fluctuations in the global economy and IT market.

A comparison of our business outlook with forecasts for the global economy and IT industry shows that we can be successful even in a tough economic environment and will further strengthen our position as the market leader of enterprise application software.

Operational Targets for 2016 (Non-IFRS)

Revenue and Operating Profit Outlook

We are providing the following outlook for the full-year 2016:

Based on the continued strong momentum in SAP’s cloud business the Company expects full year 2016 non-IFRS cloud subscriptions and support revenue to be in a range of 2.95 billion to 3.05 billion at constant currencies (2015: 2.30 billion). The upper end of this range represents a growth rate of 33% at constant currencies.

SAP expects full year 2016 non-IFRS cloud and software revenue to increase by 6% to 8% at constant currencies (2015: 17.23 billion).

SAP expects full-year 2016 non-IFRS operating profit to be in a range of 6.4 billion to 6.7 billion at constant currencies (2015: 6.35 billion).

We expect our headcount to experience an increase similar to the increase in 2015.

While our full-year 2016 business outlook is at constant currencies, actual currency reported figures are expected to continue to be impacted by currency exchange rate fluctuations.

We expect that non-IFRS total revenue will continue to depend largely on the revenue from cloud and software.

However, the revenue growth we expect from this is below the outlook provided for non-IFRS cloud subscriptions and support revenue. We expect the software license revenue in 2016 to be at the same level as in 2015 with SAP gaining market share against our main on-premise license competitors.

We expect that most of the total revenue growth (non-IFRS) will come from the Applications, Technology, and Services segment, equally distributed into software licenses and support revenue growth and cloud subscriptions and support revenue growth. Nevertheless, we anticipate our SAP Business Network segment will outpace the Applications, Technology, and Services segment with a significantly higher total revenue growth rate at lower absolute levels. As such, we expect we will seize a huge market opportunity with continued strong mid- and long-term growth potential.

We continuously strive for profit expansion in all our segments, therefore, we expect an increase in both segments’ profits. The vast majority of the profit expansion comes from our Applications, Technology, and Services segment. Overall, in the SAP Business Network segment, operating profit growth is higher than in the Applications, Technology, and Services segment, but at significantly lower volume.

Across all segments we expect our 2016 non-IFRS cloud subscriptions and support gross margin to be at least stable or to slightly increase compared to 2015. For SAP’s managed-cloud offerings, we still expect negative margins in 2016 which by 2017 are expected to break even.

The following table shows the estimates of the items that represent the differences between our non-IFRS financial measures and our IFRS financial measures.

Non-IFRS Measures

millions	Estimated Amounts for 2016	Actual Amounts for 2015
Revenue adjustments	< 20	11
Share-based payment expenses	590 to 630	724
Acquisition-related charges	690 to 740	738
Restructuring	40 to 60	621

We do not expect any Company-wide restructuring programs in 2016.

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The Company expects a full-year 2016 effective tax rate (IFRS) of 22.5% to 23.5% (2015: 23.4%) and an effective tax rate (non-IFRS) of 24.5% to 25.5% (2015: 26.1%).

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Goals for Liquidity and Finance

On December 31, 2015, we had a negative net liquidity. We believe that our liquid assets combined with our undrawn credit facilities are sufficient to meet our present operating financing needs also in 2016 and, together with expected cash flows from operations, will support debt repayments and our currently planned capital expenditure requirements over the near term and medium term.

In 2016, we expect a positive development of our operating cash flow mainly due to lower restructuring related payments.

We intend to repay a US\$600 million U.S. private placement when it matures in June. Additionally, we are planning to further repay our outstanding 1.25 billion bank loan.

By the time of this report, we have no concrete plans for future share buybacks.

Based on this planning, at this point in time we expect we will noticeably reduce our net debt in 2016 and gradually return to a positive net liquidity in subsequent years.

Investment Goals

Our planned capital expenditures for 2016 and 2017, other than from business combinations, mainly comprise the construction activities described in Item 4. Information About SAP Description of Property Capital Expenditures . We expect investments from these activities of approximately 450 million during the next two years. These investments can be covered in full by operating cash flow.

SAP does not plan any significant acquisitions in 2016 and 2017 but will rather focus on organic growth.

Proposed Dividend

We intend to continue our dividend policy in 2017 as well, which is to pay a dividend totaling more than 35% of the prior year's profit after tax.

Premises on Which Our Outlook Is Based

In preparing our outlook guidance, 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 economic development and the assumption that there will be no effects from major acquisitions in 2016 and 2017.

Medium-Term Prospects

In this section, all discussion of the medium-term prospects is based exclusively on non-IFRS measures.

We expect to grow our more predictable revenue business while steadily increasing operating profit. Our strategic objectives are focused primarily on the following financial and non-financial objectives: growth, profitability, customer loyalty, and employee engagement.

We are raising our 2017 ambition compared to our outlook previously communicated in 2015 to reflect both the current exchange rate environment and our excellent business momentum.

Assuming a stable exchange rate environment going forward, SAP now expects non-IFRS cloud subscriptions and support revenue in a range of 3.8 billion to 4.0 billion in 2017. The upper end of this range represents a 2015 to 2017 compound annual growth rate (CAGR) of 32%. Non-IFRS total revenue is expected to be in a range of 23.0 billion to 23.5 billion in 2017. We now expect our 2017 non-IFRS operating profit to be in a range of 6.7 billion to 7.0 billion.

We continue to anticipate that the fast-growing cloud business along with growth in support revenue will drive a higher share of more predictable revenue. Given the current software license revenue momentum, we now expect the total of cloud subscriptions and support revenue and software support revenue to be in a range of 63% to 65% of total revenue in 2017.

By 2017, we continue to expect the rapidly growing cloud subscriptions and support revenue to be close to software license revenue and they are expected to exceed software license revenue in 2018. At that time, SAP expects to reach a scale in its cloud business that will clear the way for accelerated operating profit expansion.

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In 2015, we communicated our long term, high-level ambitions for the year 2020. We are not adjusting this long-term ambition at this time. Thus, we continue to strive for reaching the following by 2020:

7.5 billion to 8.0 billion non-IFRS cloud subscriptions and support revenue

26 billion to 28 billion non-IFRS total revenue

8.0 billion to 9.0 billion non-IFRS operating profit

70% to 75% share of more predictable revenue (defined as the total of cloud subscriptions and support revenue and software support revenue)

By 2020, we expect our business network offering to generate the largest portion of the cloud subscriptions and support revenue. The share of this portion of revenue is expected to be followed by our public cloud offerings. Both of these offerings are expected to each generate, in 2020, cloud subscriptions and support revenues that are significantly higher than the cloud subscriptions and support revenue generated from our private cloud offerings.

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We also strive for significantly improving, over the next few years, the profitability of our cloud business. We expect that the flat or slightly increasing cloud subscriptions and support margin development in 2016 will be followed by further margin increases in the following years until we reach our envisioned long-term cloud subscriptions and support margin targets in 2020. These will continue to increase at different rates: We expect the gross margin from our public cloud to reach approximately 80% (2015: approximately 70%) in 2020. Likewise, we expect our business network gross margin to reach approximately 80% (2015: approximately 75%) in 2020. The gross margin for our private cloud is expected to break even in 2016 and reach about 40% in 2020.

In a mature state of our cloud business, we expect that approximately 80% of the cloud subscription business will be generated from existing contracts and their renewals and approximately 20% from new business. This is compared to approximately 60% from existing contracts and renewals and 40% from new business in the fast-growth phase of our cloud business.

We also communicated in 2015 that we aim at further improving the profitability of our on-premise software

business. It is our target, from that point in time, to grow, until 2020, our gross profit from software licenses and support by a compound annual growth rate of approximately 3%, leading to an improvement in the software licenses and support gross margin of approximately 2 percentage points.

Non-Financial Goals 2016

In addition to our financial goals, we also focus on two non-financial targets: customer loyalty and employee engagement.

We believe it is essential that our employees are engaged, drive our success, and support our strategy. We remain committed to achieving an 82% employee engagement score in 2016 (2015: 81%).

Further, our customers' satisfaction with the solutions we offer is very important to us. We want our customers not only to be satisfied, but also to see us as a trusted partner for innovation. We measure this customer loyalty metric using the Customer Net Promoter Score (NPS). For 2016, we aim to achieve a Customer NPS of 25% (2015: 22.4%).

Table of Contents**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****SUPERVISORY BOARD**

The current members of the Supervisory Board of SAP SE, 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 ⁽¹⁾⁽²⁾⁽⁵⁾⁽⁶⁾⁽⁹⁾⁽¹⁰⁾	72	Chairman of the Supervisory Board	2003	2019
Pekka Ala-Pietilä ⁽¹⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁹⁾	59	Chairman of the Board of Directors, Solidium Oy	2002	2019
Prof. Anja Feldmann ⁽¹⁾⁽⁵⁾⁽¹⁰⁾	50	Professor at the Electrical Engineering and Computer Science Faculty at the Technische Universität Berlin	2012	2019
Prof. Dr. Wilhelm Haarmann ⁽¹⁾⁽²⁾⁽⁴⁾⁽⁹⁾⁽¹⁰⁾	65	Attorney at Law, Certified Public Auditor and Certified Tax Advisor; Linklaters LLP, Rechtsanwälte, Notare, Steuerberater	1988	2019
Prof. Dr. Gesche Joost ⁽¹⁾⁽⁵⁾⁽¹⁰⁾	41	Professor for Design Research and Head of the Design Research Lab, University of Arts Berlin	2015	2016
Bernard Liautaud ⁽¹⁾⁽²⁾⁽⁵⁾⁽⁶⁾	53	General Partner, Balderton Capital	2008	2019
Dr. Erhard Schipporeit ⁽¹⁾⁽³⁾⁽⁸⁾⁽⁹⁾	67	Independent Management Consultant	2005	2019
Jim Hagemann Snabe ⁽¹⁾⁽²⁾⁽⁴⁾	49	Supervisory Board Member	2014	2019
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer ⁽¹⁾⁽³⁾	71	Managing Director of Dr. Klaus Wucherer Innovations- und Technologieberatung GmbH	2007	2019
Margret Klein-Magar, Vice Chairperson ⁽²⁾⁽⁴⁾⁽⁵⁾⁽⁷⁾	51	Employee, Vice President Head of People Principles	2012	2019
Panagiotis Bissiritsas ⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁷⁾	47	Employee, Support Expert	2007	2019
Martin Duffek ⁽³⁾⁽⁷⁾⁽¹⁰⁾	40	Employee, Product Manager	2015	2019
Andreas Hahn ⁽²⁾⁽⁵⁾⁽⁷⁾	45	Employee, Product Expert, Industry Standards & Open Source	2015	2019
Lars Lamadé ⁽²⁾⁽⁷⁾⁽⁹⁾⁽¹⁰⁾	44	Employee, Head of Customer & Events GSS COO	2002	2019
Christine Regitz ⁽⁵⁾⁽⁷⁾⁽¹⁰⁾	50	Employee, Vice President User Experience, Chief Product Expert	2015	2019
Robert Schuschnig-Fowler ⁽⁷⁾⁽¹⁰⁾	56	Employee, Account Manager, Senior Support Engineer	2015	2019
Dr. Sebastian Sick ⁽²⁾⁽⁴⁾⁽⁷⁾⁽⁹⁾	43	Head of Company Law Unit, Hans Boeckler Foundation	2015	2019
Pierre Thiollet ⁽⁵⁾⁽⁷⁾	54	Employee, Webmaster	2015	2019

⁽¹⁾ Elected by SAP SE's shareholders on May 20, 2015.

⁽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 Technology and Strategy Committee.

⁽⁶⁾ Member of the Nomination Committee.

⁽⁷⁾ Appointed by the SAP SE Works Council Europe on May 6, 2015.

⁽⁸⁾ Audit Committee financial expert.

⁽⁹⁾ Member of the Special Committee.

⁽¹⁰⁾ Member of the People and Organization Committee

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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 Articles of Incorporation of SAP SE and the Agreement on the Involvement of Employees in SAP SE, members of the Supervisory Board of SAP SE consist of nine representatives of the shareholders and nine representatives of the European employees. The current nine employees representatives were appointed by the SAP SE Works Council Europe on May 6, 2015.

Certain current members of the Supervisory Board of SAP SE were members of supervisory boards and comparable governing bodies of enterprises other than SAP SE in Germany and other countries as of December 31, 2015. See Note (29) to our Consolidated Financial Statements for more detail. Apart from pension obligations for employees, SAP SE 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:

Name	Year First Appointed	Year Current Term Expires
Bill McDermott, CEO	2008	2021
Robert Enslin	2014	2021
Michael Kleinemeier	2015	2018
Bernd Leukert	2014	2021
Luka Mucic	2014	2021
Gerhard Oswald	1996	2016

The following changes occurred in the Executive Board in 2015:

On October 8, 2015, the SAP Supervisory Board appointed Michael Kleinemeier to the SAP Executive Board, effective November 1, 2015. A description of the management responsibilities and backgrounds of the current members of the Executive Board are as follows:

Bill McDermott, CEO (Vorstandssprecher), 54 years old, holds a master's degree in business administration. He joined SAP in 2002 and became a member of its Executive Board on July 1, 2008. On February 7, 2010 he

became Co-CEO alongside Jim Hagemann Snabe and when Jim Hagemann Snabe concluded his current role as Co-CEO in May 2014, Bill McDermott became sole CEO. As CEO he is leading SAP with organizational responsibility for strategy, business development, corporate development, communications, marketing and internal audit. In addition he assumed responsibility for human resources and is the Labor Relations Director. With the acquisition of Concur, he is also responsible for SAP's Business Network. He represents SAP as a member of the European Roundtable of Chief Executive Officers, the U.S. Business Council and the World Economic Forum. Prior to joining SAP, he served as a global executive in several technology companies.

Robert Enslin, 53 years old, holds diplomas in data science as well as computer science and data management. He joined SAP in 1992 and became a member of the Executive Board in May 2014. He is president of Global Customer Operations and is responsible for global sales, industry & line of business (LoB) solutions sales, services sales, sales operations as well as the Global Customer Office. Before joining SAP, Robert Enslin spent 11 years in various roles in the IT industry.

Michael Kleinemeier, 59 years old, holds a degree in commercial management from the University of Paderborn. He first joined SAP in 1989 and became a member of the Executive Board in November 2015. He leads the Global Service & Support organization including global consulting delivery, all global and regional support and premium engagement functions, maintenance go-to-market, global user groups, and mobile services.

Bernd Leukert, 48 years old, holds a master's degree in business administration with an emphasis on engineering and information technology. He joined SAP in 1994 and became a member of the Executive Board in May 2014. As SAP's Chief Technology Officer he is responsible for the board area Products & Innovation including the global development organization, innovation & cloud delivery, product strategy, development services, and SAP Global Security. In addition, Bernd Leukert heads strategic innovation initiatives at SAP and is responsible for leading design and user experience for SAP.

Luka Mucic, 44 years old, holds master's degrees in law and business administration. He joined SAP in 1996 and became Chief Financial Officer (CFO), Chief Operating Officer (COO) and a member of the Executive Board in July 2014. He is responsible for finance and administration including investor relations and data protection and privacy. In addition, as the company's COO, Luka Mucic is responsible for the Process Office of the company and for Business Innovation & IT.

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Gerhard Oswald, 62 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 board area Product Quality & Enablement covering quality governance & validation, scale, enablement & transformation, logistics services, and special tasks.

The members of the Executive Board of SAP SE as of December 31, 2015 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 SE 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 2015 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 share-based payment plans for Executive Board members, 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 2015

The compensation for 2015 for Executive Board members is intended to reflect SAP's company 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 business environment.

The Executive Board compensation package is performance-based. It has three elements:

- A fixed annual salary element

- A variable short-term incentive (STI) element to reward performance in the plan year

- A variable long-term incentive (LTI) element tied to the price of SAP shares to reward performance over multiple years

The Supervisory Board sets 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 2015:

- The fixed annual salary element is paid as a monthly salary.

- The variable STI element was determined under the STI 2015 plan. Under this plan, the STI compensation depends on the SAP Group's performance against the predefined target values for three KPIs: non-IFRS constant currency cloud and software growth; non-IFRS constant currency operating margin increase; and non-IFRS constant currency new and upsell bookings. In addition, the STI 2015 plan provides for a discretionary element that allows the Supervisory Board, after the end of the fiscal year 2015, 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, attractiveness as an employer and the performance in our Business Network Group.

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. For 2014, this discretion was applied.

On February 18, 2016, the Supervisory Board assessed SAP's performance against the agreed targets and determined the amount of compensation payable under the STI 2015 plan. The STI 2015 plan pays out after the Annual General Meeting of Shareholders in May 2016.

- The variable LTI element was determined under the RSU Milestone Plan 2015. RSU stands for restricted share unit. This originally four-year plan was established in 2012 and 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 RSUs for the respective year based on a budget amount that was granted to each Executive Board member in 2012 already for each of the years 2012 through 2015. The number of RSUs allocated to each member for a given year is their target amount (an amount in euros) for

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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 respective year. The number of RSUs an Executive Board member actually earns in respect of a given year depends on the 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 KPIs: non-IFRS total revenue and non-IFRS operating profit.

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 and vested in each Executive Board member. No RSUs vest if minimum performance levels of 60%, predefined for each of the two KPIs, are not achieved. 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 their initial RSU allocation for that year.

The Company strategy underlying the RSU Milestone Plan 2015 focuses on where SAP aimed to be by the end of 2015, so the plan gave greater weight to performance against the KPI targets for 2015 (the final year of the plan) than against the targets for 2012 through 2014. Due to the adjustment factor, the number of vested RSUs a member of the Executive Board actually received for 2015 has been revised according to plan terms.

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 their vested RSUs for completed plan years but does not retain any allocated but unvested RSUs for the year during which they leave. 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.

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 issued initially to each member of the Executive Board under the RSU Milestone Plan 2015 for 2015 was decided by the Supervisory Board on February 12, 2015. The number of RSUs allocated finally to each member of the Executive Board under the RSU Milestone Plan 2015 for 2015 was determined by the Supervisory Board on February 18, 2016.

The contracts of Executive Board members Bill McDermott and Robert Enslin require that compensation payments are made in U.S. dollars. The contracts include clauses that determine the exchange rates for the translation of euro-denominated compensation into U.S. dollars.

Changes to Compensation System in 2016

As the RSU Milestone Plan 2015 expired at the end of 2015, the Supervisory Board developed a new LTI 2016 plan for the Executive Board effective January 1, 2016 with the first grant occurring in March 2016. The purpose of the LTI 2016 is to reflect the operating profit target achievement, to ensure long-term retention of our Executive Board members and to reward a share price outperformance by SAP as compared to a group of its peers (Peer Group).

The LTI 2016 is an annual revolving remuneration element that is linked to the price of the SAP share. A grant amount determined by the Supervisory Board is converted into virtual shares, referred to as Share Units, by dividing the grant amount by the price of the SAP share (calculated on the basis of a defined average value). The grant amount is determined by the Supervisory Board in its discretion for each financial year at a level of between 80% and 120% of the contractual target amount; taking into account the achievement of the operating profit targets set for the preceding financial year.

The Share Units granted comprise 40% Retention Share Units (RSUs) and 60% Performance Share Units (PSUs). Both types of Share Units have a vesting period of four years. Each share unit that finally vests entitles its holder to a (gross) payout corresponding to the price of one SAP share after the end of the four-year holding period, but capped at three times the SAP share price applied for the conversion of the grant amount into Share Units.

The number of PSUs, that finally vests depends on the performance of the SAP share. If the increase of price of the SAP share over the four-year vesting period of the PSUs exceeds the increase of a defined Peer Group Index over the same period, the number of PSUs will be increased by a percentage equal to the outperformance expressed as percentage points. This percentage will be doubled if, in addition to the outperformance over the Peer Group Index, the price of the SAP share at the end of the vesting period of the PSUs is higher than the price at the start of this period. The number of vested PSUs a member can attain in respect of a plan year is capped at 150% of their initial PSU allocation for that year. Conversely, if the increase of price of the SAP share over the four-year vesting period of the PSUs underperforms the Peer Group Index, the number of PSUs will be reduced by a percentage equal to the underperformance expressed as percentage points. No PSUs vest if the underperformance exceeds 50%.

Table of Contents**Amount of Compensation for 2015**

We present separately Executive Board compensation disclosures under three different compensation disclosure approaches:

Compensation disclosures under a management view that follows the requirements of sections 314 and 315 of the German Commercial Code (Handelsgesetzbuch, or HGB) as specified in the German Accounting Standards (GAS 17) except that it allocates share-based compensation to the periods to which this compensation economically belongs

Compensation disclosures fully in accordance the requirements of sections 314 and 315 of the HGB as specified in GAS 17

Compensation disclosures in accordance with the recommendations of the German Corporate Governance Code (Code)

*I. Executive Board Members Compensation Management View***Executive Board Members Compensation for 2015 Management View**

thousands	Fixed Elements		Short-Term Incentive Element STI	Performance- Related Element	Compensation for 2015
	Salary	Other ¹⁾		Long-Term Incentive Element Share-Based Payment (RSU Milestone Plan 2015) ²⁾	
Bill McDermott (CEO)	1,150.0	1,258.0	2,743.5	4,127.5	9,279.0
Robert Enslin	700.0	103.3	1,660.5	1,480.6	3,944.4
Michael Kleinemeier (from November 1, 2015)	116.7	0	277.5	315.0	709.2
Bernd Leukert	700.0	11.7	1,660.5	1,480.6	3,852.8
Luka Mucic	700.0	12.1	1,660.5	1,480.6	3,853.2
Gerhard Oswald	700.0	22.4	1,660.5	1,480.6	3,863.5
Total	4,066.7	1,407.5	9,663.0	10,364.9	25,502.1

Table of Contents**Executive Board Members Compensation for 2014 Management View**

thousands	Fixed Elements		Performance-Related Element		Compensation for 2014 ¹⁾
	Salary	Other ¹⁾	Short-Term Incentive Elements STI	Long-Term Incentive Element Share-Based Payment (RSU Milestone Plan 2015) ²⁾	
Bill McDermott (CEO)	1,150.0	861.4	2,036.7	4,040.5	8,088.6
Jim Hagemann Snabe (co-CEO and member until May 21, 2014)	448.8	2,647.1			3,095.9
Dr. Werner Brandt (until June 30, 2014)	350.0	1,418.8			1,768.8
Robert Enslin (from May 4, 2014)	462.9	121.0	817.3	939.4	2,340.6
Bernd Leukert (from May 4, 2014)	462.9	12.2	817.3	939.4	2,231.8
Luka Mucic (from July 1, 2014)	350.0	4.3	621.4	729.0	1,704.7
Gerhard Oswald	700.0	22.0	1,232.7	1,449.4	3,404.1
Dr. Vishal Sikka (until May 4, 2014)	291.7	1,367.5			1,659.2
Total	4,216.3	6,454.3	5,525.4	8,097.7	24,293.7

¹⁾ Insurance contributions, benefits in kind, expenses for maintenance of two households, non-recurring payments, use of aircraft, tax, cash disbursement of short-term and long-term incentive elements, and discrete payments arising through application of the fixed exchange-rate clause.

²⁾ Compensation attributable to Executive Board members for the respective year, including the respective year's plan tranche of LTI 2015 based on the grant value at time of grant.

The share-based payment amounts included in the 2015 and 2014 compensation result from the following RSUs under the RSU Milestone Plan 2015.

Share-Based Payment Under RSU Milestone Plan 2015 (Grants for 2015)

	Quantity	Grant Value per Unit at Time of Grant	Grants for 2015 Total Grant Value at Time of Grant thousands
Bill McDermott (CEO)	77,099	53.53	4,128
Robert Enslin	27,656	53.53	1,481
Michael Kleinemeier (from November 1, 2015)	4,622	68.16	315
Bernd Leukert	27,656	53.53	1,481
Luka Mucic	27,656	53.53	1,481
Gerhard Oswald	27,656	53.53	1,481
Total	192,345		10,365

Table of Contents**Share-Based Payment Under RSU Milestone Plan 2015 (Grants for 2014)**

	Quantity	Grant Value per Unit at Time of Grant	Grants for 2014 Total Grant Value at Time of Grant thousands
Bill McDermott (CEO)	76,374	52.90	4,040.50
Dr. Werner Brandt (until June 30, 2014) ¹⁾			
Robert Enslin (from May 4, 2014)	18,164	51.72	939.40
Bernd Leukert (from May 4, 2014)	18,164	51.72	939.40
Luka Mucic (from July 1, 2014)	13,811	52.78	729.00
Gerhard Oswald	27,396	52.90	1,449.40
Dr. Vishal Sikka (until May 4, 2014) ¹⁾			
Total	153,909		8,097.70

¹⁾ The allocations for Werner Brandt (27,396 RSUs), and Vishal Sikka (27,396 RSUs) were forfeited at the end of their contracts. Consequently, they are not disclosed in the table above.

II. Executive Board Members Compensation According to HGB and GAS 17

Under the compensation disclosure rules of the German HGB and GAS 17, share-based compensation awards are to be included in the compensation of the year of grant, even if the awards are tied to future years. Accordingly, and in contrast to, the compensation amounts disclosed under the management view above, the Executive Board compensation amounts determined under HGB and GAS 17 for 2014 and 2015:

Exclude the share-based compensation awards granted to Executive Board members in 2012 for the years 2014 and 2015 as these were already included in the 2012 compensation

Include in full the grants for 2014 and 2015 made to Executive Board members appointed in 2014, that is, also including the grant for 2015

Include the grant for 2015 made to Michael Kleinemeier who was appointed to the Executive Board in 2015

Including RSU Milestone Plan 2015 awards for 2015 granted in 2015 to Michael Kleinemeier (263,200) upon his appointment to the Executive Board, the total Executive Board compensation for 2015 calculated as required under section 314 of the German Commercial Code amounts to 15,400,400, thereof: Bill McDermott 5,151,500; Robert Enslin 2,463,800; Michael Kleinemeier 657,400; Bernd Leukert 2,372,200; Luka Mucic 2,372,600; and Gerhard Oswald 2,382,900.

Including RSU Milestone Plan 2015 awards for 2014 and 2015 granted in 2014 to Robert Enslin (1,574,800 for each of the two years); Bernd Leukert (2014:

1,280,000; 2015: 1,574,800); and Luka Mucic (2014: 1,141,000; 2015: 1,574,800) upon their appointment to the Executive Board, the total Executive Board compensation for 2014 calculated as required under section 314 of the German Commercial Code amounts to 23,216,200, thereof: Bill McDermott 4,048,100; Jim Hagemann Snabe 1,395,900; Werner Brandt 1,768,800; Robert Enslin 4,550,800; Bernd Leukert 4,147,200; Luka Mucic 3,691,500; Gerhard Oswald 1,954,700; and Vishal Sikka 1,659,200.

All amounts as determined under HGB and GAS 17, other than share-based compensation, are identical to the amounts disclosed under the management view above.

III. Executive Board Members Compensation According to the Code

Pursuant to the recommendations of the Code, the value of benefits granted for the year under review as well as the allocation, that is the amounts disbursed for the year under review, are disclosed below based on the reference tables recommended in the Code.

In contrast to the disclosure rules stipulated in the German HGB and GAS 17, the Code includes the service cost according to IAS 19 in the Executive Board compensation and requires the additional disclosure of the target value for the one-year variable compensation and the maximum and minimum compensation amounts achievable for the variable compensation elements. However, due to the payouts under the RSU Milestone Plan 2015 not being capped, there is no

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disclosure to be made for the maximum variable compensation amount achievable (marked as NA in the table below).

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German Corporate Governance Code (Benefits Granted in 2014 and 2015)

Benefits Granted	Michael Kleinemeier										
	Bill McDermott				Robert Enslin				Member of the Executive Board		
	CEO			2014 ¹⁾	Member of the Executive Board			(from November 1, 2015)			
	2015 ¹⁾	2015 (Min)	2015 (Max)		2015 ¹⁾	2015 (Min)	2015 (Max)	2015	2015 (Min)	2015 (Max)	2014
Fixed compensation	1,150.0	1,150.0	1,150.0	1,150.0	700.0	700.0	700.0	462.9	116.7	116.7	116.7
Fringe benefits ²⁾	1,258.0	1,258.0	1,258.0	861.4	103.3	103.3	103.3	121.0	0	0	0
Total	2,408.0	2,408.0	2,408.0	2,011.4	803.3	803.3	803.3	583.9	116.7	116.7	116.7
One-year variable compensation	1,860.0	0	3,371.3	1,860.0	1,125.8	0	2,040.5	746.4	188.1	0	340.9
Multiyear variable compensation											
RSU Milestone Plan 2015		0	NA			0	NA	939.4	315.0	0	NA
Total	4,268.0	2,408.0	NA	3,871.4	1,929.1	803.3	NA	2,269.7	619.8	116.7	NA
Service cost	682.4	682.4	682.4	646.8	308.0	308.0	308.0	148.1	0	0	0
Total	4,950.4	3,090.4	NA	4,518.2	2,237.1	1,111.3	NA	2,417.8	619.8	116.7	NA

German Corporate Governance Code (Benefits Granted in 2014 and 2015)

Benefits Granted	Bernd Leukert				Luka Mucic				Gerhard Oswald			
	Member of the Executive Board			2014	Member of the Executive Board			2014	Member of the Executive Board			2014
	2015	2015 (Min)	2015 (Max)		2015	2015 (Min)	2015 (Max)		2015	2015 (Min)	2015 (Max)	
	Fixed compensation	700.0	700.0	700.0	462.9	700.0	700.0	700.0	350.0	700.0	700.0	700.0
Fringe benefits ²⁾	11.7	11.7	11.7	12.2	12.1	12.1	12.1	4.3	22.4	22.4	22.4	
Total	711.7	711.7	711.7	475.1	712.1	712.1	712.1	354.3	722.4	722.4	722.4	
One-year variable compensation	1,125.8	0	2,040.5	746.4	1,125.8	0	2,040.5	567.5	1,125.8	0	2,040.5	
Multiyear variable compensation												
RSU Milestone Plan 2015		0	NA	939.4		0	NA	729.0		0	NA	
Total	1,837.5	711.7	NA	2,160.9	1,837.9	712.1	NA	1,650.8	1,848.2	722.4	NA	
Service cost	0	0	0	0	0	0	0	0	0	0	0	
Total	1,837.5	711.7	NA	2,160.9	1,837.9	712.1	NA	1,650.8	1,848.2	722.4	NA	

¹⁾ The value of the fixed and one-year variable elements is subject to a contractual exchange-rate clause applied at the end of the year, so the amounts actually paid may be greater.

²⁾ Insurance contributions, benefits in kind, expenses for maintenance of two households, use of aircraft, tax and discrete payments arising through application of the fixed exchange-rate clause.

The total Executive Board compensation granted according to the Code amounted to 13,330,900 (2014: 23,302,200).

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German Corporate Governance Code (Allocation)

Allocation

	Bill McDermott CEO		Robert Enslin Member of the Executive Board		Michael Kleinemeier Member of the Executive Board (from November 1, 2015)	
	2015	2014	2015	2014	2015	2014
	Fixed compensation	1,150.0	1,150.0	700.0	462.9	116.7
Fringe benefits ¹⁾	1,258.0	861.4	103.3	121.0	0	
Total	2,408.0	2,011.4	803.3	583.9	116.7	
One-year variable compensation	2,036.7	1,737.2	817.3			
Multi-year variable compensation						
RSU Milestone Plan 2015						
MTI		1,011.1				
SAP SOP 2011						
SAP SOP 2010						
SAP SOP 2009		378.7				
Other						
Total	4,444.7	5,138.4	1,620.6	583.9	116.7	
Service cost	682.4	646.9	308.0	148.1	0	
Total	5,127.1	5,785.3	1,928.6	732.0	116.7	

German Corporate Governance Code (Allocation)

Allocation

	Bernd Leukert		Luka Mucic		Gerhard Oswald	
	Member of the Executive Board		Member of the Executive Board		Member of the Executive Board	
	2015	2014	2015	2014	2015	2014
Fixed compensation	700.0	462.9	700.0	350.0	700.0	700.0
Fringe benefits ¹⁾	11.7	12.2	12.1	4.3	22.4	22.0
Total	711.7	475.1	712.1	354.3	722.4	722.0
One-year variable compensation	817.3		621.4		1,232.7	1,051.5
Multi-year variable compensation						
RSU Milestone Plan 2015						
MTI						611.0
SAP SOP 2011					1,126.7	
SAP SOP 2010						1,590.9
SAP SOP 2009						
Other						
Total	1,529.0	475.1	1,333.5	354.3	3,081.8	3,975.4
Service cost	0	0	0	0	0	0
Total	1,529.0	475.1	1,333.5	354.3	3,081.8	3,975.4

¹⁾ Insurance contributions, benefits in kind, expenses for maintenance of two households, use of aircraft, tax and discrete payments arising through application of the fixed exchange-rate clause.

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The total Executive Board compensation allocated according to the Code amounted to 13,116,700 (2014: 32,687,400).

End-of-Service Benefits

Regular End-of-Service Undertakings

Retirement Pension Plan

The following retirement pension agreements apply to the individual members of the Executive Board:

Michael Kleinemeier, Bernd Leukert, Luka Mucic, and Gerhard Oswald receive a retirement pension when they reach the retirement age of 60 (62 for Board Members appointed after January 1, 2012) and retire from 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 SE. 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 (62 for Board Members appointed after January 1, 2012), 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. Originally, Gerhard Oswald was under a performance-based retirement plan. This 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 remains a member of the Executive Board after his 60th birthday until his scheduled retirement on December 31, 2016.

Bill McDermott has rights to future benefits under the portion of the pension plan for SAP America classified as Non-Qualified Retirement Plan according to the U.S. Employee Retirement Income Security Act (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.

SAP made contributions to a third-party pension plan for Bill McDermott (2015: 682,400; 2014: 646,800) and Robert Enslin (2015: 308,000; 2014: 148,100). SAP's contributions are based on payments by Bill McDermott and Robert Enslin into this pension plan.

Table of Contents**Total Defined Benefit Obligations (DBO) and the Total Accruals for Pension Obligations to Executive Board Members**

thousands	Bill McDermott (CEO)	Michael Kleinemeier (from November 1, 2015) ¹⁾	Bernd Leukert ¹⁾	Luka Mucic ¹⁾	Gerhard Oswald	Total
DBO January 1, 2014	1,042.7				5,816.5	6,859.2
Less plan assets market value January 1, 2014					4,651.3	4,651.3
Accrued January 1, 2014	1,042.7				1,165.2	2,207.9
DBO change in 2014	169.8		123.2	102.8	1,404.9	1,800.7
Plan assets change in 2014			94.6	67.8	341.1	503.5
DBO December 31, 2014	1,212.5		123.2	102.8	7,221.4	8,659.9
Less plan assets market value December 31, 2014			94.6	67.8	4,992.4	5,154.8
Accrued December 31, 2014	1,212.5		28.6	35.0	2,229.0	3,505.1
DBO change in 2015	170.0	29.7	129.2	129.9	171.2	287.6
Plan assets change in 2015		25.4	145.6	138.0	356.9	665.9
DBO December 31, 2015	1,382.5	29.7	252.4	232.7	7,050.2	8,947.5
Less plan assets market value December 31, 2015		25.4	240.2	205.8	5,349.3	5,820.7
Accrued December 31, 2015	1,382.5	4.3	12.2	26.9	1,700.9	3,126.8

¹⁾ The values shown here only reflect the pension entitlements that Michael Kleinemeier, Bernd Leukert and Luka Mucic will receive from the retirement pension plan for Executive Board members.

The table below shows the annual pension entitlement of each member of the Executive Board on reaching the scheduled retirement age (60 for Executive Board members initially appointed before 2012 and 62 for Executive Board members initially appointed after January 1, 2012) based on entitlements from SAP under performance-based and salary-linked plans vested on December 31, 2015.

Annual Pension Entitlement

thousands	Vested on December 31, 2015	Vested on December 31, 2014
Bill McDermott (CEO) ¹⁾	106.9	94.0
Michael Kleinemeier (from November 1, 2015)	0.7	
Bernd Leukert	8.8	3.5
Luka Mucic	7.8	2.6
Gerhard Oswald ²⁾	302.5	279.4

¹⁾ The rights shown here for Bill McDermott refer solely to rights under the pension plan for SAP America.

²⁾ Due to the extension of Gerhard Oswald's contract beyond June 30, 2014, these values represent the retirement pension entitlement that he would receive after his current Executive Board contract expires on December 31, 2016, based on the entitlements vested on December 31, 2015 (December 31, 2014).

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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 scheduled retirement age will be higher than the amounts shown in the table.

Postcontractual Non-Compete Provisions

During the agreed 12-month postcontractual non-compete period, each Executive Board member receives abstention payments corresponding to 50% of the final average contractual compensation as agreed in the respective contract on an individual basis. Any other occupational income generated by the Executive Board member will be deducted from their compensation in

accordance with section 74c of the German Commercial Code.

The following table presents the net present values of the postcontractual non-compete 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 2015. Actual postcontractual non-compete 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 Non-Compete Abstention Payments

thousands	Contract Term Expires	Net Present Value of Postcontractual Non-Compete Abstention Payment ¹⁾
Bill McDermott (CEO)	June 30, 2017	4,627.7
Robert Enslin	June 30, 2017	1,967.2
Michael Kleinemeier		
(from November 1, 2015)	October 31, 2018	349.6
Bernd Leukert	June 30, 2017	1,921.5
Luka Mucic	June 30, 2017	1,921.7
Gerhard Oswald	December 31, 2016	1,928.9
Total		12,716.6

¹⁾ For the purpose of this calculation, the following discount rates have been applied: Bill McDermott 0.18% (2014: 0.46%); Robert Enslin 0.18% (2014: 0.46%); Michael Kleinemeier 0.50%; Bernd Leukert 0.18% (2014: 0.46%); Luka Mucic 0.18% (2014: 0.46%); Gerhard Oswald 0.15% (2014: 0.38%).

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 SE 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 they have not served SAP as a member of the Executive Board for at least one year or if they leave SAP SE for reasons for which they are responsible. Upon the appointment of Robert Enslin, Bernd Leukert, Luka Mucic, and Michael Kleinemeier to the Executive Board, the Supervisory Board abstained from the waiting period of one year due to their previous membership to the Global Managing Board.

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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 SE 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 SE under the German Securities Acquisition and Takeover Act, when SAP SE merges with another company and becomes the subsumed entity, or when a control or profit transfer agreement is concluded with SAP SE as the dependent company. An Executive Board member's contract can also be terminated before full term if their appointment as an Executive Board member of SAP SE is revoked in connection with a change of control.

Table of Contents**Postcontractual Non-Compete Provisions**

Abstention compensation for the postcontractual non-compete 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 2015, we paid pension benefits of 1,580,000 to Executive Board members who had retired before January 1, 2015 (2014: 1,425,000). At the end of the year, the DBO for former Executive Board members was 32,758,000 (2014: 33,764,000). Plan assets of 26,716,000 are available to meet these obligations (2014: 25,584,000).

Executive Board Members Holdings of Long-Term Incentives

Members of the Executive Board hold or held share-based payment rights throughout the year under the RSU Milestone Plan 2015 and the SAP SOP 2010 (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).

RSU Milestone Plan 2015

The table below shows Executive Board members' holdings, on December 31, 2015, of RSUs 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 (2015 Tranche)

Quantity of RSUs	Holding on January 1, 2015	Grants in 2015	Performance- Related Adjustment	Exercised Units	Forfeited Units	Holding on December 31, 2015
Bill McDermott (CEO)	255,050	77,099	36,568			368,717
Robert Enslin	14,148	27,656	12,329			54,133
Michael Kleinemeier (from November 1, 2015)	0	4,622	599			5,221
Bernd Leukert	14,148	27,656	13,922			55,726
Luka Mucic	10,757	27,656	13,474			51,887
Gerhard Oswald	91,490	27,656	13,117			132,263
Total	385,593	192,345	90,009	0	0	667,947

The holding of RSUs on December 31, 2015, which were issued and not forfeited in 2015, reflects the number of RSUs multiplied by the total target achievement. The total target achievement consists of the addition of the target achievement of the financial KPIs of 112.96% and the adjustment factor based on individual plan

participation. The RSUs allocated in 2012 have a remaining term of 0.08 years; the RSUs allocated in 2013 have a remaining term of 1.08 years; the RSUs allocated in 2014 have a remaining term of 2.08 years; and the RSUs allocated in 2015 have a remaining term of 3.08 years.

Table of Contents**RSU Milestone Plan 2015 (2014 Tranche)**

Quantity of RSUs	Holding on January 1, 2014	Grants in 2014	Performance- Related Adjustment	Exercised Units	Forfeited Units	Holding on December 31, 2014
Bill McDermott (CEO)	195,562	76,374	16,886			255,050
Dr. Werner Brandt (until June 30, 2014)	70,151	27,396			27,396	70,151
Gerhard Oswald	70,151	27,396	6,057			91,490
Dr. Vishal Sikka (until May 4, 2014) ¹⁾	70,151	27,396		70,151	27,396	
Robert Enslin (from May 4, 2014)	0	18,164	4,016			14,148
Bernd Leukert (from May 4, 2014)	0	18,164	4,016			14,148
Luka Mucic (from July 1, 2014)	0	13,811	3,054			10,757
Total	406,014	208,701	34,029	70,151	54,792	455,743

¹⁾ According to the termination agreement with Vishal Sikka, the 2012 grants will be paid out after the close of the Annual General Meeting of Shareholders in 2016, based on a fixed share price of \$52.96. The 2013 grants will be paid out after the close of the Annual General Meeting of Shareholders in 2017 based on a fixed share price of \$58.69.

The holding of RSUs on December 31, 2014, which were issued and not forfeited in 2014, reflects the number of RSUs multiplied by the 77.89% target achievement.

RSU Milestone Plan 2015 (2013 Tranche)

Quantity of RSUs	Holding on January 1, 2013	Grants in 2013	Performance- Related Adjustment	Exercised Units	Forfeited Units	Holding on December 31, 2013
Bill McDermott (co-CEO)	127,425	73,289	5,152			195,562
Jim Hagemann Snabe (co-CEO) ¹⁾	127,425	73,289	5,152	195,562		
Dr. Werner Brandt	45,709	26,290	1,848			70,151
Gerhard Oswald	45,709	26,290	1,848			70,151
Dr. Vishal Sikka	45,709	26,290	1,848			70,151
Total	391,977	225,448	15,849	195,562	0	406,014

¹⁾ According to the termination agreement with Jim Hagemann Snabe, the 2012 and 2013 grants were paid out after the close of the Annual General Meeting of Shareholders on May 21, 2014, based on a fixed share price of \$52.96 for the 2012 grants and \$58.69 for the 2013 grants.

The holding of RSUs on December 31, 2013, which were issued and not forfeited in 2013, reflects the number of RSUs multiplied by the 92.97% target achievement.

Table of Contents**RSU Milestone Plan 2015 (2012 Tranche)**

Quantity of RSUs	Holding on January 1, 2012	Grants in 2012	Performance- Related Adjustment	Exercised Units	Forfeited Units	Holding on December 31, 2012
Bill McDermott (co-CEO)		95,414	32,011			127,425
Jim Hagemann Snabe (co-CEO)		95,414	32,011			127,425
Dr. Werner Brandt		34,226	11,483			45,709
Gerhard Oswald		34,226	11,483			45,709
Dr. Vishal Sikka		34,226	11,483			45,709
Total		293,506	98,471			391,977

The holding on December 31, 2012, reflects the number of RSUs issued in 2012 multiplied by the 133.55% target achievement.

SAP SOP 2010

The table below shows Executive Board members' holdings, on December 31, 2015, 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 were exercisable beginning in September 2014 and the options issued in 2011 were exercisable beginning in June 2015.

SAP SOP 2010 Virtual Share Options

	Year Granted	Holding on January 1, 2015		Strike Price per Option	Rights Exercised in 2015	Price on Exercise Date	Forfeited Rights		Holding on December 31, 2015	
		Quantity of Options	Remaining Term in Years				Quantity of Options	Quantity of Options	Remaining Term in Years	
Bill McDermott										
(CEO)	2010	135,714	2.69	40.80					135,714	1.69
	2011	112,426	3.44	48.33					112,426	2.44
Gerhard Oswald	2010	0			0					
	2011	68,284		48.33	68,284	64.83				
Total		316,424			68,284				248,140	

Table of Contents**Total Expense for Share-Based Payment**

Total expense for the share-based payment plans of Executive Board members was recognized as follows.

Total Expense for Share-Based Payment

thousands	2015	2014
Bill McDermott (CEO)	12,291.1	5,063.8
Robert Enslin	1,851.2	1,833.5
Michael Kleinemeier (from November 1, 2015)	364.7	
Bernd Leukert	2,208.6	1,759.7
Luka Mucic	2,148.5	1,577.2
Gerhard Oswald	3,445.6	1,891.1
Total	22,309.7	12,125.3

The expense is recognized in accordance with IFRS 2 (Share-Based Payments) and consists exclusively of obligations arising from Executive Board activities.

Shareholdings and Transactions of Executive Board Members

No member of the Executive Board holds more than 1% of the ordinary shares of SAP SE. Members of the

Executive Board held a total of 45,309 SAP shares on December 31, 2015 (2014: 36,426 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 2015.

Transactions in SAP Shares

	Transaction Date	Transaction	Quantity	Unit Price
Bill McDermott (CEO)	August 11, 2015	Purchase of ADRs	2,000	US\$71.5845
Robert Enslin	August 26, 2015	Purchase of ADRs	1,145	US\$66.3099
Bernd Leukert	May 7, 2015	Share sale	1,595	66.2364
	August 13, 2015	Share purchase	830	63.7290
Luka Mucic	May 20, 2015	Share purchase	700	68.9990
Gerhard Oswald	July 22, 2015	Share purchase	930	66.7100

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 2015 or the previous year.

As far as the law permits, SAP SE 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 SE as required by section 93 (2) of the German Stock Corporation Act.

Compensation for Supervisory Board Members

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Compensation System

Supervisory Board members' compensation is governed by our Articles of Incorporation, section 16. By resolution of our May 20, 2015, Annual General Meeting of Shareholders the section was changed from the compensation with fixed and performance-related components to a fixed compensation plus fixed amounts for membership in and chairing of committees.

Each member of the Supervisory Board receives, in addition to the reimbursement of their expenses, an annual basic compensation of \$165,000. The chairperson receives \$275,000 and the deputy chairperson \$220,000.

For membership of the Audit Committee, Supervisory Board members receive additional fixed annual

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compensation of 16,500, and for membership of any other Supervisory Board committee 11,000, provided that the committee concerned has met in the year. The chairperson of the Audit Committee receives 27,500, and the chairpersons of the other committees receive 22,000. The fixed remuneration is payable after the end of the year.

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(s) and to the remuneration for the chairperson and the members of a committee.

Supervisory Board Members Compensation in 2015

thousands	Fixed Compen- sation	Compen- sation for Commit- tee Work	2015 Total	Fixed Compen- sation	Compen- sation for Commit- tee Work	Variable Compen- sation	2014 Total
Prof. Dr. h.c. mult. Hasso Plattner (chairperson)	275.0	66.0	341.0	100.0	100.0	150.0	350.0
Margret Klein-Magar (deputy chairperson from May 20, 2015)	215.4	29.3	244.8	50.0	30.0	100.0	180.0
Pekka Ala-Pietilä	165.0	27.5	192.5	50.0	30.0	100.0	180.0
Panagiotis Bissiritsas	165.0	32.1	197.1	50.0	20.0	100.0	170.0
Catherine Bordelon (until May 20, 2015)	68.8	0	68.8	25.0	5.0	50.0	80.0
Martin Duffek (from May 20, 2015)	110.0	18.3	128.3	NA	NA	NA	NA
Prof. Anja Feldmann	165.0	22.0	187.0	50.0	20.0	100.0	170.0
Prof. Dr. Wilhelm Haarmann	165.0	44.0	209.0	50.0	50.0	100.0	200.0
Andreas Hahn (from May 20, 2015)	110.0	14.7	124.7	NA	NA	NA	NA
Christiane Kuntz-Mayr (deputy chairperson and member until May 20, 2015)	91.7	9.2	100.8	70.0	20.8	130.0	220.8
Prof. Dr. Gesche Joost (from May 28, 2015)	110.0	11.0	121.0	NA	NA	NA	NA
Lars Lamadé	165.0	22.0	187.0	50.0	30.0	100.0	180.0
Steffen Leskovar (until May 20, 2015)	68.8	11.5	80.2	25.0	12.5	50.0	87.5
Bernard Liautaud	165.0	22.0	187.0	50.0	30.0	100.0	180.0
Dr. h. c. Hartmut Mehdorn (until May 15, 2015)	68.8	9.2	77.9	50.0	20.0	100.0	170.0
Christine Regitz (from May 20, 2015)	110.0	14.7	124.7	NA	NA	NA	NA
Dr. Kurt Reiner (until May 20, 2015)	68.8	9.2	77.9	50.0	20.0	100.0	170.0
Mario Rosa-Bian (until May 20, 2015)	68.8	9.2	77.9	50.0	15.0	100.0	165.0
Dr. Erhard Schipporeit	165.0	27.5	192.5	50.0	35.0	100.0	185.0
Stefan Schulz (until May 20, 2015)	68.8	11.5	80.2	50.0	30.8	100.0	180.8
Robert Schuschnig-Fowler (from May 20, 2015)	110.0	7.3	117.3	NA	NA	NA	NA
Dr. Sebastian Sick (from May 20, 2015)	110.0	14.7	124.7	NA	NA	NA	NA
Jim Hagemann Snabe	165.0	22.0	187.0	25.0	10.0	50.0	85.0
Pierre Thiollet (from May 20, 2015)	110.0	7.3	117.3	NA	NA	NA	NA
Inga Viele (until July 6, 2014)	NA	NA	NA	29.2	14.6	58.3	102.1
Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer	165.0	16.5	181.5	50.0	20.8	100.0	170.8
Total	3,249.6	478.5	3,728.1	924.2	514.5	1,788.3	3,227.0

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In addition, we reimburse members of the Supervisory Board for their expenses and the value-added tax payable on their compensation.

In total, we received services from members of the Supervisory Board (including services from employee representatives on the Supervisory Board in their capacity as employees of SAP) in the amount of 1,282,800 (2014: 2,295,000). This amount includes fees paid to Linklaters LLP in Frankfurt am Main, Germany (which Supervisory Board member Wilhelm Haarmann is a partner of) of 224,500 (2014: 1,001,700).

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 90,248,789 SAP shares on December 31, 2015 (December 31, 2014: 107,442,743 SAP shares), representing 7.346% (2014: 8.746%) of SAP's share capital. No other member of the Supervisory Board held more than 1% of the SAP SE share capital at the end of 2015 or of the previous year. Members of the Supervisory Board held a total of 90,262,686 SAP shares on December 31, 2015 (December 31, 2014: 107,467,372 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 2015:

Transactions in SAP Shares

	Transaction Date	Transaction	Quantity	Unit Price
Andreas Hahn	May 28, 2015	Share purchase	12	57.3600
	June 2, 2015	Share sale	100	67.4170
	August 5, 2015	Share sale	115	66.2200
	October 28, 2015	Share sale	38	70.0100
Margret Klein-Magar	May 7, 2015	Share sale	120	66.2364
Hasso Plattner	December 18, 2015	Share purchase	2,444,816	72.9300
Hasso Plattner GmbH & Co. Beteiligungs-KG	December 23, 2015	Compensation in kind (granting party)	87,803,973	1)
HP Vermögensverwaltungs GmbH & Co. KG	December 23, 2015	Compensation in kind (receiving party)	87,803,973	1)
Sabine Plattner GmbH & Co. Beteiligungs-KG	November 25, 2015	Share sale	480,000	2)
Riitta Schuschnig-Fowler	December 8, 2015	Share sale	50	72.4500
Robert Schuschnig-Fowler	December 8, 2015	Share sale	35	72.6500
Ingrid van Skyhawk	May 28, 2015	Share purchase	11	57.3600
	June 2, 2015	Share sale	75	67.4170
	August 4, 2015	Share sale	122	65.6800
	November 18, 2015	Share sale	90	73.7700

1) Compensation in kind of 87,803,973 shares, hypothetical volume of the transaction 6,299,935,062.75.

2) The notifying party concluded a contract with a bank acting as commission agent for the sale of 10,000 SAP shares per week. The sale will be carried out at the bank's own discretion in the stock market or over the counter in the months December 2015 through November 2016.

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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 2015 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.

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 (D&O) 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

Note (7) to our Consolidated Financial Statements presents the number of employees, measured in full-time equivalents by functional area and by geographic region.

On December 31, 2015, we had 76,986 full-time equivalent (FTE) employees worldwide (December 31, 2014: 74,406). This represents an increase in headcount of 2,579 FTEs in comparison to 2014. The average number of employees in 2015 was 75,180 (2014: 68,343).

We define 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 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 temporary employees is not material.

On December 31, 2015, the largest number of SAP employees (44%) were employed in the Europe, Middle East, and Africa (EMEA) region (including 23% in Germany and 21% in other countries of the region), while 29% were employed in the North America and Latin America (Americas) region (including 21% in the United States and 8% in other countries of the region) and 27% in the Asia Pacific Japan (APJ) region.

Our worldwide headcount in the field of cloud and software decreased less than 1% to 14,991 FTEs (2014: 15,074). Services counted 15,085 FTEs at the end of 2015 – an increase of 3% (2014: 14,639). Our R&D

headcount saw a year-over-year increase of 11% to 20,938 FTEs (2014: 18,908). Sales and marketing headcount grew by 1% to 18,206 FTEs at the end of the year (2014: 17,969). General and administration headcount stayed constant at 5,024 FTEs at the end of the year (2014: 5,023). Our infrastructure employees numbered 2,743 FTEs – a decrease of 2% (2014: 2,794).

In the Americas region, headcount (FTEs) increased by 95, or less than 1%; in the EMEA region, the increase was 566, or 2%; and in the APJ region, it was 1,919, or 10%.

Our personnel expense per employee increased to approximately 135,000 in 2015 (2014: approximately 115,000). This rise in expense is primarily attributable to an increase in salaries, employee-related restructuring expenses, share-based payments, and a significant rise in the share price in 2015. 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 employ, see the Notes to the Consolidated Financial Statements section, Note (7).

Employee and Labor Relations

On a worldwide basis, we believe that our employee and labor relations are excellent.

On a corporate level employees of SAP in Europe are represented by the SAP SE Works Council (WoC) (Europe). By law and agreement with SAP the SAP SE WoC (Europe) is entitled to receive information on transnational matters and to consult with the Executive Board or a representative thereof. The SAP SE WoC (Europe) was established in November 2014 as a result of the legal transformation of SAP AG into SAP SE. The SAP SE WoC (Europe) replaced the European Works Council which was dissolved following the conversion.

On the legal entity level, the SAP SE works council (Germany) represents the employees of SAP SE. The employees of SAP Deutschland SE & Co. KG (SAP Germany) are represented by a separate works council. Other employee representatives include the group works council (members of the works councils of SAP SE 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.

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Employees of SAP France, SAP France Holding and SAP Labs France SAS are subject to a collective bargaining agreement. Each of SAP France, SAP France Holding, SAP Labs France SAS, Multiposting SAS France and b-process France are represented by a French works council. The represented unions negotiate agreements with SAP France and SAP Labs France SAS.

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In addition, the employees of various other SAP entities, including SAP España – Sistemas, Aplicaciones y Productos en la Informática, S.A., SAP Belgium NV/SA., SAP Nederland B.V., SAP Italia Sistemi Applicazioni Prodotti in Data Processing S.p.A., Concur (France) SAS, SAP Brasil Ltda, SAP sistemi, aplikacije in produkti za obdelavo podatkov d.o.o.(Slovenia), SAP Romania SRL, SAP Argentina S.A. and SAP Svenska Aktiebolag (Sweden), are represented by works councils, worker representatives, employee consultation forums and/or unions. In addition, some of these employees are subject to a collective bargaining agreement.

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 are 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. Directors, Senior Management and Employees – Compensation Report and Note (27) to our Consolidated Financial Statements.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS**MAJOR SHAREHOLDERS**

The share capital of SAP SE consists of ordinary shares, which are issued only in bearer form. Accordingly, SAP SE generally cannot determine the identity of its shareholders 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 SE ordinary share. On March 11, 2016, based on information provided by the Depository there were 41,751,316 ADRs held of record by 917 registered holders. The ordinary shares underlying such ADRs represented 3.40% 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 11, 2016 of: (i) each person or group known by SAP SE 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 SE 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.

	Ordinary Shares	
	Beneficially Owned	
	% of	
	Number	Outstanding
Major Shareholders		
Dietmar Hopp, collectively ⁽¹⁾	65,273,200	5.313%
Hasso Plattner, Chairperson Supervisory Board, collectively ⁽²⁾	90,248,789	7.346%
Joint heirs of Klaus Tschira, collectively ⁽³⁾	88,149,595	7.175%
Executive Board Members as a group (6 persons)	45,309	0.004%
Supervisory Board Members as a group (18 persons)	90,262,818	7.347%
Executive Board Members and Supervisory Board Members as a group (24 persons) ⁽⁴⁾	90,308,127	7.351%
Options and convertible bonds that are vested and exercisable within 60 days of March 11, 2016, held by Executive Board Members and Supervisory Board Members, collectively	0	NA
BlackRock, Inc. ⁽⁵⁾	NA	>5%

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⁽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 15, 2016.

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(2) Includes HP Vermögensverwaltungs GmbH & Co. KG in which Hasso Plattner exercises sole voting and dispositive power.

(3) Includes Klaus Tschira Stiftung gGmbH and Dr. h. c. Tschira Beteiligungs GmbH & Co. KG in which the joint heirs of Klaus Tschira exercise 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 SE's ordinary shares as of March 11, 2016.

(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.

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-73.

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.

Refer to Note (23) to our Consolidated Financial Statements for a detailed discussion of our material legal proceedings.

Dividend Policy

For more information on dividend policy see the disclosure in Item 3. Key Information - Dividends .

Significant Changes

We are in the process of preparing the consolidation of intellectual property rights from hybris AG to SAP SE. For more information about this transfer, see Note (32).

The Supervisory Board of SAP SE appointed Stefan Ries and Steve Singh to the SAP Executive Board, with effect from April 1, 2016.

Stefan Ries will continue his role as Chief Human Resources Officer and also take on the role of SAP Labor Relations Director. Steve Singh will continue to lead the SAP Business Network Group.

The Global Managing Board will be dissolved on March 31, 2016.

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 principal trading market for the ordinary shares is Xetra, the electronic dealing platform of Deutsche Boerse AG.

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ADRs representing SAP SE ordinary shares are listed on the New York Stock Exchange (NYSE) under the symbol SAP, and currently each ADR represents one ordinary share.

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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 ⁽¹⁾ in points		Price per ADR in US\$	
	High	Low	High	Low	High	Low
Annual Highs and Lows						
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
2013	64.80	52.20	9,589.39	7,459.96	87.14	70.27
2014	62.55	50.90	10,087.12	8,571.95	85.45	64.14
2015	74.85	54.53	12,374.73	9,427.64	80.91	63.37
Quarterly Highs and Lows						
2014						
First Quarter	62.55	54.31	9,742.96	9,017.79	85.45	74.87
Second Quarter	59.15	54.41	10,028.80	9,173.71	81.77	74.21
Third Quarter	61.12	56.53	10,029.43	9,009.32	82.30	72.16
Fourth Quarter	58.73	50.90	10,087.12	8,571.95	71.70	64.14
2015						
First Quarter	67.60	54.53	12,167.72	9,469.66	73.53	63.56
Second Quarter	70.72	62.60	12,374.73	10,944.97	77.27	70.23
Third Quarter	68.77	55.89	11,735.72	9,427.64	74.60	63.37
Fourth Quarter	74.85	57.12	11,382.23	9,509.25	80.91	64.16
Monthly Highs and Lows						
2015						
July	68.77	61.29	11,735.72	10,676.78	74.60	68.26
August	66.79	56.90	11,636.30	9,648.43	73.08	65.47
September	59.83	55.89	10,317.84	9,427.64	67.07	63.37
October	71.88	57.12	10,850.14	9,509.25	78.71	64.16
November	74.85	72.33	11,382.23	10,708.40	80.22	77.96
December	74.75	69.40	11,261.24	10,139.34	80.91	77.21
2016						
January	74.25	70.58	10,310.10	9,391.64	80.36	76.90
February	73.19	64.90	9,757.88	8,752.87	79.70	73.68
March (through March 11, 2016)	71.17	68.62	9,831.13	9,498.15	78.65	76.34

⁽¹⁾ 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.

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On March 11, 2016, the closing sales price per ordinary share on the Frankfurt Stock Exchange (Xetra Trading System) was 69.97 and the closing sales price per ADR on the NYSE was US \$78.65, as reported by Reuters.

ITEM 10. ADDITIONAL INFORMATION

ARTICLES OF INCORPORATION

Organization and Register

SAP SE is a European Company (Societas Europaea, or SE) organized in the Federal Republic of Germany under German and European law, including Council Regulation (EC) No. 2157/2001 on the Statute for a European Company (the SE Regulation), the German Act on the Implementation of Council Regulation No. 2157/2001 of October 8, 2001 on the Statute for a European Company (Gesetz zur Ausführung der Verordnung (EG) Nr. 2157/2001 des Rates vom 8. Oktober 2001 über das Statut der Europäischen Gesellschaft (SE) SE-Ausführungsgesetz; SE-AG) of December 22, 2004, and the German Stock Corporation Act (Aktiengesetz). SAP SE is registered in the Commercial Register (Handelsregister) at the Lower Court of Mannheim, Germany, under the entry number HRB 719915. SAP SE publishes its official notices in the Federal Gazette (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 SE 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 investment purposes. 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 SE, as a European Company with a two-tier board system, is governed by three separate bodies: the Supervisory Board, the Executive Board and the Annual General Meeting of Shareholders. Their rules are defined by European and German law, by the Agreement on the Involvement of Employees in SAP SE (Employee Involvement Agreement , or EIA), 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. Types of transactions for which the Executive Board requires the Supervisory Board s consent are listed in the Articles of Incorporation; in addition, the Supervisory Board has specified further types of transactions that require its 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 SE in transactions between SAP SE 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.

Pursuant to Article 40 (3) sentence 1 of the SE Regulation, the number of members of the supervisory board and the rules for determining this number are to be laid down in the articles of incorporation. Furthermore, pursuant to Section 17 (1) SE-AG, the size of supervisory boards of companies which, like SAP SE, have a capital stock exceeding 10,000,000, is limited

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to 21 members. Moreover, the number of members must be divisible by three. In line with these provisions as well as the EIA, the Articles of Incorporation of SAP SE provide that the Supervisory Board shall be composed of 18 members. Furthermore, it is provided in the EIA that the shareholders of SAP SE have the possibility to reduce the size of the Supervisory Board in the future (i.e. at the earliest in the Annual General Meeting of Shareholders in 2018, with effect from the Annual General Meeting of Shareholders in 2019) to 12 members.

The current Supervisory Board of SAP SE consists of eighteen members, of which nine members were elected by SAP SE's shareholders at the Annual General Meeting of Shareholders in 2014, and nine members were appointed by the SAP SE Works Council Europe in 2015. The term of office of all eighteen members will end upon the conclusion of the Annual General Meeting of Shareholders in 2015.

The procedure for the appointment of the employees' representatives on the Supervisory Board of SAP SE is governed by the EIA. In accordance with the EIA, the nine seats on the first Supervisory Board reserved for employees' representatives were allocated as follows: the first six seats were allocated to Germany, the seventh seat was allocated to France, the eighth seat was also allocated to Germany, and the ninth seat was allocated to a European country not represented by the first eight seats, as determined by the SAP SE Works Council Europe. The employees' representatives for the first six seats allocated to Germany were determined by direct vote by all SAP employees with their principal place of employment in Germany. The employees' representative for the seventh seat allocated to France was determined according to the applicable provisions of French law on the election or appointment of employees' representatives on a supervisory board. With regard to the eighth and ninth seat, members of the SAP SE Works Council Europe from Germany and Slovakia were appointed by the SE Works Council as employees' representatives.

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 appointed in accordance with the EIA may be removed by the SAP SE Works Council Europe upon application by the body that nominated the respective employees' representative for appointment by the SE Works Council or, in case the employees' representative was directly elected, the majority of the employees entitled to vote.

The Supervisory Board elects a chairperson and one or two deputy chairperson(s) among its members by a majority of the votes cast. Only a shareholders' representative may be elected as chairperson of the Supervisory Board. When electing the chairperson of the Supervisory Board, the oldest member in terms of age of the shareholders' representatives on the Supervisory Board will chair the meeting and, in the event of a tied vote, will have the casting vote.

Unless otherwise mandatorily prescribed by law or the Articles of Incorporation, resolutions of the Supervisory Board are adopted by simple majority of the votes cast. In the event of a tie, the vote of the chairperson and, in the event that the chairperson does not participate in passing the resolution, the vote of the deputy chairperson, provided that he or she is a shareholders' representative, will be decisive (casting vote).

The members of the Supervisory Board cannot be elected or appointed, as the case may be, for a term longer than six years. Other than for the employees' representatives on the first Supervisory Board of SAP SE, the term expires at the close of the Annual General Meeting of Shareholders giving its formal approval of the acts of the Supervisory Board for the fourth fiscal year following the year in which the term of office of the Supervisory Board members commenced. Re-election is possible. Our Supervisory Board normally meets four times a year. The compensation of the members of the Supervisory Board is set in 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 SE. Further, as the compensation of the Supervisory Board members is set 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:

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The Audit Committee

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 and quality. SAP's Corporate Audit, SAP's Office of Legal Compliance and Integrity and SAP's Risk Management Office report upon request or at the occurrence of certain findings, but in any case at least once a year (Office of Legal Compliance and Integrity and Risk Management Office) or twice a year (Corporate Audit), 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.

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

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

compensation 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 compensation of Executive Board members, such vote, however, not being legally binding for the Supervisory Board.

The Finance and Investment Committee

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.

The Technology and Strategy Committee

The Technology and Strategy Committee (Technologie- und Strategieausschuss) monitors technology transactions and provides the Supervisory Board with in-depth technical advice.

The Nomination Committee

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

The Special Committee (Sonderausschuss) deliberates on matters arising out of substantial exceptional risks, such as major litigations.

The People and Organization Committee

The People and Organization Committee (Ausschuss für Mitarbeiter- und Organisationsangelegenheiten) deliberates and advises the Executive and Supervisory Board on key personnel matters and major organizational changes below the Executive Board and Global Managing Board level as well as equal opportunities for women at SAP.

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The duties and procedures of the Supervisory Board and its committees are specified in their respective rules of procedure, if any, which reflect the requirements of European and German law, including the SE Regulation and the German Stock Corporation Act, the Articles of Incorporation 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.

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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.

The Executive Board and the Supervisory Board cooperate closely for the benefit of the Company. The Executive Board is required to provide 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 and vice versa. 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 and shall, if required, convene an extraordinary meeting of the Supervisory Board.

Pursuant to the Articles of Incorporation, the Executive Board must consist of at least two members. SAP SE's Executive Board is currently comprised of six 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 SE. 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 SE, and may be liable to SAP SE 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 compensation of Executive Board members.

Under German law SAP SE's Supervisory Board members and Executive Board members have a duty of loyalty and care towards SAP SE. 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 SE 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. Its rules are observed as well by members of the Supervisory board as applicable.

Under German law the Executive Board of SAP SE 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 risk monitoring system to ensure that adverse developments endangering the corporate standing are recognized at a reasonably early point in time.

The Office of Legal Compliance and Integrity was created by the SAP Executive Board in 2006 to oversee and coordinate legal and regulatory policy compliance at SAP. The Chief Global Compliance Officer heading the Office of Legal Compliance and Integrity directly reports to the CFO of SAP SE and also has direct communication channels and reporting obligations to the Audit Committee of the Supervisory Board. The Office of Legal Compliance and Integrity 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 Office of Legal Compliance and Integrity 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.

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. The Global Managing Board has advisory and decision-supporting functions for the Executive Board and comprises all Executive Board members as well as Helen Arnold, Quentin Clark, Stefan Ries and Steve Singh.

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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 six 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 SE holding in the aggregate a minimum of 5% of SAP SE'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 SE that would have an effect of delaying, deferring or preventing a change in control of SAP SE 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 or another state of the European Economic Area (EEA) and its shares being traded on an EEA stock exchange must publish an advance notice of its decision to make a tender offer, submit an 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. The offer statement must be published upon approval by the Federal Financial Supervisory Authority or expiry of a certain time period without such publication being prohibited by the Federal Financial Supervisory

Authority. Once a shareholder has acquired shares representing at least 30% of the voting rights in an EEA-listed 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 general shareholders' meeting no earlier than 18 months in advance of such measures by a resolution of at least 75% of the shares represented.

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 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 SE 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 valid votes cast at the General Meeting of Shareholders in which the increase is proposed, and requires an amendment to the Articles of Incorporation.

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The share capital may be reduced by an amendment to the Articles of Incorporation approved by at least 75% of the valid votes cast at the General Meeting of Shareholders. In addition, the Executive Board of SAP SE 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 applicable European and German law.

RIGHTS ACCOMPANYING OUR SHARES

There are no limitations imposed by German law or the Articles of Incorporation of SAP SE 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 applicable European and German law.

Voting Rights

Each ordinary SAP SE share represents one vote. Cumulative voting is not permitted under applicable European and 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 mandatorily requires a certain majority. Section 21 (1) of SAP SE's Articles of Incorporation provides that resolutions may be passed at the General Meeting of Shareholders with a majority of valid votes cast, unless a larger majority is prescribed by law or the Articles of Incorporation. SAP SE's Articles of Incorporation as well as applicable European and German law require that the following matters, among others, be approved by at least 75% of the valid 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;
- a change of corporate form, including re-conversion into a German stock corporation;
- a transfer of the registered seat to another EU member state; and
- any other amendment to the Articles of Incorporation (pursuant to section 21 (2) sentence 1 of the Articles of Incorporation). For any amendments of the Articles of Incorporation which require a simple majority for stock corporations established under German law, however, section 21 (2) sentence 2 of SAP SE's Articles of Incorporation provides that the simple majority of the valid votes cast is sufficient if at least half of the subscribed capital is represented or, in the absence of such quorum, the majority prescribed by law (i.e. two thirds of the votes cast, pursuant to sec. 59 of the SE Regulation) is sufficient.

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 valid 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 SE 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 SE'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 SE to notify SAP SE and the Federal Financial Supervisory Authority of the number of 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 convey an unconditional entitlement to acquire under a legally binding agreement, shares in SAP SE, to notify SAP SE and the Federal Financial Supervisory Authority if the thresholds mentioned above have been reached, exceeded or fallen

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below, with the exception of the 3% threshold. This notification obligation also exists for the holder of a financial instrument which merely de facto enables its holder or a third party to acquire shares in SAP SE, subject to the thresholds mentioned in the preceding sentence. 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 (except for individuals and certain financial institutions) must report any accounts payable to or receivable from Non-Residents if such payables or receivables, in the aggregate, exceed 5 million (or the equivalent in a foreign currency) at the end of any calendar month. Furthermore, companies resident in Germany with accounts payable to or receivable from Non-Residents in excess of 500 million have to report any payables or receivables to/from Non-Residents arising from derivative instruments at the end of each calendar quarter. 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 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 an incorporated company is generally subject to German withholding tax at a

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domestic rate of 25% plus a solidarity surtax of 5.5% thereon (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 or refund 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 SE 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 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 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). Further relief of German withholding tax under the Treaty may be available for corporate U.S. Holders owning at least 10% of the voting stock of SAP or U.S. Holders qualifying as pension fund within the meaning of the Treaty, subject to further requirements being met.

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, 4645 Reservoir Road NW, Washington, DC 20007, 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.

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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 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 846, 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 SE, 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.

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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 SE 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 SE 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 SE 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 SE 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 SE to an individual are treated as **qualified dividends** subject to capital gains rates, i.e. at a maximum rate of 20%, if SAP SE 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 2015 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 2016 tax year. With the enactment of The Health Care and Education Reconciliation Act of 2010, certain US holders who are individuals, trusts, or estates, must pay a Medicare tax at a rate of 3.8% on the lesser of (i) net investment income such as dividends and (ii) the excess of modified adjusted gross income over the statutory thresholds.

U.S. Taxation of Capital Gains

In general, assuming that SAP SE at no time is a PFIC, upon a sale or exchange of ordinary shares to a person other than SAP SE, 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. Capital gains may also be subject to the Medicare tax at a rate of 3.8%. The deductibility of capital losses is subject to significant limitations. Upon a sale of ordinary shares to SAP SE, a U.S. Holder may recognize a capital gain or loss or, alternatively, may be considered to have received a distribution with 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

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(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 SE 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 SE's income and assets, SAP SE 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 SE 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

Concur Technologies, Inc.

Pursuant to the Agreement and Plan of Merger dated as of September 18, 2014 by and among Concur Technologies, Inc., SAP America, Inc. and Congress Acquisition Corp., on December 4, 2014 SAP America acquired Concur, the leader in the multi-billion travel and expense management software industry, for US\$129.00 per share which represents an enterprise value of approximately US\$8.3 billion. The transaction was funded primarily from a EUR 7.0 billion credit facility.

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 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.

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.

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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 SE's ADR program. ADR holders may be required to pay the following charges:

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;

US \$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;

a maximum aggregate service fee of US \$3.00 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

US \$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 fees may at any time and from time to time be changed by agreement between SAP SE and the Depositary. These charges are described more fully in Section 5.9 of the Amended and Restated Deposit Agreement dated as of November 25, 2009, as amended by Amendment No. 1 dated as of March 18, 2016 and as may be further amended from time to time, incorporated by reference as Exhibits 4.1.1 and 4.1.2 to this report.

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

In connection with the ADR program, the Depositary has agreed to make certain payments to SAP and waive certain costs of providing ADR administrative and reporting services, including reporting of ADR program activity, distribution of information to investors, managing the ADR program, including ADR processing activities and corporate actions, ADR broker desk services and ADR investor relations services, including production of investor targeting, peer analysis, shareholder identification reports and market perception studies. For the period beginning November 25, 2014 and ending November 24, 2015, the Depositary has made direct and indirect payments to SAP in an aggregate amount of US \$1,287,940.78 related to the ADR program. In 2015, the Depositary agreed to reimburse up to US \$25,000 in legal fees associated with the cost of renewal of the ADR program.

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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 chief executive officer (CEO) 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 CEO and CFO the effectiveness of SAP's disclosure controls and procedures as of December 31, 2015. 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 CEO and CFO. Based on the foregoing, SAP's management, including SAP's CEO and CFO, concluded that as of December 31, 2015, 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 CEO 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, 2015. 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 (2013).

Based on the assessment under these criteria, SAP management has concluded that, as of December 31, 2015, 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 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

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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 CEO 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

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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 charged 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.
- (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 (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.

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We rely on this exemption. Our Audit Committee includes two employees representatives, Panagiotis Bissiritsas and Martin Duffek , who were appointed to our Supervisory Board pursuant to the Agreement on the Involvement of Employees in SAP SE (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.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

At the Annual General Meeting of Shareholders on June 4, 2013, the Executive Board was authorized to acquire, on or before June 3, 2018, up to 120 million shares of SAP. The authorization from June 4, 2013 replaced the authorization from June 8, 2010.

The authorization is 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.

In 2015 there were no purchases made by us or on our behalf or on behalf of affiliates of SAP of SAP shares or SAP ADRs. The total number of SAP shares that SAP could purchase under existing repurchase programs was 92,299,388 as of December 31, 2015.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. DIFFERENCES IN CORPORATE GOVERNANCE PRACTICES

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 the European Union and 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

summarizes the principal ways in which SAP's corporate governance practices differ from the NYSE Rules applicable to domestic issuers.

LEGAL FRAMEWORK

The primary sources of law relating to the corporate governance of a European Company are the Council Regulation (EC) No. 2157/2001 on the Statute for a European Company (the SE Regulation), the German Act on the Implementation of Council Regulation No. 2157/2001 of October 8, 2001 on the Statute for a European Company (Gesetz zur Ausführung der Verordnung (EG) Nr. 2157/2001 des Rates vom 8. Oktober 2001 über das Statut der Europäischen Gesellschaft (SE) SE-Ausführungsgesetz; SE-AG) of December 22, 2004, and the German Stock Corporation Act (Aktiengesetz). 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 applicable European and German corporate governance practices, as SAP has implemented them, and those applicable to domestic companies under the NYSE Rules.

SAP SE IS A EUROPEAN COMPANY WITH A TWO-TIER BOARD SYSTEM

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SAP is governed by three separate bodies: (i) the Supervisory Board, which counsels, supervises and

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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 European and 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 SE Regulation and 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. As a foreign private issuer, SAP is not subject to the NYSE board, compensation committee and corporate governance committee independence requirements but instead can elect to follow its home country rules. With respect to the audit committee, SAP is required to satisfy Rule 10A-3 of the Exchange Act, which provides certain exemptions from the audit committee independence requirements in the case of employee board representatives. 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. Additionally, the Supervisory Board is required to implement and adhere to concrete director independence criteria, including a consideration of the total number of independent Supervisory Board members as defined in Section 5.4.2 of the Code. According to this definition, a Supervisory Board member will not be considered independent in particular if s/he has personal or business relations with the company, its executive bodies, a controlling shareholder or an enterprise associated with any of the preceding persons and entities which could cause a substantial and sustained 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 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.

Applicable European and 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, applicable European and 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 a European Company formed by conversion from a large German stock corporation which was subject to the principle of employee codetermination as outlined in the German Co-Determination Act of 1976 (Mitbestimmungsgesetz) is subject to at least the same level of employee participation which formerly existed in the German stock corporation that was converted to an SE. The terms of employee participation with regard to the Supervisory Board of SAP SE are, among others, set out in the Agreement on the Involvement of Employees in SAP SE. As a result, the Supervisory Board of SAP SE consists of 18 members, of which nine are representatives of SAP SE's shareholders elected at the Annual General Meeting and nine members are representatives of the European employees. Only a shareholders representative may be elected as chairperson of the Supervisory Board. In case

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of a tied vote, the vote of the chairperson and, in the event that the chairperson does not participate in passing the resolution, the vote of the deputy chairperson, provided that he or she is a shareholders' representative, will be decisive (casting 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 Wuchereh meet the independence requirements of Rule 10A-3 of the Exchange Act. The other two Audit Committee members, Panagiotis Bissiritsas and Martin Duffek, are employee representatives who are eligible for the exemption provided by Rule 10A-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 applicable European and German corporate law and the 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 applicable European and 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. Applicable European and German corporate law does not mandate the creation of specific supervisory board committees. The GCGC recommends that the Supervisory Board establish an Audit Committee and a Nomination 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, Special Committee and People and Organization 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 applicable European law, 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 applicable European and 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.

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PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

The Consolidated Financial Statements are included herein on pages F-1 through F-73.

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 December 31, 2015, 2014, and 2013.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013.

Consolidated Statements of Financial Position as of December 31, 2015 and 2014.

Consolidated Statements of Changes in Equity for the years ended December 31, 2015, 2014 and 2013.

Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013.

Notes to the Consolidated Financial Statements.

ITEM 19. EXHIBITS

The following documents are filed as exhibits to this report:

1 Articles of Incorporation (Satzung) of SAP SE, effective as of May 20, 2015 (English translation).

2.1 Form of global share certificate for ordinary shares (English translation).⁽¹⁾

Certain instruments which define rights of holders of long-term debt of SAP SE 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 SE and its subsidiaries. SAP SE and its subsidiaries hereby agree to furnish a copy of each such instrument to the Securities and Exchange Commission upon request.

4.1.1 Amended and Restated Deposit Agreement dated as of November 25, 2009, by and among SAP SE, Deutsche Bank Trust Company Americas as Depositary, and all owners and holders from time to time of American Depositary Receipts issued thereunder.⁽²⁾

4.1.2 Amendment No. 1 dated March 18, 2016 to the Amended and Restated Deposit Agreement, by and among SAP SE, 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 Receipt.⁽³⁾

4.9 Agreement and Plan of Merger dated as of September 18, 2014 by and among Concur Technologies, Inc., SAP America, Inc. and Congress Acquisition Corp.⁽⁴⁾

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, Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a).

12.2 Certification of Luka Mucic, Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a).

13.1 Certification of Bill McDermott, 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 Luka Mucic, 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 to SAP SE's 2014 Annual Report on Form 20-F filed with the SEC on March 20, 2015.

(2) Incorporated by reference to Exhibit 99.(a)(2) of Post Effective Amendment #1 to SAP SE's Registration Statement on Form F-6 filed on November 25, 2009.

(3) Incorporated by reference to Exhibit 99.(a)(2) of Post Effective Amendment #2 to SAP SE's Registration Statement on Form F-6 filed on March 18, 2016.

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(4) Incorporated by reference to Exhibit 2.1 to Concur Technologies, Inc.'s Current Report on Form 8-K filed on September 19, 2014.

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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 SE
(Registrant)

By: /s/ BILL MCDERMOTT

Name: Bill McDermott
Title: Chief Executive Officer

Dated: March 29, 2016

By: /s/ LUKA MUCIC

Name: Luka Mucic
Title: Chief Financial Officer

Dated: March 29, 2016

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SAP SE AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Supervisory Board of SAP SE:

We have audited the accompanying consolidated statements of financial position of SAP SE and subsidiaries (SAP or the Company) as of December 31, 2015 and 2014, 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, 2015. We also have audited SAP s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control Integrated Framework (2013) 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 SE and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). Also in our opinion, SAP SE maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control Integrated Framework (2013) issued by the COSO.

/s/KPMG AG

Wirtschaftsprüfungsgesellschaft

Mannheim, Germany

February 25, 2016

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Table of Contents**SAP SE AND SUBSIDIARIES****CONSOLIDATED FINANCIAL STATEMENTS****CONSOLIDATED INCOME STATEMENTS OF SAP GROUP**

for the years ended December 31,

	(Unaudited)			
	2015 ⁽¹⁾	2015	2014	2013
millions, unless otherwise stated	US\$			
Cloud subscriptions and support	2,482	2,286	1,087	696
Software licenses	5,250	4,835	4,399	4,516
Software support	10,960	10,093	8,829	8,293
Software licenses and support	16,210	14,928	13,228	12,809
Cloud and software	18,693	17,214	14,315	13,505
Services	3,887	3,579	3,245	3,310
Total revenue	22,579	20,793	17,560	16,815
Cost of cloud subscriptions and support	1,109	1,022	481	314
Cost of software licenses and support	2,488	2,291	2,076	2,056
Cost of cloud and software	3,597	3,313	2,557	2,370
Cost of services	3,598	3,313	2,716	2,660
Total cost of revenue	7,195	6,626	5,272	5,031
Gross profit	15,384	14,167	12,288	11,784
Research and development	3,090	2,845	2,331	2,282
Sales and marketing	5,865	5,401	4,304	4,131
General and administration	1,138	1,048	892	866
Restructuring	(6)	675	621	126
TomorrowNow and Versata litigation	(23)	0	0	309
Other operating income/expense, net	1	1	4	12
Total operating expenses	17,962	16,541	13,230	12,336
Operating profit	4,618	4,252	4,331	4,479
Other non-operating income/expense, net	278	256	49	17
Finance income	262	241	127	115
Finance costs	267	246	152	181
Financial income, net	5	5	25	66
Profit before tax	4,334	3,991	4,355	4,396
Income tax TomorrowNow and Versata litigation	0	0	86	8
Other income tax expense	1,016	935	1,161	1,063
Income tax expense	(10)	1,016	935	1,071
Profit after tax	3,318	3,056	3,280	3,325
Attributable to owners of parent	3,327	3,064	3,280	3,326
Attributable to non-controlling interests	9	8	0	1
Earnings per share, basic (in)	2.78	2.56	2.75	2.79
Earnings per share, diluted (in)	2.78	2.56	2.74	2.78

(1) The 2015 figures have been translated solely for the convenience of the reader at an exchange rate of US\$1.0859 to 1.00, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 31, 2015.

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The accompanying Notes are an integral part of these Consolidated Financial Statements.

Table of Contents**SAP SE AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OF SAP GROUP**

for the years ended December 31,

millions	Notes	2015	2014	2013
Profit after tax		3,056	3,280	3,325
Items that will not be reclassified to profit or loss				
Remeasurements on defined benefit pension plans	(18)	19	30	16
Income tax relating to items that will not be reclassified	(10)	2	7	3
Other comprehensive income after tax for items that will not be reclassified to profit or loss		17	23	13
Items that will be reclassified subsequently to profit or loss	(20)			
Exchange differences		1,845	1,161	576
Available-for-sale financial assets	(26)	128	128	60
Cash flow hedges	(25)	15	38	0
Income tax relating to items that will be reclassified	(10)	10	31	8
Other comprehensive income after tax for items that will be reclassified to profit or loss		1,997	1,282	524
Other comprehensive income net of tax		1,980	1,259	511
Total comprehensive income		5,036	4,539	2,814
Attributable to owners of parent		5,044	4,539	2,815
Attributable to non-controlling interests		8	0	1

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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Table of Contents**SAP SE AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SAP GROUP**

as at December 31,

		(Unaudited)		
		2015 ⁽¹⁾	2015	2014
millions	Notes	US\$		
Cash and cash equivalents		3,704	3,411	3,328
Other financial assets	(12)	381	351	678
Trade and other receivables	(13)	5,728	5,275	4,342
Other non-financial assets	(14)	508	468	435
Tax assets		255	235	215
Total current assets		10,576	9,739	8,999
Goodwill	(15)	24,638	22,689	21,000
Intangible assets	(15)	4,647	4,280	4,604
Property, plant, and equipment	(16)	2,380	2,192	2,102
Other financial assets	(12)	1,450	1,336	1,021
Trade and other receivables	(13)	95	87	100
Other non-financial assets	(14)	361	332	164
Tax assets		306	282	231
Deferred tax assets	(10)	492	453	343
Total non-current assets		34,370	31,651	29,566
Total assets		44,945	41,390	38,565
Trade and other payables	(17)	1,181	1,088	1,032
Tax liabilities		250	230	339
Financial liabilities	(17)	913	841	2,561
Other non-financial liabilities	(17)	3,700	3,407	2,811
Provisions	(18)	325	299	150
Deferred income	(19)	2,173	2,001	1,680
Total current liabilities		8,543	7,867	8,574
Trade and other payables	(17)	88	81	55
Tax liabilities		437	402	371
Financial liabilities	(17)	9,427	8,681	8,980
Other non-financial liabilities	(17)	359	331	219
Provisions	(18)	195	180	151
Deferred tax liabilities	(10)	486	448	603
Deferred income	(19)	115	106	78
Total non-current liabilities		11,107	10,228	10,457
Total liabilities		19,650	18,095	19,031
Issued capital		1,334	1,229	1,229
Share premium		606	558	614
Retained earnings		21,766	20,044	18,317
Other components of equity		2,781	2,561	564
Treasury shares		1,221	1,124	1,224
Equity attributable to owners of parent		25,266	23,267	19,499
Non-controlling interests		30	28	34
Total equity	(20)	25,296	23,295	19,534
Total equity and liabilities		44,945	41,390	38,565

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(1) The 2015 figures have been translated solely for the convenience of the reader at an exchange rate of US\$1.0859 to 1.00, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 31, 2015.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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Table of Contents**SAP SE AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY OF SAP GROUP**

as at December 31,

millions	Issued Capital	Share Premium	Retained Earnings	Other Exchange Differences	Components of Equity Available- for-Sale Financial Assets	Cash Flow Hedges	Treasury Shares	Equity Attributable to Owners of Parent Total	Non- Controlling Interests	Total Equity
Notes	(20)	(20)	(20)		Statement of Comprehensive Income		(20)			
January 1, 2013	1,229	492	13,934	236	22	20	1,337	14,125	8	14,133
Profit after tax			3,326					3,326	1	3,325
Other comprehensive income			13	584	60			511		511
Comprehensive income			3,339	584	60			2,815	1	2,814
Share-based payments		30						30		30
Dividends			1,013					1,013		1,013
Reissuance of treasury shares under share-based payments		29					57	86		86
Other changes			2					2	1	1
December 31, 2013	1,229	551	16,258	820	82	20	1,280	16,040	8	16,048
Profit after tax			3,280					3,280		3,280
Other comprehensive income			23	1,182	128	28		1,259		1,259
Comprehensive income			3,257	1,182	128	28		4,539		4,539
Share-based payments		34						34		34

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Dividends	1,194	1,194	1,194
Reissuance of treasury shares under share-based payments	29	56	85
Additions from business combinations			26
Other changes	4	4	4

December 31, 2014	1,229	614	18,317	362	211	8	1,224	19,499	34	19,534
Profit after tax			3,064					3,064	8	3,056
Other comprehensive income			17	1,861	125	11		1,980		1,980
Comprehensive income			3,047	1,861	125	11		5,044	8	5,036
Share-based payments		136						136		136
Dividends			1,316					1,316		1,316
Reissuance of treasury shares under share-based payments		80					100	180		180
Other changes			4					4	2	2
December 31, 2015	1,229	558	20,044	2,223	336	3	1,124	23,267	28	23,295

The accompanying Notes are an integral part of these Consolidated Financial Statements.

Table of Contents**SAP SE AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS OF SAP GROUP**

for the years ended December 31,

		(Unaudited)			
		2015 ⁽¹⁾	2015	2014	2013
millions	Notes	US\$			
Profit after tax		3,318	3,056	3,280	3,325
Adjustments to reconcile profit after taxes to net cash provided by operating activities:					
Depreciation and amortization	(15),(16)	1,400	1,289	1,010	951
Income tax expense	(10)	1,016	935	1,075	1,071
Financial income, net	(9)	5	5	25	66
Decrease/increase in sales and bad debt allowances on trade receivables		49	45	47	42
Other adjustments for non-cash items		2	2	70	62
Decrease/increase in trade and other receivables		917	844	286	110
Decrease/increase in other assets		340	313	329	136
Decrease/increase in trade payables, provisions, and other liabilities		823	757	573	176
Decrease/increase in deferred income		236	218	16	125
Cash outflows due to TomorrowNow and Versata litigation	(23)	0	0	555	1
Interest paid		187	172	130	159
Interest received		89	82	59	67
Income taxes paid, net of refunds		1,541	1,420	1,356	1,295
Net cash flows from operating activities		3,950	3,638	3,499	3,832
Business combinations, net of cash and cash equivalents acquired		43	39	6,360	1,160
Cash receipts from derivative financial instruments related to business combinations		289	266	111	0
Total cash flows for business combinations, net of cash and cash equivalents acquired	(4)	246	226	6,472	1,160
Purchase of intangible assets and property, plant, and equipment		691	636	737	566
Proceeds from sales of intangible assets or property, plant, and equipment		73	68	46	55
Purchase of equity or debt instruments of other entities		2,032	1,871	910	1,531
Proceeds from sales of equity or debt instruments of other entities		2,041	1,880	833	1,421
Net cash flows from investing activities		362	334	7,240	1,781
Dividends paid	(20)	1,430	1,316	1,194	1,013
Proceeds from reissuance of treasury shares		70	64	51	49
Proceeds from borrowings		1,899	1,748	7,503	1,000
Repayments of borrowings		4,183	3,852	2,062	1,625
Net cash flows from financing activities		3,644	3,356	4,298	1,589
Effect of foreign currency rates on cash and cash equivalents		146	135	23	191
Net decrease/increase in cash and cash equivalents		90	83	580	271
Cash and cash equivalents at the beginning of the period	(20)	3,614	3,328	2,748	2,477
Cash and cash equivalents at the end of the period	(20)	3,704	3,411	3,328	2,748

(1) The 2015 figures have been translated solely for the convenience of the reader at an exchange rate of US\$1.0859 to 1.00, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 31, 2015.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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SAP SE AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) GENERAL INFORMATION ABOUT CONSOLIDATED FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of SAP SE and its subsidiaries (collectively, we, us, our, SAP, Group, and Company) have been prepared in accordance with International Financial Reporting Standards (IFRS).

We have applied all standards and interpretations that were effective on and endorsed by the European Union (EU) as at December 31, 2015. There were no standards or interpretations impacting our Consolidated Financial Statements for the years ended December 31, 2015, 2014, and 2013, that were effective but not yet endorsed. Therefore, our Consolidated Financial Statements comply with both IFRS as issued by the International Accounting Standards Board (IASB) and with IFRS as endorsed by the EU.

Our Executive Board approved the Consolidated Financial Statements on February 25, 2016, 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

Entities Consolidated in the Financial Statements

December 31, 2013

Additions

Disposals

December 31, 2014

Additions

Disposals

December 31, 2015

Total	272
	58
	43
287	
	8
	40
255	

The additions relate to legal entities added in connection with acquisitions and foundations. The disposals are mainly due to mergers and liquidations of legal entities.

(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, and liabilities for cash-settled share-based payments are measured at fair value.

Monetary assets and liabilities denominated in foreign currencies 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

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We modified and simplified the presentation of our services revenue in our income statement starting with the first quarter of 2015 to align our financial reporting with the change in our services business under the ONE Service approach. Under this approach, we combine premium support services and professional services in a way that no longer allows us to separate premium support revenues from professional services revenues or to separate their related cost of services.

Consequently, we have combined the revenue from premium support services with the revenue from professional services and other services in a new services revenue line item. Previously, revenues from premium support services were classified as support revenues (2014: 539 million, 2013: 445 million) and related costs were classified as cost of software and software-related services (2014: 337 million, 2013: 259 million). Simultaneously with this change, we simplified and clarified the labeling of several income statement line items. This includes renaming the previous revenue subtotal labeled software and support (which included premium support revenues) to software licenses and support (which no longer includes premium support revenues). The previous revenue subtotal labeled software and software-related service revenue is renamed cloud and software and accordingly no longer includes premium support revenue. All of these changes have been applied retrospectively.

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The two other revenue line items cloud subscriptions and support and total revenue are not affected by any of these changes and remain unaltered.

Business Combinations and Goodwill

We decide on a transaction-by-transaction basis whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. 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.

Foreign Currencies

Income and expenses and operating cash flows of our foreign subsidiaries that use a functional currency other than the euro are translated at average rates of foreign exchange (FX) computed on a monthly basis. Exchange differences resulting from foreign currency transactions are recognized in other non-operating income/expense, net.

The exchange rates of key currencies affecting the Company were as follows:

Exchange Rates

Equivalent to 1		Middle Rate		Annual Average Exchange Rate			
		as at December 31					
			2015	2014	2015	2014	2013
U.S. dollar	USD	1.0887	1.2141	1.1071	1.3198	1.3301	
Pound sterling	GBP	0.7340	0.7789	0.7255	0.8037	0.8482	
Japanese yen	JPY	131.07	145.23	134.12	140.61	130.21	
Swiss franc	CHF	1.0835	1.2024	1.0688	1.2132	1.2302	
Canadian dollar	CAD	1.5116	1.4063	1.4227	1.4645	1.3710	
Australian dollar	AUD	1.4897	1.4829	1.4753	1.4650	1.3944	

Revenue Recognition

Classes of Revenue

We derive our revenue from fees charged to our customers for (a) the use of our hosted cloud offerings, (b) licenses to our on-premise software products, and (c) standardized and premium support services, consulting, customer-specific on-premise software development agreements, training, and other services.

Cloud and software revenue, as presented in our Consolidated Income Statements, is the sum of our cloud subscriptions and support revenue, our software licenses revenue, and our software support revenue.

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

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

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Software support revenue represents fees earned from providing customers with standardized support services which comprise unspecified future software updates, upgrades, enhancements, and technical product support services for on-premise software

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products. We do not sell separately technical product support or unspecified software upgrades, updates, and enhancements. Accordingly, we do not distinguish within software support revenue or within cost of software support the amounts attributable to technical support services and unspecified software upgrades, updates, and enhancements.

Services revenue as presented in our Consolidated Income Statements represents fees earned from providing customers with:

- Professional services, that is, consulting services that primarily relate to the installation and configuration of our cloud subscriptions and on-premise software products,
- Premium support services, that is, high-end support services tailored to customer requirements,
- Training services,
- Messaging services (primarily transmission of electronic text messages from one mobile phone provider to another), and
- Payment services in connection with our travel and expense management offerings.

We account for out-of-pocket expenses invoiced by SAP and reimbursed by customers as cloud subscriptions and support, software support, or services revenue, depending on the nature of the service for which the out-of-pocket expenses were incurred.

Timing of Revenue Recognition

We do not start recognizing revenue from customer arrangements before evidence of an arrangement exists and the amount of revenue and associated costs can be measured reliably and collection of the related receivable is probable. 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 recognition 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 a customer is specifically identified as a bad debtor, we stop recognizing revenue from the customer except to the extent of the fees that have already been collected.

In general, we invoice fees for standard software upon contract closure and delivery. Periodical fixed fees for cloud subscription services and software support services are mostly invoiced yearly or quarterly in advance. Fees based on actual transaction volumes for

cloud subscriptions and fees charged for non-periodical services are invoiced as the services are delivered.

Cloud subscriptions and support revenue is recognized as the services are performed. Where a periodical 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.

In general, our cloud subscriptions and support contracts include certain set-up activities. If these set-up activities have stand-alone value, they are accounted for as distinct deliverables with the respective revenue being classified as service revenue and recognized as the set-up activity is performed. If we conclude that such set-up activities are not distinct deliverables, we do not account for them separately.

Revenue from the sale of perpetual licenses of our standard on-premise software products is recognized upon delivery of the software, that is, when the customer has access to the software. 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 licenses revenue based on the residual method once the basic criteria described above have been met.

In general, our on-premise software license agreements include neither acceptance-testing provisions nor rights to return the software. 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. If an arrangement allows for returning the software, we defer recognition of software revenue until the right to return expires.

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.

Software licenses revenue from customer-specific on-premise software development agreements that qualify for revenue recognition by reference to the stage of completion of the contract activity is recognized using

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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.

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 product support during the on-premise software subscription term. Typically, 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 licenses revenue and software support revenue line items in our Consolidated Income Statements.

Under our standardized support services, our performance obligation is to stand ready to provide technical product support and unspecified updates, upgrades, and enhancements on a when-and-if-available basis. Consequently, we recognize support revenue ratably over the term of the support arrangement.

We recognize services revenue as the services are rendered. Usually, our professional services contracts and premium support services contracts do not involve significant production, modification, or customization of software and the related revenue is recognized as the services are provided using the percentage-of-completion method of accounting. For messaging services, we measure the progress of service rendering based on the number of messages successfully processed and delivered except for fixed-price messaging arrangements, for which revenue is recognized ratably over the contractual term of the arrangement. Revenue from our training services is recognized when the customer consumes the respective classroom training. For on-demand training services, whereby our performance obligation is to stand ready and provide the customer with access to the training courses and learning content services, revenue is recognized ratably over the contractual term of the arrangement.

Measurement of Revenue

Revenue is recognized net of returns and allowances, trade discounts, and volume rebates.

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 that benefit is reasonably estimable.

Multiple-Element Arrangements

We combine two or more customer contracts with the same customer and account for the contracts as a single contract if the contracts are negotiated as a package or otherwise linked. Thus, the majority of our contracts that contain cloud offerings or on-premise software also include other goods or services (multiple-element arrangements).

We account for the different goods and services promised under our customer contracts as separate units of account (distinct deliverables) unless:

- The contract involves significant production, modification, or customization of the cloud subscription or on-premise software; and
 - The services are not available from third-party vendors and are therefore deemed essential to the cloud subscription or on-premise software.
- Goods and services that do not qualify as distinct deliverables are combined into one unit of account (combined deliverables).

The portion of the transaction fee allocated to one distinct deliverable is recognized in revenue separately under the policies applicable to the respective deliverable. For combined deliverables consisting of cloud offerings or on-premise software and other services, the allocated portion of the transaction fee 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.

We allocate the total transaction fee of a customer contract to the distinct deliverables under the contract based on their fair values. The allocation is done relative to the distinct deliverables' individual fair values unless the residual method is applied as outlined below. Fair value is determined by company-specific objective evidence of fair value which is the price charged consistently 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 company-specific objective evidence of fair value and third-party evidence of selling price cannot be established due to lacking stand-alone sales or lacking pricing consistency, we determine the fair value of a distinct deliverable by estimating its stand-alone selling price. Company-specific objective evidence of fair value and estimated stand-alone selling prices (ESP) for our major products and services are determined as follows:

We derive the company-specific objective evidence of fair value for our renewable 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

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software license fee charged to the customer. The majority of our customers renew their annual support service contracts at these rates. Company-specific objective evidence of fair value for our professional services is derived from our consistently priced historic sales. Company-specific objective evidence of fair value can generally not be established for our cloud subscriptions. ESP for these offerings is determined based on the rates agreed with the individual customers to apply if and when the subscription arrangement renews. We determine ESP by considering multiple factors which include, but are not limited to, the following:

Substantive renewal rates stipulated in the cloud arrangement; and

Gross margin expectations and expected internal costs of the respective cloud business model.

For our on-premise software offerings, company-specific objective evidence of fair value can generally not be established and representative stand-alone selling prices are not discernible from past transactions. We therefore apply the residual method to multiple-element arrangements that include on-premise software. Under this method, the transaction fee 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), where applicable, as authorized by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors).

We also consider FASB ASC 985-605 in our accounting for options that entitle the customer to purchase, in the future, additional on-premise software or services. We allocate revenue to future incremental discounts whenever customers are granted a material right, that is, 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. We also consider whether future purchase options included in arrangements for cloud subscription deliverables constitute a material right.

Cost of Cloud and Software

Cost of cloud and software includes the costs incurred in producing the goods and providing the services that generate cloud and software revenue. Consequently, this line item primarily includes employee expenses relating to these services, amortization of acquired intangibles, fees for third-party licenses, shipping, ramp-up cost, and depreciation of our property, plant, and equipment.

Cost of Services

Cost of services includes the costs incurred in providing the services that generate service revenue including messaging revenues. The item also includes sales and marketing expenses related to our 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.

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, 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 and cloud solutions.

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.

Accounting for Uncertainties in Income Taxes

We measure current and deferred tax liabilities and assets for uncertainties in income taxes based on our best estimate of the most likely amount payable to or recoverable from the tax authorities, assuming that the tax authorities will examine the amounts reported to them and have full knowledge of all relevant information.

Share-Based Payments

Share-based payments cover cash-settled and equity-settled awards issued to our employees. The respective expenses are recognized as employee benefits expenses and classified in our Consolidated Income Statements according to the activities that the employees owning the awards perform.

We grant our employees discounts on certain share-based payment awards. Since those discounts are not dependent on future services to be provided by our employees, the discount is recognized as an expense when the rights are granted.

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Where we hedge our exposure to cash-settled awards, changes in the fair value of the respective hedging instruments are also recognized as employee benefits expenses in profit or loss. The fair values of hedging instruments are based on market data reflecting current market expectations.

For more information about our share-based payments, see Note (27).

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. Financial assets are only classified as financial assets at fair value through profit or loss if they are held for trading, as we do not designate financial assets at fair value through profit or loss. All other financial assets are classified as loans and receivables if we do not designate them as available-for-sale financial assets.

Regular way purchases and sales of financial assets are recorded as at the trade date.

Among the other impairment indicators in IAS 39 (Financial Instruments: Recognition and Measurement), for an investment in an equity security, objective evidence of impairment includes a significant (more than 20%) or prolonged (a period of more than nine months) decline in its fair value. Impairment losses on financial assets are recognized in financial income, net. For available-for-sale financial assets, which are non-derivative financial assets that are not assigned to loans and receivables or financial assets at fair value through profit or loss, impairment losses directly reduce an asset's carrying amount, while impairments on loans and receivables are recorded using allowance accounts. Such allowance accounts are always presented together with the accounts containing the asset's cost in other financial assets. Account balances are charged off against the respective allowance after all collection efforts have been exhausted and the likelihood of recovery is considered remote.

Derivatives

Derivatives Not Designated as Hedging Instruments

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. To hedge 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, because the profits and losses from the underlying transactions are recognized in profit or loss in the same periods as the profits or losses from the derivatives.

In addition, we occasionally have contracts that contain foreign currency embedded derivatives to be accounted for separately.

Derivatives Designated as Hedging Instruments

We use derivatives to hedge foreign currency risk or interest-rate risk and designate them as cash flow or fair value hedges if they qualify for hedge accounting under IAS 39. For more information about our hedges, see Note (24).

a) Cash Flow Hedge

In general, we apply cash flow hedge accounting to the foreign currency risk of highly probable forecasted transactions and interest-rate risk on variable rate financial liabilities.

With regard to foreign currency risk, hedge accounting relates to the spot price and the intrinsic values of the derivatives designated and qualifying as cash flow hedges, while gains and losses on the interest element and on those time values excluded from the hedging relationship as well as the ineffective portion of gains or losses are recognized in profit or loss as they occur.

b) Fair Value Hedge

We apply fair value hedge accounting for certain of our fixed rate financial liabilities.

Valuation and Testing of Effectiveness

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 or fixed legs, respectively, 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 the designated components of the hedging instrument will offset the impact of fluctuations of the underlying hedged items.

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The method of retrospectively testing effectiveness depends on the type of the hedge as described further below:

a) Cash Flow Hedge

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

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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%.

b) Fair Value Hedge

Retrospectively, effectiveness is tested using statistical methods in the form of a regression analysis by which the validity and extent of the relationship between the change in value of the hedged items as the independent variable and the fair value change of the derivatives as the dependent variable is determined. The hedge is deemed highly effective if the determination coefficient between the hedged items and the hedging instruments exceeds 0.8 and the slope coefficient lies within a range of 0.8 to 1.25.

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 cloud and software or cost of services, depending on the transaction from which the respective trade receivable results. Sales allowances are recorded as an offset to the respective revenue item.

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. We recognize as an asset the direct and incremental cost incurred when obtaining a customer cloud subscription contract. We amortize these assets on a straight line basis over the period of providing the cloud subscriptions to which the assets relate.

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.

All our purchased intangible assets other than goodwill have finite useful lives. They are initially measured at acquisition cost and subsequently amortized either based on expected consumption of economic benefits or on a straight-line basis over their estimated useful lives ranging from two to 20 years.

Amortization for acquired in-process research and development project 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 cloud and software, cost of services, research and development, sales and marketing, and general and administration, depending on the use of the respective intangible assets.

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, less accumulated depreciation.

Property, plant, and equipment are depreciated over their expected useful lives, generally using the straight-line method.

Useful Lives of Property, Plant, and Equipment

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Buildings	25 to 50 years
Leasehold improvements	Based on the term of the lease contract
Information technology equipment	3 to 5 years
Office furniture	4 to 20 years
Automobiles	4 to 5 years

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Impairment of Goodwill and Non-Current Assets

The annual 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. The test is performed at the same time for all operating segments.

Impairment losses are presented in other operating income/expense, net in profit or loss.

Liabilities

Financial Liabilities

Financial liabilities include trade and other payables, bank loans, issued bonds, private placements, and other financial liabilities that comprise derivative and non-derivative financial liabilities. They are classified as financial liabilities at amortized cost and at fair value through profit or loss. The latter include only those financial liabilities that are held for trading, as we do not designate financial liabilities at fair value through profit or loss.

Customer funding liabilities are funds we draw from and make payments on on behalf of our customers for customers' employee expense reimbursements, related credit card payments, and vendor payments. We present these funds in cash and cash equivalents and record our obligation to make these expense reimbursements and payments on behalf of our customers as customer funding liabilities.

Expenses and gains/losses on financial liabilities mainly consist of interest expense, which is recognized based on the effective interest method.

Provisions

The employee-related provisions include, amongst others, long-term employee benefits. They are secured by pledged reinsurance coverage and are offset against the settlement amount of the secured commitment.

Post-Employment Benefits

The discount rates used in measuring our post-employment benefit assets and liabilities are derived from rates available on high-quality corporate bonds and government bonds for which the timing and amounts of payments match the timing and the amounts of our projected pension payments. The assumptions used to calculate pension liabilities and costs are disclosed in Note (18a). Net interest expense and other expenses related to defined benefit plans are recognized in employee expenses.

Since our domestic defined benefit pension plans primarily consist of an employee-financed post-retirement plan that is fully financed with qualifying insurance policies, current service cost may become a credit as a result of adjusting the defined benefit

liability's carrying amount to the fair value of the qualifying plan assets. Such adjustments are recorded in service cost.

Deferred Income

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

(3c) Management Judgments and Sources of Estimation Uncertainty

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 on 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 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:

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- 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 intangible assets
- 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 the

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amount of revenue can be measured reliably and collection of the related receivable is probable. 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.

The application of 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.

In the accounting for our multiple-element arrangements, we have to determine the following:

- Which contracts with the same customer are to be accounted for as one single contract
- Which deliverables under one contract are distinct and thus to be accounted for separately
- How to allocate the total arrangement fee to the deliverables of one contract

The determination of whether different contracts with the same customer are to be accounted for as one contract is highly judgmental, as it requires us to evaluate whether the contracts are negotiated together or linked in any other way. The timing and amount of revenue recognition can vary depending on whether two contracts are accounted for separately or as one single contract.

Under a multiple-element arrangement including a cloud subscription, or on-premise software, and other deliverables, we do not account for the cloud subscription, or on-premise software, 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 cloud subscription or on-premise software. 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.

In the area of allocating the transaction fee to the different deliverables under the respective customer contract, 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.

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. Changes in our estimates about the allowance for doubtful accounts could materially impact reported assets and expenses, and our profit could be adversely affected if actual credit losses exceed our estimates.

Accounting for Share-Based Payments

We use certain assumptions in estimating the fair values for our share-based payments, including expected future share 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. Changes to these assumptions and outcomes that differ from these assumptions could require material adjustments to the carrying amount of the liabilities we have recognized for these share-based payments.

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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 our cash-settled plans, the price of SAP stock will be the most relevant factor. Changes 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 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 make our estimates about the ultimate resolution of our tax uncertainties based on current tax laws and our interpretation thereof. Changes to the assumptions underlying these estimates and outcomes that differ from these assumptions could require material adjustments to the carrying amount of our income tax provisions.

The assessment whether a deferred tax asset is impaired requires management judgment, as we need to estimate future taxable profits to determine whether the utilization of the deferred tax asset is probable. 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 assumptions about future market conditions and future profits of SAP. Changes to these assumptions and outcomes that differ from these assumptions could require material adjustments to the carrying amount of our 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 on 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, including 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 Intangible Assets

As described in the Intangible Assets section in Note (3b), all of our intangible assets other than goodwill have finite useful lives. Consequently, the depreciable amount of the intangible assets is amortized 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 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. These judgments impact the carrying amounts of our intangible assets and goodwill as well as the amounts of impairment charges recognized in profit or loss.

The outcome of goodwill impairment tests and thus the carrying amounts of our recognized goodwill may depend on the allocation of goodwill to our operating

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segments. This allocation involves judgment as it is based on our estimates regarding which operating segments are expected to benefit from the synergies of the business combination. Additionally, judgment is required in the determination of our operating segments. Changes to the assumptions underlying our goodwill impairment tests could require material adjustments to the carrying amount of our recognized goodwill. For more information about the goodwill allocation and impairment testing, 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 reliably estimable
- Estimating the amount of the expenditure required to settle the present 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. Changes to the estimates and assumptions underlying our accounting for legal contingencies and outcomes that differ from these estimates and assumptions could require material adjustments to the carrying amounts of the respective provisions recorded as well as additional provisions. For more information about legal contingencies, see Notes (18b) and (23).

Recognition of Internally Generated Intangible Assets from Development

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:

- 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.
- 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.

These judgments impact the total amount of intangible assets that we present in our balance sheet as well as the timing of recognizing development expenses in profit or loss.

(3d) New Accounting Standards Adopted in the Current Period

No new accounting standards adopted in 2015 had a material impact on our Consolidated Financial Statements.

(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:

On May 28, 2014, the IASB issued IFRS 15 (Revenue from Contracts with Customers). The standard becomes effective in fiscal year 2018 with earlier application permitted. We have not yet completed the determination of the impact on our Consolidated Financial Statements, and whether the overall impact will be material, but we expect the standard - for some of our contracts and business models - to impact the timing of recognizing revenue and the revenue classification. IFRS 15 includes a cohesive set of disclosure requirements which we expect to lead to additional and amended disclosures. The standard foresees two possible transition methods for the adoption of the new guidance. We have not finally decided yet which of these two methods we intend to apply.

On July 24, 2014, the IASB issued the fourth and final version of IFRS 9 (Financial Instruments), which will be applicable in fiscal year 2018 with earlier application permitted. The new guidance is expected to mainly impact the classification and measurement of financial assets and will result in additional disclosures. We have not yet completed the determination of the impact on our Consolidated Financial Statements.

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On January 13, 2016, the IASB issued IFRS 16 (Leases). The standard becomes effective in fiscal year 2019 with earlier application permitted for those companies that also apply IFRS 15. The new standard is a major revision of lease accounting; whereas the accounting by lessors remains substantially unchanged, the lease accounting by lessees will change significantly as all leases (the majority of which were off balance in the past as they were operating leases) need to be recognized on a company's balance sheet as assets and liabilities. We have not yet completed the determination of the impact on our Consolidated Financial Statements.

On January 29, 2016, the IASB published amendments to IAS 7 (Statement of Cash Flows). The standard becomes effective in fiscal year 2017 with earlier application permitted. The aim of the amendments is to improve the information provided to users of financial statements about an entity's financing activities and will most likely result in additional disclosures. We have not yet completed the determination of the impact on our Consolidated Financial Statements.

(4) BUSINESS COMBINATIONS

In 2015, we did not conclude any significant business combinations.

Prior-year acquisitions are described in our 2014 Consolidated Financial Statements.

We have retrospectively adjusted the provisional amounts recognized as at the dates of these acquisitions to reflect new information obtained about facts and circumstances that existed on the respective acquisition dates. For more information about significant adjustments, see Notes (10) and (15).

(5) REVENUE

For detailed information about our revenue recognition policies, see Note (3).

For revenue information by geographic region, see Note (28).

Revenue from construction contracts (contract revenue) is mainly included in software revenue and services revenue depending on the type of contract. In 2015, contract revenue of 292 million was recognized for all our construction contracts (2014: 285 million, 2013: 261 million). The status of our construction contracts in progress at the end of the reporting period accounted for under IAS 11 (Construction Contracts) was as follows:

Construction Contracts in Progress

millions	2015	2014	2013
Aggregate cost recognized (multi-year)	294	201	221
Recognized result	20	92	87
(+ profit/ loss;			
multi-year)			

(6) RESTRUCTURING

millions	2015	2014	2013
Employee-related restructuring expenses	610	119	57
Onerous contract-related restructuring expenses	11	7	13
Restructuring expenses	621	126	70

To further drive our transition from an on-premise software vendor to a cloud company, we have carried out additional organizational changes as part of a new restructuring plan, which is intended to minimize cost-intensive and low-growth business activities worldwide. In addition, more redundancies resulted from the integration of our acquired companies.

Restructuring provisions primarily include personnel costs that result from severance payments for employee terminations and onerous contract costs. Prior-year restructuring provisions relate to restructuring activities incurred in connection with the organizational changes triggered by our new cloud and simplification strategy and the integration of employees of our acquisitions. For more information, see Note (18b).

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If not presented separately in our income statement, restructuring expenses would break down by functional area as follows:

Restructuring Expenses by Functional Area

millions	2015	2014	2013
Cost of cloud and software	80	9	12
Cost of services	218	24	14
Research and development	156	24	0
Sales and marketing	147	41	29
General and administration	20	28	15
Restructuring expenses	621	126	70

(7) EMPLOYEE BENEFITS EXPENSE AND HEADCOUNT**Employee Benefits Expense**

millions	2015	2014	2013
Salaries	7,483	6,319	5,997
Social security expense	1,067	916	857
Share-based payment expense	724	290	327
Pension expense	258	211	212
Employee-related restructuring expense	610	119	57
Termination benefits outside of restructuring plans	28	22	39
Employee benefits expense	10,170	7,877	7,489

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.

The number of employees in the following table is broken down by function and by the regions EMEA (Europe, Middle East, and Africa), Americas (North America and Latin America), and APJ (Asia Pacific Japan).

Number of Employees

Full-time equivalents	December 31, 2015				December 31, 2014				December 31, 2013			
	EMEA	Americas	APJ	Total	EMEA	Americas	APJ	Total	EMEA	Americas	APJ	Total
Cloud and software	6,095	3,920	4,976	14,991	5,953	3,983	5,138	15,074	4,859	2,861	3,541	11,261
Services	6,980	4,264	3,841	15,085	7,291	4,304	3,044	14,639	7,177	4,406	3,047	14,629
Research and development	9,676	4,233	7,029	20,938	9,049	3,974	5,885	18,908	8,806	3,630	5,367	17,804
Sales and marketing	7,186	7,314	3,706	18,206	7,069	7,288	3,611	17,969	6,346	6,437	3,041	15,824
General and administration	2,434	1,653	937	5,024	2,436	1,643	944	5,023	2,424	1,445	697	4,566
Infrastructure	1,535	783	425	2,743	1,542	879	373	2,794	1,380	790	318	2,488
SAP Group	33,906	22,166	20,914	76,986	33,340	22,071	18,995	74,406	30,993	19,568	16,011	66,572
(December 31)												
Thereof	73	0	0	73	814	2,890	1,831	5,535	511	571	29	1,111

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acquisitions												
SAP Group	33,561	21,832	19,788	75,180	31,821	19,797	16,725	68,343	30,238	19,418	15,752	65,409
(months end												
average)												

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The allocation of expense for share-based payments, net of the effects from hedging these instruments, to the various operating expense items is as follows:

Share-Based Payments

millions	2015	2014	2013
Cost of cloud and software	74	28	35
Cost of services	126	53	66
Research and development	166	71	90
Sales and marketing	247	76	96
General and administration	113	62	40
Share-based payments	724	290	327
Thereof cash-settled share-based payments	637	193	240
Thereof equity-settled share-based payments	87	96	87

For more information about our share-based payments, see Note (27).

(8) OTHER NON-OPERATING INCOME/EXPENSE, NET

millions	2015	2014	2013
Foreign currency exchange gain/loss, net	230	71	4
Thereof from financial assets/liabilities at fair value through profit or loss	12	83	75
Thereof from available for sale financial assets	1	0	0
Thereof from loans and receivables	213	219	184
Thereof from financial liabilities at amortized cost	2	226	105
Thereof from non-financial assets/liabilities	3	13	0
Miscellaneous income	1	3	1
Miscellaneous expense	27	25	22
Other non-operating income/expense, net	256	49	17

(9) FINANCIAL INCOME, NET

millions	2015	2014	2013
Finance income	241	127	115
Thereof available-for-sale financial assets (equity)	176	30	46
Finance costs	246	152	181
Thereof interest expense from financial liabilities at amortized cost	135	93	131
Thereof interest expense from derivatives	72	28	23
Financial income, net	5	25	66

(10) INCOME TAX**Tax Expense According to Region**

millions	2015	2014	2013
Current tax expense			
Germany	859	770	836
Foreign	408	422	326
Total current tax expense	1,267	1,192	1,162
Deferred tax expense/income			
Germany	74	84	51
Foreign	258	201	142

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Total deferred tax income	332	117	91
Total income tax expense	935	1,075	1,071
Major Components of Tax Expense			

millions	2015	2014	2013
Current tax expense/income			
Tax expense for current year	1,278	1,168	1,249
Taxes for prior years	11	24	87
Total current tax expense	1,267	1,192	1,162
Deferred tax expense/income			
Origination and reversal of temporary differences	428	126	168
Unused tax losses, research and development tax credits, and foreign tax credits	96	9	77
Total deferred tax income	332	117	91
Total income tax expense	935	1,075	1,071

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Table of Contents**Profit Before Tax**

millions	2015	2014	2013
Germany	3,161	3,338	3,126
Foreign	830	1,017	1,270
Total	3,991	4,355	4,396

The following table reconciles the expected income tax expense computed by applying our combined German tax rate of 26.4% (2014: 26.4%; 2013: 26.4%) to the actual income tax expense. Our 2015 combined German tax rate includes a corporate income tax rate of 15.0% (2014: 15.0%; 2013: 15.0%), plus a solidarity surcharge of 5.5% (2014: 5.5%; 2013: 5.5%) thereon, and trade taxes of 10.6% (2014: 10.6%; 2013: 10.6%).

Relationship Between Tax Expense and Profit Before Tax

millions, unless otherwise stated	2015	2014	2013
Profit before tax	3,991	4,355	4,396
Tax expense at applicable tax rate of 26.4% (2014: 26.4%; 2013: 26.4%)	1,055	1,151	1,161
Tax effect of:			
Foreign tax rates	126	117	116
Non-deductible expenses	61	63	158
Tax exempt income	103	86	146
Withholding taxes	115	111	87
Research and development and foreign tax credits	31	41	41
Prior-year taxes	55	10	113
Reassessment of deferred tax assets, research and development tax credits, and foreign tax credits	43	41	60
Other	24	37	21
Total income tax expense	935	1,075	1,071
Effective tax rate (in %)	23.4	24.7	24.4

Recognized Deferred Tax Assets and Liabilities

millions	2015	2014
Deferred tax assets		
Intangible assets	99	104
Property, plant, and equipment	24	18
Other financial assets	15	12
Trade and other receivables	64	53
Pension provisions	98	87
Share-based payments	163	107
Other provisions and obligations	431	403
Deferred income	104	76
Carryforwards of unused tax losses	621	752
Research and development and foreign tax credits	187	85
Other	149	172
Total deferred tax assets	1,955	1,869
Deferred tax liabilities		
Intangible assets	1,234	1,241
Property, plant, and equipment	62	51
Other financial assets	389	623
Trade and other receivables	93	69
Pension provisions	5	4
Share-based payments	4	3
Other provisions and obligations	112	118
Deferred income	40	11
Other	11	9
Total deferred tax liabilities	1,950	2,129

Total deferred tax assets/liabilities, net

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We retrospectively adjusted the provisional amounts recognized for deferred tax assets and liabilities related to the 2014 business combinations by a corresponding increase in goodwill in the amount of 102 million. The adjustments reflect new information obtained about facts and circumstances as of the acquisition date, mainly about the valuation of the carrying amount of investments in subsidiaries and the utilization of carryforwards of unused tax losses.

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Table of Contents**Items Not Resulting in a Deferred Tax Asset**

millions	2015	2014	2013
Unused tax losses			
Not expiring	279	140	68
Expiring in the following year	95	63	43
Expiring after the following year	704	672	525
Total unused tax losses	1,078	875	636
Deductible temporary differences	122	96	178
Unused research and development and foreign tax credits			
Not expiring	34	32	25
Expiring in the following year	0	0	1
Expiring after the following year	20	22	1
Total unused tax credits	54	54	27

429 million (2014: 441 million; 2013: 421 million) of the unused tax losses relate to U.S. state tax loss carryforwards. As described above, prior-year numbers for unused tax losses related to the 2014 business combinations were adjusted, resulting in a decrease in the amount of 235 million.

In 2015, subsidiaries that suffered a tax loss in either the current or the preceding period recognized deferred tax assets in excess of deferred tax liabilities amounting to 129 million (2014: 73 million, 2013: 61 million), because it is probable that sufficient future taxable profit will be available to allow the benefit of the deferred tax assets to be utilized.

We have not recognized a deferred tax liability on approximately 9.95 billion (2014: 8.87 billion) for undistributed profits of our subsidiaries, because we are in a position to control the timing of the reversal of the temporary difference and it is probable that such differences will not reverse in the foreseeable future.

The proposed dividend payment of 1.15 per share for the year ended December 31, 2015, will not have any effects on the income tax of SAP SE.

Total Income Tax

millions	2015	2014	2013
Income tax recorded in profit	935	1,075	1,071
Income tax recorded in share premium	14	3	5
Income tax recorded in other comprehensive income that will not be reclassified to profit and loss			
Remeasurements on defined benefit pension plans	2	7	3
Income tax recorded in other comprehensive income that will be reclassified to profit and loss			
Available-for-sale financial assets	2	0	0
Cash flow hedges	4	10	0
Exchange differences	16	21	8
Total	909	1,034	1,077

We are subject to ongoing tax audits by domestic and foreign tax authorities. Currently, we are mainly in dispute with the German and the Brazilian tax authorities. The German dispute is in respect of intercompany financing matters and certain secured capital investments, while the Brazilian dispute is in respect of license fee deductibility. In all cases, we expect that we will need to initiate litigation to prevail. For all of these matters, we have not recorded a provision as we believe that the tax authorities' claims have no merit and that no adjustment is warranted. If, contrary to our view, the tax authorities were to prevail in their arguments before the court, we would expect to have an additional tax expense (including related interest expenses and penalties) of approximately 1,045 million in total.

Table of Contents**(11) EARNINGS PER SHARE**

millions, unless otherwise stated	2015	2014	2013
Profit attributable to equity holders of SAP SE	3,064	3,280	3,326
Issued ordinary shares ¹⁾	1,229	1,229	1,229
Effect of treasury shares ¹⁾	32	34	35
Weighted average shares outstanding, basic ¹⁾	1,197	1,195	1,193
Dilutive effect of share-based payments ¹⁾	2	3	2
Weighted average shares outstanding, diluted ¹⁾	1,198	1,197	1,195
Earnings per share, basic, attributable to equity holders of SAP SE (in ¢)	2.56	2.75	2.79
Earnings per share, diluted, attributable to equity holders of SAP SE (in ¢)	2.56	2.74	2.78

¹⁾ Number of shares in millions

(12) OTHER FINANCIAL ASSETS

millions	2015			2014		
	Current	Non-Current	Total	Current	Non-Current	Total
Loans and other financial receivables	195	243	437	173	286	459
Debt investments	26	0	26	40	0	40
Equity investments	1	881	882	1	596	597
Available-for-sale financial assets	27	881	908	41	596	637
Derivatives	129	154	283	464	90	554
Investments in associates	0	58	58	0	49	49
Total	351	1,336	1,687	678	1,021	1,699

Loans and Other Financial Receivables

Loans and other financial receivables mainly consist of time deposits, investments in pension assets for which the corresponding liability is included in employee-related obligations (see Note (18b)), other receivables, and loans to employees and third parties. The majority of our loans and other financial receivables are concentrated in the United States.

As at December 31, 2015, there were no loans and other financial receivables past due but not impaired. We have no indications of impairments of loans and other financial receivables that are not past due and not impaired as at the reporting date. For general information about financial risk and the nature of risk, see Note (24).

Available-for-Sale Financial Assets

Our available-for-sale financial assets consist of debt investments in bonds of mainly financial and non-financial corporations and municipalities and equity investments in listed and unlisted securities, mainly held in U.S. dollars.

For more information about fair value measurement with regard to our equity investments, see Note (26).

Derivatives

Detailed information about our derivative financial instruments is presented in Note (25).

Table of Contents**(13) TRADE AND OTHER RECEIVABLES**

millions	2015			2014		
	Current	Non-Current	Total	Current	Non-Current	Total
Trade receivables, net	5,198	2	5,199	4,253	2	4,255
Other receivables	77	86	163	89	99	188
Total	5,275	87	5,362	4,342	100	4,443

Carrying Amounts of Trade Receivables

millions	2015	2014
Gross carrying amount	5,428	4,440
Sales allowances charged to revenue	153	134
Allowance for doubtful accounts charged to expense	75	52
Carrying amount trade receivables, net	5,199	4,255

The changes in the allowance for doubtful accounts charged to expense were immaterial in all periods presented.

Aging of Trade Receivables

millions	2015	2014
Not past due and not individually impaired	3,918	3,362
Past due but not individually impaired		
Past due 1 to 30 days	473	345
Past due 31 to 120 days	428	339
Past due 121 to 365 days	257	118
Past due over 365 days	38	16
Total past due but not individually impaired	1,196	818
Individually impaired, net of allowances	85	75
Carrying amount of trade receivables, net	5,199	4,255

For more information about financial risk and how we manage it, see Notes (24) and (25).

(14) OTHER NON-FINANCIAL ASSETS

millions	2015			2014		
	Current	Non-Current	Total	Current	Non-Current	Total
Prepaid expenses	232	83	315	212	66	277
Other tax assets	113	0	113	101	0	101
Capitalized contract cost	77	250	327	90	99	188
Miscellaneous other assets	46	0	46	33	0	33
Total	468	332	800	435	164	599

Prepaid expenses primarily consist of prepayments for operating leases, support services, and software royalties.

Table of Contents**(15) GOODWILL AND INTANGIBLE ASSETS**

millions	Goodwill	Software and Database Licenses	Acquired Technology/ IPRD	Customer Relationship and Other Intangibles	Total
Historical cost					
January 1, 2014	13,785	558	1,929	3,036	19,308
Foreign currency exchange differences	1,242	13	160	297	1,712
Additions from business combinations	6,072	14	540	1,312	7,938
Other additions	0	86	0	2	88
Retirements/disposals	0	4	42	3	49
December 31, 2014	21,099	667	2,587	4,644	28,997
Foreign currency exchange differences	1,666	15	204	379	2,264
Additions from business combinations	27	0	6	5	38
Other additions	0	53	0	6	59
Retirements/disposals	0	8	1	1	10
December 31, 2015	22,792	727	2,796	5,033	31,348
Accumulated amortization					
January 1, 2014	95	367	1,071	1,129	2,662
Foreign currency exchange differences	4	7	73	81	165
Additions amortization	0	78	255	282	615
Retirements/disposals	0	4	42	3	49
December 31, 2014	99	448	1,357	1,489	3,393
Foreign currency exchange differences	4	10	84	89	187
Additions amortization	0	76	372	361	809
Retirements/disposals	0	8	1	1	10
December 31, 2015	103	526	1,812	1,938	4,379
Carrying amount					
December 31, 2014	21,000	219	1,230	3,155	25,604
December 31, 2015	22,689	201	984	3,095	26,969

The additions, other than from business combinations, to software and database licenses in 2015 and 2014 were individually acquired from third parties and include cross-license agreements and patents.

Table of Contents**Significant Intangible Assets**

millions, unless otherwise stated	Carrying Amount		Remaining Useful Life
	2015	2014	(in years)
Business Objects Customer relationships: Maintenance	104	126	6 to 9
Sybase Acquired technologies	80	149	approx. 1
Sybase Customer relationships: Maintenance	363	418	8
SuccessFactors Acquired technologies	149	184	4
SuccessFactors Customer relationships: Subscription	395	402	10
Ariba Acquired technologies	137	166	5
Ariba Customer relationships	525	516	10 to 12
hybris Acquired technologies	100	128	5
hybris Customer relationships	127	136	2 to 12
Fieldglass Acquired technologies	89	96	7
Concur Acquired technologies	387	445	6
Concur Customer relationships	1,299	1,233	15 to 19
Total significant intangible assets	3,755	3,999	

Goodwill Impairment Testing

SAP had two operating segments in 2015 (in 2014, we had a single operating segment). The carrying amount of goodwill has been allocated for impairment testing purposes to SAP's operating segments.

Goodwill by Operating Segment

millions	Applications, Technology & Services	SAP Business Network	Single Segment (2014)	Unallocated	Total
January 1, 2015, prior to adjustment	0	0	15,412	5,533	20,945
Adjustment	0	0	31	86	55
January 1, 2015, after adjustment	0	0	15,381	5,619	21,000
Reallocation due to changes in segment composition	14,401	6,599	15,381	5,619	0
Additions from business combinations	27	0	0	0	27
Foreign currency exchange differences	1,070	592	0	0	1,662
December 31, 2015	15,497	7,191	0	0	22,689

The amount unallocated on January 1, 2015, relates to the goodwill from the acquisition of Concur in December 2014.

Prior-year goodwill amounts have been adjusted by \$55 million relating mainly to tax and non-controlling interest adjustments. For more information, see Note (10).

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The key assumptions on which management based its cash flow projections for the period covered by the underlying business plans are as follows:

Key Assumption	Basis for Determining Values Assigned to Key Assumption
Budgeted revenue growth	Revenue growth rate achieved in the current fiscal year, adjusted for an expected increase in SAP's addressable cloud, mobility, and database markets; expected growth in the established applications and analytics markets. Values assigned reflect our past experience and our expectations regarding an increase in the addressable markets.
Budgeted operating margin	Operating margin budgeted for a given budget period equals the operating margin achieved in the current fiscal year, increased by expected efficiency gains. Values assigned reflect past experience, except for efficiency gains.
Pre-tax discount rates	Our estimated cash flow projections are discounted to present value using pre-tax discount rates. Pre-tax discount rates are based on the weighted average cost of capital (WACC) approach.
Terminal growth rate	Our estimated cash flow projections for periods beyond the business plan were extrapolated using the segment-specific terminal growth rates. These growth rates do not exceed the long-term average growth rates for the markets in which our segments operate.

Key Assumptions

Percent	Applications, Technology & Services	SAP Business Network
Budgeted revenue growth (average of the budgeted period)	4.5	16.2
Pre-tax discount rate	11.7	13.0
Terminal growth rate	3.0	3.0

Applications, Technology & Services

The recoverable amounts of the segment have been determined based on value-in-use calculations. The calculations use cash flow projections based on actual operating results and a group-wide five-year business plan approved by management.

We believe that any reasonably possible change in any of the above key assumptions would not cause the carrying amount of our Applications, Technology & Services segment to exceed the recoverable amount.

SAP Business Network

The recoverable amounts of the segment have been determined based on fair value less costs of disposal calculations. The fair value measurement was categorized as a level 3 fair value based on the inputs used in the valuation technique. The cash flow projections are based on actual operating results and specific estimates covering a ten-year period and the terminal growth rate thereafter. The calculations use cash flow projections based on actual operating results

and a group-wide five-year business plan approved by management. The projected results were determined based on management's estimates and are consistent with the assumptions a market participant would make. The segment operates in a relatively immature area with significant growth rates projected for the near future. We therefore have a longer and more detailed planning period than one would apply in a more mature segment.

We are using a target margin of 33% for the segment at the end of the budgeted period as a key assumption, which is within the range of expectations of market participants (for example, industry analysts).

The recoverable amount exceeds the carrying amount by 1,764 million.

The following table shows amounts by which the key assumptions would need to change individually for the recoverable amount to be equal to the carrying amount:

Sensitivity to Change in Assumptions

Percentage points

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	SAP Business Network
Budgeted revenue growth (average of the budgeted period)	2.1
Pre-tax discount rate	1.4
Terminal growth rate	1.7

The recoverable amount for the SAP Business Network segment would equal the carrying amount if a margin of only 27% was achieved by 2022.

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(16) PROPERTY, PLANT, AND EQUIPMENT

millions	Land and Buildings	Other Property, Plant, and Equipment	Advance Payments and Construction in Progress	Total
Carrying amount				
December 31, 2014	1,010	1,050	42	2,102
December 31, 2015	1,053	1,073	66	2,192

Total additions (other than from business combinations) amounted to 580 million (2014: 629 million) and relate primarily to the replacement and purchase of computer hardware and vehicles acquired in the normal course of business and investments in data centers.

(17) TRADE AND OTHER PAYABLES, FINANCIAL LIABILITIES, AND OTHER NON-FINANCIAL LIABILITIES

(17a) Trade and Other Payables

millions	2015			2014		
	Current	Non-Current	Total	Current	Non-Current	Total
Trade payables	893	0	893	782	0	782
Advance payments received	110	0	110	112	0	112
Miscellaneous other liabilities	85	81	166	138	55	193
Trade and other payables	1,088	81	1,169	1,032	55	1,087

Miscellaneous other liabilities mainly include deferral amounts for free rent periods and liabilities related to government grants.

(17b) Financial Liabilities

millions	2015						2014			
	Current	Nominal Volume Non-Current	Current	Non-Current	Carrying Amount Total	Current	Non-Current	Current	Non-Current	Carrying Amount Total
Bonds	0	5,750	0	5,733	5,733	631	4,000	631	3,998	4,629
Private placement	551	1,607	551	1,651	2,202	247	1,936	247	1,948	2,195
transactions										
Bank loans	16	1,250	16	1,245	1,261	1,279	3,000	1,277	2,985	4,261
Financial debt	567	8,607	567	8,628	9,195	2,157	8,936	2,155	8,931	11,086
Derivatives	NA	NA	70	58	128	NA	NA	287	46	333
Other financial liabilities	NA	NA	204	5	199	NA	NA	119	4	123
Financial liabilities			841	8,681	9,522			2,561	8,980	11,542

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Financial liabilities are unsecured, except for the retention of title and similar rights customary in our industry. Effective interest rates on our financial debt (including the effects from interest-rate swaps) were 1.30% in 2015, 1.77% in 2014, and 2.48% in 2013.

For an analysis of the contractual cash flows of our financial liabilities based on maturity, see Note (24). For information about the risk associated with our financial liabilities, see Note (25). For information about fair values, see Note (26).

Bonds

	Maturity	Issue Price	Coupon Rate	Effective Interest Rate	Nominal Volume	2015 Carrying Amount	2014 Carrying Amount
					(in respective currency in millions)	(in millions)	(in millions)
Eurobond 2 2010	2017	99.780%	3.50% (fix)	3.59%	500	488	490
Eurobond 5 2012	2015	NA	NA	NA	0	0	549
Eurobond 6 2012	2019	99.307%	2.125% (fix)	2.29%	750	774	778
Eurobond 7 2014	2018	100.000%	0.208% (var.)	0.23%	750	749	748
Eurobond 8 2014	2023	99.478%	1.125% (fix)	1.24%	1,000	993	992
Eurobond 9 2014	2027	99.284%	1.75% (fix)	1.86%	1,000	989	990
Eurobond 10 2015	2017	100.000%	0.127% (var.)	0.14%	500	499	0
Eurobond 11 2015	2020	100.000%	0.259% (var.)	0.23%	650	648	0
Eurobond 12 2015	2025	99.264%	1.00% (fix)	1.13%	600	593	0
Eurobonds						5,733	4,547
Other bonds						0	82
Bonds						5,733	4,629

Since September 2012, we have used a debt issuance program to issue bonds in a number of tranches. Currently, the total volume available under the program (including the amounts issued) is 8 billion.

All of our Eurobonds are listed for trading on the Luxembourg Stock Exchange.

Table of Contents**Private Placement Transactions**

	Maturity	Coupon Rate	Effective Interest Rate	Nominal Volume (in respective currency in millions)	2015 Carrying Amount (in millions)	2014 Carrying Amount (in millions)
U.S. private placements						
Tranche 1 2010	2015	NA	NA	US\$0	0	247
Tranche 2 2010	2017	2.95% (fix)	3.03%	US\$200	180	161
Tranche 3 2011	2016	2.77% (fix)	2.82%	US\$600	551	494
Tranche 4 2011	2018	3.43% (fix)	3.50%	US\$150	135	121
Tranche 5 2012	2017	2.13% (fix)	2.16%	US\$242.5	221	197
Tranche 6 2012	2020	2.82% (fix)	2.86%	US\$290	271	238
Tranche 7 2012	2022	3.18% (fix)	3.22%	US\$444.5	426	372
Tranche 8 2012	2024	3.33% (fix)	3.37%	US\$323	318	277
Tranche 9 2012	2027	3.53% (fix)	3.57%	US\$100	100	88
Private placements					2,202	2,195

The U.S. private placement notes were issued by one of our subsidiaries that has the U.S. dollar as its functional currency.

Bank Loans

	Maturity	Coupon Rate	Effective Interest Rate	Nominal Volume (in respective currency in millions)	2015 Carrying Amount (in millions)	2014 Carrying Amount (in millions)
Concur term loan Facility A	2015	NA	NA	0	0	1,268
Concur term loan Facility B	2017	0.45% (var.)	0.93%	1,250	1,245	2,984
Other loans				INR 1026	16	9
Bank loans					1,261	4,261

Other Financial Liabilities

Our current other financial liabilities mainly comprise liabilities for accrued interest and customer funding liabilities amounting to 90 million (2014: 58 million).

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(17c) Other Non-Financial Liabilities

millions	2015			2014		
	Current	Non-Current	Total	Current	Non-Current	Total
Other employee-related liabilities	2,255	126	2,381	1,979	122	2,101
Share-based payment liabilities	555	205	760	289	97	386
Other taxes	597	0	597	543	0	543
Other non-financial liabilities	3,407	331	3,738	2,811	219	3,030

Other employee-related liabilities mainly relate to vacation accruals, bonus and sales commission accruals, as well as employee-related social security obligations.

For more information about our share-based payments, see Note (27).

Other taxes mainly comprise payroll tax liabilities and value-added tax liabilities.

(18) PROVISIONS

millions	2015			2014		
	Current	Non-Current	Total	Current	Non-Current	Total
Pension plans and similar obligations (see Note (18a))	0	117	117	2	86	88
Other provisions (see Note (18b))	299	63	362	148	65	213
Total	299	180	479	150	151	301

(18a) Pension Plans and Similar Obligations

Defined Benefit Plans

The measurement dates for our domestic and foreign benefit plans are December 31.

Present Value of the Defined Benefit Obligations (DBO) and the Fair Value of the Plan Assets

millions	Domestic Plans		Foreign Plans		Other Post-Employment Plans		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Present value of the DBO	724	780	333	276	82	46	1,139	1,102
Thereof fully or partially funded plans	724	780	293	239	61	26	1,078	1,045
Thereof unfunded plans	0	0	40	37	21	20	61	57
Fair value of the plan assets	716	767	265	234	42	13	1,023	1,014
Net defined benefit liability (asset)	8	13	69	42	40	33	117	88

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Amounts recognized in the Consolidated Statement of Financial Position:

Non-current other financial assets	0	0	0	0	0	0	0
Current provisions	0	0	0	2	0	0	2
Non-current provisions	8	13	69	40	40	33	117
Total	8	13	69	42	40	33	88

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664 million (2014: 714 million) of the present value of the DBO of our domestic plans relate to plans that provide for lump sum payments not based on final salary, and 287 million (2014: 234 million) of the present value of the DBO of our foreign plans relate to plans that provide for annuity payments not based on final salary.

The following weighted average assumptions were used for the actuarial valuation of our domestic and foreign pension liabilities as well as other post-employment benefit obligations as at the respective measurement date:

Actuarial Assumptions

Percent	Domestic Plans			Foreign Plans			Other Post-Employment Plans		
	2015	2014	2013	2015	2014	2013	2015	2014	2013
Discount rate	2.7	2.2	3.6	0.7	1.1	2.1	4.0	4.2	5.2
Future salary increases	2.5	2.5	2.5	1.7	1.7	1.7	6.3	3.8	4.7
Future pension increases	2.0	2.0	2.0	0	0	0	0.0	0	0.0
Employee turnover	2.0	2.0	2.0	10.3	10.1	9.9	8.7	1.3	2.5
Inflation	2.0	0	0	1.4	1.3	1.3	1.0	1.3	1.1

The sensitivity analysis table shows how the present value of all defined benefit obligations would have been influenced by reasonable possible changes to above actuarial assumptions. The sensitivity analysis table presented below considers change in one actuarial assumption at a time, holding all other actuarial

assumptions constant. A reasonable possible change in actuarial assumptions of 50 basis points in either direction, except for the discount rate assumption, would not materially influence the present value of all defined benefit obligations.

Sensitivity Analysis

millions	Domestic Plans			Foreign Plans			Other Post-Employment Plans			Total		
	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
Present value of all defined benefit obligations if:												
Discount rate was 50 basis points higher	678	725	585	311	259	217	79	44	32	1,068	1,028	834
Discount rate was 50 basis points lower	775	840	675	359	296	246	87	49	36	1,221	1,185	957
Total Expense of Defined Benefit Pension Plans												

millions	Domestic Plans			Foreign Plans			Other Post-Employment Plans			Total		
	2015	2014	2013	2015	2014	2013	2015	2014	2013	2015	2014	2013
Current service cost	10	3	7	21	16	15	9	6	3	40	25	25
Interest expense	17	22	19	3	5	4	3	2	1	23	29	24
Interest income	17	23	20	3	5	4	2	1	1	22	29	25
Past service cost	0	0	0	0	0	1	0	0	0	0	0	1
Total expense	10	3	6	21	16	16	10	7	4	41	26	26

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Actual return on plan assets

76 133 10 0 10 9 2 1 1 74 144 20

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Our investment strategy on domestic benefit plans is to invest all contributions in stable insurance policies.

Our investment strategies for foreign benefit plans vary according to the conditions in the country in which the respective benefit plans are situated. Generally, a long-term investment horizon has been adopted for all major foreign benefit plans. Although our policy is to invest in a

risk-diversified portfolio consisting of a mix of assets, both the defined benefit obligation and plan assets can fluctuate over time, which exposes the Group to actuarial and market (investment) risks. Depending on the statutory requirements in each country, it might be necessary to reduce any underfunding by addition of liquid assets.

Plan Asset Allocation

millions	2015		2014	
	Quoted in an Active Market	Not Quoted in an Active Market	Quoted in an Active Market	Not Quoted in an Active Market
Asset category				
Equity investments	93	0	75	0
Corporate bonds	101	0	60	0
Government bonds	5	0	1	0
Real estate	43	0	31	0
Insurance policies	0	736	0	780
Cash and cash equivalents	9	0	41	0
Others	36	0	27	0
Total	287	736	234	780

Our expected contribution in 2016 to our domestic and foreign defined benefit pension plans is immaterial. The weighted duration of our defined benefit plans amounted to 14 years as at December 31, 2015, and 14 years as at December 31, 2014.

Total future benefit payments from our defined benefit plans as at December 31, 2015, are expected to be 1,432 million (2014: 1,409 million). Eighty-three percent of this amount has maturities of over five years.

Maturity Analysis

millions	Domestic Plans		Foreign Plans		Other Post-Employment Plans	
	2015	2014	2015	2014	2015	2014
Less than a year	19	10	26	23	2	2
Between 1 and 2 years	18	17	43	40	2	2
Between 2 and 5 years	65	56	63	58	8	6
Over 5 years	935	983	223	195	28	17
Total	1,037	1,066	355	316	40	27

Table of Contents**Defined Contribution Plans/State Plans**

We also maintain domestic and foreign defined contribution plans. Amounts contributed by us under such plans are based on a percentage of the employees salaries or the amount of contributions made by employees. Furthermore, in Germany and some other countries we make contributions to public pension plans that are operated by national or local government or a similar institution.

Total Expense of Defined Contribution Plans and State Plans

millions	2015	2014	2013
Defined contribution plans	218	188	182
State plans	429	360	316
Total expense	647	548	498

(18b) Other Provisions

millions	1/1/	Addition	Accretion	Utilization	Release	Currency	12/31/
	2015					Impact	2015
Employee-related provisions	47	59	0	46	3	1	58
Customer-related provisions	39	91	0	71	1	3	61
Intellectual property-related provisions	12	5	0	1	6	1	11
Restructuring provisions	60	638	0	496	17	1	184
Onerous contract provisions (other than from customer contracts)	24	1	2	13	1	2	15
Other provisions	31	3	0	0	2	1	33
Total other provisions	213	797	2	627	30	7	362
Thereof current	148						299
Thereof non-current	65						63

Intellectual property-related provisions relate to litigation matters. Customer-related provisions relate primarily to disputes with individual customers. Both classes of provision are described in Note (23).

For more information about our restructuring plans, see Note (6).

The cash outflows associated with employee-related restructuring costs are substantially short-term in nature. In 2015, employees received, under certain restructuring activities, credits to their working time accounts which will allow them to discontinue work earlier than their retirement date. These obligations are classified as employee-related provisions rather than restructuring provisions.

Onerous contract and other provisions comprise facility-related and supplier-related provisions. The timing of these cash outflows associated is dependent on the remaining term of the underlying lease and of the supplier contract.

(19) DEFERRED INCOME

Deferred income consists mainly of prepayments made by our customers for cloud subscriptions and support; software support and services; fees from multiple-element arrangements allocated to undelivered elements; and amounts recorded in purchase accounting at fair value for obligations to perform under acquired contracts in connection with acquisitions.

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millions	2015			2014		
	Current	Non-Current	Total	Current	Non-Current	Total
Deferred Income	2,001	106	2,107	1,680	78	1,758
Thereof deferred revenue from cloud subscriptions and support	957	0	957	689	0	689

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Table of Contents**(20) TOTAL EQUITY****Issued Capital**

As at December 31, 2015, SAP SE had issued 1,228,504,232 no-par value bearer shares (December 31, 2014: 1,228,504,232) with a calculated nominal value of 1 per share. All the shares issued are fully paid.

Change in Issued Capital and Treasury Shares

	Shares (in millions)		Value (in millions)	
	Issued Capital	Treasury Shares	Issued Capital	Treasury Shares
January 1, 2013	1,229	37	1,229	1,337
Reissuance of treasury shares under share-based payments	0	2	0	57
December 31, 2013	1,229	35	1,229	1,280
Reissuance of treasury shares under share-based payments	0	2	0	56
December 31, 2014	1,229	33	1,229	1,224
Reissuance of treasury shares under share-based payments	0	2	0	100
December 31, 2015	1,229	31	1,229	1,124

Authorized Shares

The Articles of Incorporation authorize the Executive Board to increase the issued capital by:

Up to a total amount of 250 million by issuing new no-par value bearer shares against contributions in cash until May 19, 2020 (Authorized Capital I). The issuance is subject to the statutory subscription rights of existing shareholders.

Up to a total amount of 250 million by issuing new no-par value bearer shares against contributions in cash or in kind until May 19, 2020 (Authorized Capital II). Subject to the consent of the Supervisory Board, the Executive Board is authorized to exclude the shareholders' statutory subscription rights in certain cases.

Contingent Shares

SAP SE's share capital is subject to a contingent capital increase which may be effected only to the extent that the holders or creditors of convertible bonds or stock options issued or guaranteed by SAP SE or any of its directly or indirectly controlled subsidiaries under certain share-based payments exercise their conversion or subscription rights, and no other methods for servicing these rights are used. As at December 31, 2015, 100 million, representing 100 million shares, was still available for issuance (2014: 100 million).

Other Comprehensive Income**Items Recognized in Other Comprehensive Income That Will Be Reclassified to Profit or Loss Before Tax**

millions	2015	2014	2013
Gains (losses) on exchange differences	1,845	1,161	576
Gains (losses) on remeasuring available-for-sale financial assets	181	130	79
Reclassification adjustments on available-for-sale financial assets	53	2	19
Available-for-sale financial assets	128	128	60
Gains (losses) on cash-flow hedges	59	41	78
Reclassification adjustments on cash-flow hedges	74	3	78
Cash-flow hedges	15	38	0

Table of Contents**Treasury Shares**

By resolution of SAP SE's General Meeting of Shareholders held on June 4, 2013, the authorization granted by the General Meeting of Shareholders of June 8, 2010, regarding the acquisition of treasury shares was revoked to the extent it had not been exercised at that time, and replaced by a new authorization of the Executive Board of SAP SE to acquire, on or before June 3, 2018, shares of SAP SE representing a pro rata amount of capital stock of up to 120 million in aggregate, provided that the shares purchased under the authorization, together with any other shares in the Company previously acquired and held by, or attributable to, SAP SE do not account for more than 10% of SAP SE's issued share capital. Although treasury shares are legally considered outstanding, there are no dividend or voting rights associated with shares held in treasury. We may redeem or resell shares held in treasury, or we may use treasury shares for the purpose of servicing option or conversion rights under the Company's share-based payment plans. Also, we may use shares held in treasury as consideration in connection with mergers with, or acquisitions of, other companies.

Dividends

The total dividend available for distribution to SAP SE shareholders is based on the profits of SAP SE as

reported in its statutory financial statements prepared under the accounting rules in the German Commercial Code (Handelsgesetzbuch). For the year ended December 31, 2015, the Executive Board intends to propose that a dividend of 1.15 per share (that is, an estimated total dividend of 1,378 million), be paid from the profits of SAP SE.

Dividends per share for 2014 and 2013 were 1.10 and 1.00 respectively and were paid in the succeeding year.

(21) ADDITIONAL CAPITAL DISCLOSURES**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 so doing, ensure a high level of independence, confidence, and financial flexibility.

SAP SE's long-term credit rating is A by Standard and Poor's and A2 by Moody's, both with stable outlook. Since their initial assignment in September 2014, the ratings and outlooks have not changed.

Capital Structure

	2015		2014		D in %
	% of		% of		
	millions	Total equity and liabilities	millions	Total equity and liabilities	
Equity	23,295	56	19,534	51	19
Current liabilities	7,867	19	8,574	22	8
Non-current liabilities	10,228	25	10,457	27	2
Liabilities	18,095	44	19,031	49	5
Total equity and liabilities	41,390	100	38,565	100	7

In 2015, we repaid 1,270 million in bank loans that we had taken to finance the Concur acquisition and refinanced another part of this loan through the issuance of a three-tranche Eurobond of 1.75 billion in total with maturities of two to 10 years. We also repaid a 550 million Eurobond and a US\$300 million U.S. private placement tranche at their maturity. Thus, the ratio of total financial debt to total equity and liabilities decreased by seven percentage points to 22% at the end of 2015 (29% as at December 31, 2014).

Total financial debt consists of current and non-current bank loans, bonds, and private placements. For more information about our financial debt, see Note (17).

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As part of our financing activities in 2016, the Company intends to repay a US\$600 million U.S. private placement tranche when it matures and a further substantial portion of our outstanding bank loans.

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While we continuously monitor the ratios presented in and below the table above, we actively manage our liquidity and structure of our financial indebtedness:

Group Liquidity of SAP Group

millions	2015	2014	D
Cash and cash equivalents	3,411	3,328	83
Current investments	148	95	53
Group liquidity	3,559	3,423	136
Current financial debt	567	2,157	1,590
Net liquidity 1	2,992	1,266	1,726
Non-current financial debt	8,607	8,936	329
Net liquidity 2	5,615	7,670	2,055

Distribution Policy

Our general intention is to remain in a position to return liquidity to our shareholders by distributing annual dividends totaling more than 35% of our profit after tax. There are currently no plans for future share buybacks.

In 2015, we distributed 1,316 million in dividends from our 2014 profit (compared to 1,194 million in 2014 and 1,013 million in 2013 related to 2013 and 2012 profit, respectively), representing 1.10 per share.

As a result of our equity-settled share-based payments transactions (as described in Note (27)), we have commitments to grant SAP shares to employees. We intend to meet these commitments by reissuing treasury shares or issuing ordinary shares. For more information about contingent capital, see Note (20).

(22) OTHER FINANCIAL COMMITMENTS

millions	2015	2014
Operating leases	1,347	1,332
Contractual obligations for acquisition of property, plant, and equipment and intangible assets	162	111
Other purchase obligations	710	748
Purchase obligations	872	859
Capital contribution commitments	111	77
Total	2,330	2,268

Our operating leases relate primarily to the lease of office space, hardware, and vehicles, with remaining non-cancelable lease terms between less than one and 33 years. On a limited scale, the operating lease contracts include escalation clauses (based, for example, on the consumer price index) and renewal options. The contractual obligations for acquisition of property, plant, and equipment and intangible assets relate primarily to the construction of new and existing facilities and to the purchase of hardware, software, patents, office equipment, and vehicles. The remaining obligations relate mainly to marketing, consulting, maintenance, license agreements, and other third-party agreements. Historically, the majority of such purchase obligations have been realized.

SAP invests and holds interests in other entities. As of December 31, 2015, total commitments to make such equity investments amounted to 197 million (2014: 123 million) of which 86 million had been drawn (2014: 46 million). By investing in such equity investments, we are exposed to the risks inherent in the business segments in which these entities operate. Our maximum exposure to loss is the amount invested plus unavoidable future capital contributions.

millions	Operating Leases	Purchase Obligations	December 31, 2015 Capital Contribution Commitments
Due 2016	294	428	111
Due 2017 to 2020	657	378	0
Due thereafter	396	66	0
Total	1,347	872	111

Our rental and operating lease expenses were 386 million, 291 million, and 273 million for the years 2015, 2014, and 2013, respectively.

Table of Contents**(23) LITIGATION AND CLAIMS**

We are subject to a variety of claims and lawsuits that arise from time to time in the ordinary course of our business, including proceedings and claims that relate to companies we have acquired, claims that relate to customers demanding indemnification for proceedings initiated against them based on their use of SAP software, and claims that relate to customers being dissatisfied with the products and services that we have delivered to them. We will continue to vigorously defend against all claims and lawsuits against us. We currently believe that resolving the claims and lawsuits pending as of December 31, 2015, will neither individually nor in the aggregate have a material adverse effect on our business, financial position, profit, or cash flows. Consequently, the provisions recorded for these claims and lawsuits as of December 31, 2015, are neither individually nor in the aggregate material to SAP.

However, the outcome of litigation and claims is intrinsically subject to considerable uncertainty. Management's view of the litigation may also change in the future. Actual outcomes of litigation and claims may differ from the assessments made by management in prior periods, which could result in a material impact on our business, financial position, profit, cash flows, or reputation. Most of the lawsuits and claims are of a very individual nature and claims are either not quantified by the claimants or claim amounts quantified are, based on historical evidence, not expected to be a good proxy for the expenditure that would be required to settle the case concerned. The specifics of the jurisdictions where most of the claims are located further impair the predictability of the outcome of the cases. Therefore, it is not practicable to reliably estimate the financial effect that these lawsuits and claims would have if SAP were to incur expenditure for these cases.

Among the claims and lawsuits are the following classes:

Intellectual Property-Related Litigation and Claims

Intellectual property-related litigation and claims are cases in which third parties have threatened or initiated litigation claiming that SAP violates one or more intellectual property rights that they possess. Such intellectual property rights may include patents, copyrights, and other similar rights.

The carrying amount of the provisions recognized for intellectual property-related litigation and claims and the change in the carrying amount in the reporting period are disclosed in Note (18b). The expected timing of any resulting outflows of economic benefits from these lawsuits and claims is uncertain and not estimable as it depends generally on the duration of the legal proceedings and settlement negotiations required to resolve them. Uncertainties about the amounts result

primarily from the unpredictability of the outcomes of legal disputes in several jurisdictions. For more information, see Note (3c).

Contingent liabilities exist from intellectual property-related litigation and claims for which no provision has been recognized. Generally, it is not practicable to estimate the financial impact of these contingent liabilities due to the uncertainties around the litigation and claims, as outlined above. The total amounts claimed by plaintiffs in those intellectual property-related lawsuits or claims in which a claim has been quantified were not material to us as of December 31, 2015 and 2014. Based on our past experience, most of the intellectual property-related litigation and claims tend to be either dismissed in court or settled out of court for amounts significantly below the originally claimed amounts and not material to our consolidated financial statements. Only a few cases (specifically the TomorrowNow and the Versata litigation) ultimately resulted in a significant cash outflow in 2014.

The individual cases of intellectual property-related litigation and claims are:

In April 2007, United States-based Versata Software, Inc. (formerly Trilogy Software, Inc.) (Versata) instituted legal proceedings in the United States District Court for the Eastern District of Texas against SAP. Versata alleged that SAP's products infringe one or more of the claims in patents held by Versata. In August 2014, after numerous legal proceedings (for details, see our Annual Report 2014 on Form 20 F, Notes to the Consolidated Financial Statements section, Note (24)), Versata and SAP entered into a Patent License and Settlement Agreement (the Agreement) to settle the patent litigation between the companies. Under the terms of the Agreement, Versata has licensed to SAP certain patents in exchange for a one-time cash payment and a potential additional contingent payment. Such contingent payment is not material to SAP. The Agreement also provides for general releases, indemnification for its violation, and dismisses the existing litigation with prejudice.

In February 2010, United States-based TecSec, Inc. (TecSec) instituted legal proceedings in the United States against SAP (including its subsidiary Sybase) and many other defendants. TecSec alleged that SAP's and Sybase's products infringe one or more of the claims in five patents held by TecSec. In its complaint, TecSec seeks unspecified monetary damages and permanent injunctive relief. The lawsuit is proceeding but only with respect to one defendant. The trial for SAP (including its subsidiary Sybase) has not yet been scheduled. The lawsuit for SAP (including its subsidiary Sybase) remains stayed.

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In April 2010, SAP instituted legal proceedings (a declaratory judgment action) in the United States against Wellogix, Inc. and Wellogix Technology Licensing, LLC (Wellogix). The lawsuit seeks a declaratory judgment that five patents owned by Wellogix are invalid or not infringed by SAP. The trial has not yet been scheduled. The legal proceedings have been stayed pending the outcome of six reexaminations filed with the United States Patent and Trademark Office (USPTO). In September 2013, the USPTO issued a decision on four of the six reexaminations, invalidating every claim of each of the four patents. SAP is awaiting a decision on the two remaining reexamination requests. In response to SAP’s patent Declaratory Judgment action, Wellogix has re-asserted trade secret misappropriation claims against SAP (which had previously been raised and abandoned). The court granted SAP’s motion for an early dispositive decision on the trade secret claims; Wellogix’s appeal of that decision is pending. In February 2015, SAP filed a declaratory judgment action in Frankfurt/Main, Germany, asking the German court to rule that SAP did not misappropriate any Wellogix trade secrets.

Customer-Related Litigation and Claims

Customer-related litigation and claims include cases in which we indemnify our customers against liabilities arising from a claim that our products infringe a third party’s patent, copyright, trade secret, or other proprietary rights. Occasionally, consulting or software implementation projects result in disputes with customers. Where customers are dissatisfied with the products and services that we have delivered to them in routine consulting contracts or development arrangements, we may grant functions or performance guarantees.

The carrying amount of the provisions recorded for customer-related litigation and claims and the development of the carrying amount in the reporting period are disclosed in Note (18b). The expected timing or amounts of any resulting outflows of economic benefits from these lawsuits and claims is uncertain and not estimable as they generally depend on the duration of the legal proceedings and settlement negotiations required to resolve the litigation and claims and the unpredictability of the outcomes of legal disputes in several jurisdictions. For more information, see Note (3c).

Contingent liabilities exist from customer-related litigation and claims for which no provision has been recognized. Generally, it is not practicable to estimate the financial impact of these contingent liabilities due to the uncertainties around these lawsuits and claims outlined above.

Non-Income Tax-Related Litigation and Claims

We are subject to ongoing audits by domestic and foreign tax authorities. Along with many other companies operating in Brazil, we are involved in various proceedings with Brazilian authorities regarding assessments and litigation matters on non-income taxes on intercompany royalty payments and intercompany services. The total potential amount related to these matters for all applicable years is approximately 75 million. We have not recorded a provision for these matters, as we believe that we will prevail.

For more information about income tax-related litigation, see Note (10).

(24) FINANCIAL RISK FACTORS

We are exposed to various financial risks, such as market risks (including foreign currency exchange rate risk, interest-rate risk, and equity price risk), credit risk, and liquidity risk.

Market Risk

a) Foreign Currency Exchange Rate Risk

As we are active worldwide, our ordinary operations are subject to risks associated with fluctuations in foreign currencies. Since the Group’s entities mainly conduct their operating business in their own functional currencies, our risk of exchange rate fluctuations from ongoing ordinary operations is not considered significant. However, we occasionally 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).

In rare circumstances, transacting in a currency other than the functional currency also leads to embedded foreign currency derivatives being separated and measured at fair value through profit or loss.

In addition, the intellectual property (IP) holders in the SAP Group are exposed to risks associated with forecasted intercompany cash flows in foreign currencies. These cash flows arise out of royalty payments from subsidiaries to the respective IP holder. The royalties are linked to the subsidiaries’ external revenue. This arrangement leads to a concentration of the foreign currency exchange rate risk with the IP holders, as the royalties are mostly denominated in the subsidiaries’ local currencies, while the functional currency of the IP holders with the highest royalty volume is the euro. The highest foreign currency exchange rate exposure of this kind relates to the

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currencies of subsidiaries with significant operations, for example the U.S. dollar, the pound sterling, the Japanese yen, the Swiss franc, the Brazilian real, and the Australian dollar.

Generally, we are not exposed to any significant foreign currency exchange rate risk with regard to our investing and financing activities, as such activities are normally conducted in the functional currency of the investing or borrowing entity. However, we were exposed to a cash

flow risk from the consideration to be paid in U.S. dollars for the acquisition of Concur and Fieldglass in 2014, as the funds were provided through our free cash and acquisition term loans, both mostly generated in euros. For more information, see Note (25).

b) Interest-Rate Risk

We are exposed to interest-rate risk as a result of our investing and financing activities mainly in euros and U.S. dollars as follows:

millions	2015		2014	
	Cash Flow Risk	Fair Value Risk	Cash Flow Risk	Fair Value Risk
Investing activities	3,078	480	2,445	1,003
Financing activities	3,157	6,038	5,009	6,077

c) Equity Price Risk

We are exposed to equity price risk with regard to our investments in listed equity securities (2015: 320 million; 2014: 209 million) and our share-based payments (for the exposure from these plans, see Note (27)).

Credit Risk

To reduce the credit risk in investments, we arrange to receive rights to collateral for certain investing activities in the full amount of the investment volume, which we would be allowed to make use of only in the case of default of the counterparty to the investment. In the absence of other significant agreements to reduce our credit risk exposure, the total amounts recognized as cash and cash equivalents, current investments, loans and other financial receivables, trade receivables, and derivative financial assets represent our maximum exposure to credit risks, except for the agreements mentioned above.

Liquidity Risk

The table below is an analysis of the remaining contractual maturities of all our financial liabilities held at December 31, 2015. Financial liabilities for which repayment can be requested by the contract partner at any time are assigned to the earliest possible period. Variable interest payments were calculated using the latest relevant interest rate fixed as at December 31, 2015. As we generally settle our derivative contracts gross, we show the pay and receive legs separately for all our currency and interest-rate derivatives, whether or not the fair value of the derivative is negative, except for the derivative forward contracts entered into in connection with the acquisition of Concur, where we bought and sold US\$8.5 billion because we settled those net. The cash outflows for the currency derivatives are translated using the applicable forward rate.

For more information about the cash flows for unrecognized but contractually agreed financial commitments, see Note (22).

Contractual Maturities of Non-Derivative Financial Liabilities

millions	Carrying Amount 12/31/2015	Contractual Cash Flows					
		2016	2017	2018	2019	2020	Thereafter
Trade payables	893	893	0	0	0	0	0
Financial liabilities	9,395	863	2,778	980	836	986	3,683

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Total of non-derivative financial liabilities	10,288	1,756	2,778	980	836	986	3,683
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millions	Carrying Amount 12/31/2014	2015	2016	2017	Contractual Cash Flows		
					2018	2019	Thereafter
Trade payables	782	782	0	0	0	0	0
Financial liabilities	11,209	2,377	625	3,976	958	827	3,262
Total of non-derivative financial liabilities	11,990	3,159	625	3,976	958	827	3,262

Contractual Maturities of Derivative Financial Liabilities and Financial Assets

millions	Carrying Amount 12/31/2015	Contractual Cash Flows		Carrying Amount 12/31/2014	Contractual Cash Flows	
		2016	Thereafter		2015	Thereafter
Derivative financial liabilities						
Currency derivatives not designated as hedging instruments	117			310		
Cash outflows		2,896	58		4,110	44
Cash inflows		2,834	0		3,836	0
Currency derivatives designated as hedging instruments	10			22		
Cash outflows		489	0		487	0
Cash inflows		475	0		464	0
Interest-rate derivatives designated as hedging instruments	0			1		
Cash outflows		0	0		7	24
Cash inflows		0	0		9	19
Total of derivative financial liabilities	128	76	58	333	295	49
Derivative financial assets						
Currency derivatives not designated as hedging instruments	69			411		
Cash outflows		3,010	0		1,236	0
Cash inflows		3,073	0		1,656	0
Currency derivatives designated as hedging instruments	14			10		
Cash outflows		266	0		162	0
Cash inflows		275	0		163	0
Interest-rate derivatives designated as hedging instruments	100			77		
Cash outflows		43	225		34	293
Cash inflows		77	300		62	313
Total of derivative financial assets	183	106	75	498	449	20
Total of derivative financial liabilities and assets	55	30	17	165	154	29

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(25) FINANCIAL RISK MANAGEMENT

We manage market risks (including foreign currency exchange rate risk, interest-rate risk, and equity price risk), credit risk, and liquidity risk on a Group-wide basis through our global treasury department. Our risk management and hedging strategy is set by our treasury guideline and other internal guidelines, and is subject to continuous internal risk analysis. Derivative financial instruments are only purchased to reduce risks and not for speculation, which is defined as entering into derivative instruments without a corresponding underlying transaction.

In the following sections we provide details on the management of each respective financial risk and our related risk exposure. In the sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or other comprehensive income, we determine the periodic effects by relating the hypothetical changes in the risk variables to the balance of financial instruments at the reporting date.

Foreign Currency Exchange Rate Risk Management

We continually monitor our exposure to currency fluctuation risks based on monetary items and forecasted transactions and pursue a Group-wide strategy to manage foreign currency exchange rate risk, using derivative financial instruments, primarily foreign exchange forward contracts, as appropriate, with the primary aim of reducing profit or loss volatility.

Currency Hedges Not Designated as Hedging Instruments

The foreign exchange forward contracts we enter into to offset exposure relating to foreign-currency denominated monetary assets and liabilities are not designated as being in a hedge accounting relationship, see *Note (3a)*.

Currency hedges not designated as hedging instruments also include foreign currency derivatives embedded in non-derivative host contracts that are separated and accounted for as derivatives according to the requirements of IAS 39 (Financial Instruments: Recognition and Measurement).

In addition, during 2014 we held foreign exchange forward contracts and foreign currency options to hedge the cash flow risk from the consideration paid in U.S. dollars for the acquisition of Concur.

Currency Hedges Designated as Hedging Instruments (Cash Flow Hedges)

We enter into derivative financial instruments, primarily foreign exchange forward contracts, to hedge significant

forecasted cash flows (royalties) from foreign subsidiaries denominated in foreign currencies with a defined set of hedge ratios and a hedge horizon of up to 12 months. Specifically, we exclude the interest component and only designate the spot rate of the foreign exchange forward contracts as the hedging instrument to offset anticipated cash flows relating to the subsidiaries with significant operations. We generally use foreign exchange derivatives that have maturities of 12 months or less, which may be rolled over to provide continuous coverage until the applicable royalties are received.

For the years ended December 31, 2015 and 2014, no previously highly probable transaction designated as a hedged item in a foreign currency cash flow hedge relationship ceased to be probable. Therefore, we did not discontinue any of our cash flow hedge relationships. Also, we identified no ineffectiveness in all years reported. Generally, the cash flows of the hedged forecasted transactions are expected to occur and to be recognized in profit or loss monthly within a time frame of 12 months from the date of the statement of financial position.

Foreign Currency Exchange Rate Exposure

In line with our internal risk reporting process, we use the cash flow-at-risk method to quantify our risk positions with regard to our forecasted intercompany transactions and value-at-risk for our foreign-currency denominated financial instruments. In order not to provide two different methodologies, we have opted to disclose our risk exposure based on a sensitivity analysis considering the following:

The SAP Group's entities generally operate in their functional currencies. In exceptional cases and limited economic environments, operating transactions are denominated in currencies other than the functional currency, leading to a foreign currency exchange rate risk for the related monetary instruments. Where material, this foreign currency exchange rate risk is hedged. Therefore, fluctuations in foreign currency exchange rates neither have a significant impact on profit nor on other comprehensive income with regard to our non-derivative monetary financial instruments and related income or expenses. Our free-standing derivatives designed for hedging foreign currency exchange rate risks almost completely balance the changes in the fair values of the hedged item attributable to exchange rate movements in the Consolidated Income Statements in the same period. As a consequence, the hedged items and the hedging instruments are not exposed to foreign currency exchange rate risks, and thereby have no effect on profit.

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Consequently, we are only exposed to significant foreign currency exchange rate fluctuations with regard to the following:

Derivatives held within a designated cash flow hedge relationship (excluding the interest element, which is not part of the assigned cash flow hedge relationships) affecting other comprehensive income

Foreign currency embedded derivatives affecting other non-operating expense, net.

We calculate our sensitivity on an upward/downward shift of +/- 25% of the foreign currency exchange rate between euro and Brazil real and +/- 10% of the foreign currency exchange rate between euro and all other major currencies (2014: upward shift for Swiss franc +20%, all other major currencies +10%, downward shift for all major currencies -10%; 2013: upward/downward shift of +/- 10% for all major currencies). If on December 31, 2015, 2014, and 2013, the foreign currency exchange rates had been higher/lower as described above, this would not have had a material effect on other non-operating expense, net and other comprehensive income.

Our foreign currency exposure as at December 31 (and if year-end exposure is not representative, also our average/high/low exposure) was as follows:

Foreign Currency Exposure

billions	2015	2014
Year-end exposure toward all our major currencies	1.0	1.0
Average exposure	1.1	2.7
Highest exposure	1.2	7.7
Lowest exposure	1.0	1.0

During 2015, our sensitivity to foreign currency exchange rate fluctuations decreased compared to the year ended December 31, 2014, mainly due to the hedging transactions for the acquisition of Concur in 2014.

Interest-Rate Risk Management

The aim of our interest-rate risk management is to reduce profit or loss volatility and optimize our interest result by creating a balanced structure of fixed and variable cash flows. We therefore manage interest-rate risks by adding interest-rate-related derivative instruments to a given portfolio of investments and debt financing.

Derivatives Designated as Hedging Instruments (Fair Value Hedges)

The majority of our investments are based on variable rates and/or short maturities (2015: 87%; 2014: 71%) while most of our financing transactions are based on

fixed rates and long maturities (2015: 66%; 2014: 55%). To match the interest-rate risk from our financing transactions to our investments, we use receiver interest-rate swaps to convert certain fixed rate financial liabilities to floating, and by this means secure the fair value of the swapped financing transactions. The desired fix-floating mix of our net debt is set by the Treasury Committee. Including interest-rate swaps, 36% (2014: 30%) of our total interest-bearing financial liabilities outstanding as at December 31, 2015, had a fixed interest rate.

None of the fair value adjustment from the receiver swaps, the basis adjustment on the underlying hedged items held in fair value hedge relationships, and the difference between the two recognized in financial income, net is material in any of the years presented.

Interest-Rate Exposure

A sensitivity analysis is provided to show the impact of our interest-rate risk exposure on profit or loss and equity in accordance with IFRS 7, considering the following:

Changes in interest rates only affect the accounting for non-derivative fixed rate financial instruments if they are recognized at fair value. Therefore, such interest-rate changes do not change the carrying amounts of our non-derivative fixed rate financial liabilities as we account for them at amortized cost. Investments in fixed rate financial assets classified as available-for-sale were not material at each year end reported. Thus, we do not consider any fixed rate instruments in the equity-related sensitivity calculation.

Income or expenses recorded in connection with non-derivative financial instruments with variable interest rates are subject to interest-rate risk if they are not hedged items in an effective hedge relationship. Thus, we take into consideration interest-rate changes relating to our variable rate financing and our investments in money market instruments in the profit-related sensitivity calculation.

The designation of interest-rate receiver swaps in a fair value hedge relationship leads to interest-rate changes affecting financial income, net. The fair value movements related to the interest-rate swaps are not reflected in the sensitivity calculation, as they offset the fixed interest-rate payments for the bonds and private placements as hedged items. However, changes in market interest rates affect the amount of interest payments from the interest-rate swap. As a consequence, those effects of market interest rates on interest payments are included in the profit-related sensitivity calculation.

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Due to the different interest-rate expectations for the U.S. dollar and the euro area, we base our sensitivity analyses on a yield curve upward shift of +100/+50 basis

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points for the U.S. dollar/euro area (2014: +100/+50 basis points for the U.S. dollar/euro area; 2013: +100 bps) and a yield curve downward shift of 50 basis points for both the U.S. dollar/euro area (2014: 50 bps; 2013: 20 bps).

If, on December 31, 2015, 2014, and 2013, interest rates had been higher/lower as described above, this would not have had a material effect on financial income, net for our variable interest-rate investments and would have had the following effects on financial income, net.

Interest-Rate Sensitivity

millions	Effects on Financial Income, Net		
	2015	2014	2013
Derivatives held within a designated fair value hedge relationship			
Interest rates +100 bps in U.S. dollar area/+50 bps in euro area	105	116	24
(2014: +100 bps in U.S. dollar area/+50 bps in euro area; 2013: +100 bps in U.S. dollar/euro area)			
Interest rates 50 bps in U.S. dollar/euro area	62	70	5
(2014: 50 bps in U.S. dollar/euro area; 2013: 20 bps in U.S. dollar/euro area)			
Variable rate financing			
Interest rates +50 bps in euro area	39	65	0
Interest rates 50 bps in euro area	19	65	0

Our interest-rate exposure as at December 31 (and if year-end exposure is not representative, also our average/high/low exposure) was as follows:

Interest-Rate Risk Exposure

billion	2015				2014			
	Year-End	Average	High	Low	Year-End	Average	High	Low
Fair value interest-rate risk								
From investments	0.03	0.05	0.07	0.03	0.04	0.05	0.08	0.04
Cash flow interest-rate risk								
From investments (including cash)	3.08	3.09	3.37	2.62	2.45	2.48	2.74	2.13
From financing	3.16	3.73	4.63	3.16	5.03	0.75	5.03	0
From interest-rate swaps	2.69	2.67	2.74	2.64	2.55	2.44	2.55	2.39

Equity Price Risk Management

Our investments in equity instruments with quoted market prices in active markets (2015: 320 million; 2014: 209 million) are monitored based on the current market value that is affected by the fluctuations in the volatile stock markets worldwide. An assumed 20% increase (decrease) in equity prices as at December 31, 2015 (2014), would not have a material impact on the value of our investments in marketable equity securities and the corresponding entries in other comprehensive income.

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We are exposed to equity price risk with regard to our share-based payments. In order to reduce resulting profit or loss volatility, we hedge certain cash flow

exposures associated with these plans through the purchase of derivative instruments, but do not establish a designated hedge relationship. In our sensitivity analysis we include the underlying share-based payments and the hedging instruments. Thus, we base the calculation on our net exposure to equity prices as we believe taking only the derivative instrument into account would not properly reflect our equity price risk exposure. An assumed 20% increase (decrease) in equity prices as at December 31, 2015, would have increased (decreased) our share-based payment expenses by 200 million (198 million) (2014: increased by 158 million (decreased by 80 million); 2013: increased by 126 million (decreased by 90 million)).

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Credit Risk Management

To mitigate the credit risk from our investing activities and derivative financial assets, we conduct all our activities only with approved major financial institutions and issuers that carry high external ratings, as required by our internal treasury guideline. Among its stipulations, the guideline requires that we invest only in assets from issuers with a minimum rating of at least BBB flat. We only make investments in issuers with a lower rating in exceptional cases. Such investments were not material in 2015. The weighted average rating of our financial assets is in the range A+ to A. We pursue a policy of cautious investments characterized by predominantly current investments, standard investment instruments, as well as a wide portfolio diversification by doing business with a variety of counterparties.

To further reduce our credit risk, we require collateral for certain investments in the full amount of the investment volume which we would be allowed to make use of in the case of default of the counterparty to the investment. As such collateral, we only accept bonds with at least investment grade rating level.

In addition, the concentration of credit risk that exists when counterparties are involved in similar activities by instrument, sector, or geographic area is further mitigated by diversification of counterparties throughout the world and adherence to an internal limit system for each counterparty. This internal limit system stipulates that the business volume with individual counterparties is restricted to a defined limit, which depends on the lowest official long-term credit rating available by at least one of the major rating agencies, the Tier 1 capital of the respective financial institution, or participation in the German Depositors' Guarantee Fund or similar protection schemes. We continuously monitor strict compliance with these counterparty limits. As the premium for credit default swaps mainly depends on market participants' assessments of the creditworthiness of a debtor, we also closely observe the development of credit default swap spreads in the market to evaluate probable risk developments to timely react to changes if these should manifest.

The default risk of our trade receivables is managed separately, mainly based on assessing the creditworthiness of customers through external ratings and our past experience with the customers concerned. Outstanding receivables are continuously monitored locally. For more information, see Note (3). The impact of default on our trade receivables from individual customers is mitigated by our large customer base and its distribution across many different industries, company sizes, and countries worldwide. For more information about our trade receivables, see Note (13). For information about the maximum exposure to credit risk, see Note (24).

Liquidity Risk Management

Our liquidity is managed by our global treasury department with the primary aim of maintaining liquidity at a level that is adequate to meet our financial obligations.

Generally, our primary source of liquidity is funds generated from our business operations. The majority of our subsidiaries pool their cash surplus to our global treasury department, which then arranges to fund other subsidiaries' requirements or invest any net surplus in the market. With this strategy we seek to optimize yields, while ensuring liquidity, by investing only with counterparties and issuers of high credit quality, as explained above. Hence, high levels of liquid assets and marketable securities provide a strategic reserve, helping keep SAP flexible, sound, and independent.

Apart from effective working capital and cash management, we have reduced the liquidity risk inherent in managing our day-to-day operations and meeting our financing responsibilities by arranging an adequate volume of available credit facilities with various financial institutions on which we can draw if necessary.

In order to retain high financial flexibility, on November 13, 2013, SAP SE entered into a 2.0 billion syndicated credit facility agreement with an initial term of five years plus two one-year extension options. In 2015, the original term of this facility was extended for an additional period of one year to November 2020. The use of the facility is not restricted by any financial covenants. Borrowings under the facility bear interest of EURIBOR or LIBOR for the respective currency plus a margin of 22.5 basis points. We are also required to pay a commitment fee of 7.88 basis points per annum on the unused available credit. We have never drawn on the facility.

Additionally, as at December 31, 2015, and 2014, SAP SE had available lines of credit totaling 471 million and 471 million, respectively. As at December 31, 2015, and 2014, there were no borrowings outstanding under these lines of credit.

(26) ADDITIONAL FAIR VALUE DISCLOSURES ON FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

We use various types of financial instrument in the ordinary course of business, which are classified as either: loans and receivables (L&R), available-for-sale (AFS), held-for-trading (HFT), or amortized cost (AC). For those financial instruments measured at fair value or for which fair value must be disclosed, we have categorized the financial instruments into a three-level fair value hierarchy depending on the inputs used to determine fair value and their significance for the valuation techniques.

Table of Contents**Fair Values of Financial Instruments and Classification Within the Fair Value Hierarchy**

millions	Category	Carrying Amount	Measurement Categories		December 31, 2015			
			At		Fair Value			
			Amortized Cost	At Fair Value	Level 1	Level 2	Level 3	Total
Assets								
Cash and cash equivalents ¹⁾	L&R	3,411	3,411					
Trade and other receivables		5,362						
Trade receivables ¹⁾	L&R	5,199	5,199					
Other receivables ²⁾		163						
Other financial assets		1,687						
Available-for-sale financial assets								
Debt investments	AFS	26	26	26				26
Equity investments	AFS	882	882	299	21	562		882
Investments in associates ²⁾		58						
Loans and other financial receivables								
Financial instruments related to employee benefit plans ²⁾		121						
Other loans and other financial receivables	L&R	316	316		316			316
Derivative assets								
Designated as hedging instrument								
FX forward contracts		14	14		14			14
Interest-rate swaps		100	100		100			100
Not designated as hedging instrument								
FX forward contracts	HFT	69	69		69			69
Call options for share-based payments	HFT	94	94		94			94
Call option on equity shares	HFT	6	6			6		6

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Fair Values of Financial Instruments and Classification Within the Fair Value Hierarchy

millions	Category	Carrying Amount	Measurement Categories		December 31, 2015			
			At		Fair Value			
			Amortized Cost	At Fair Value	Level 1	Level 2	Level 3	Total
Liabilities								
Trade and other payables		1,169						
Trade payables ¹⁾	AC	893	893					
Other payables ²⁾		276						
Financial liabilities		9,522						
Non-derivative financial liabilities								
Loans	AC	1,261	1,261		1,261			1,261
Bonds	AC	5,733	5,733	5,825				5,825
Private placements	AC	2,202	2,202		2,288			2,288
Other non-derivative financial liabilities	AC	199	199		199			199
Derivatives								
Designated as hedging instrument								
FX forward contracts		10	10		10			10
Interest-rate swaps		0	0		0			0
Not designated as hedging instrument								
FX forward contracts	HFT	117	117		117			117
Total financial instruments, net		232	1,361	1,064	5,500	3,261	568	8,192

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Table of Contents**Fair Values of Financial Instruments and Classification Within the Fair Value Hierarchy**

millions	Category	Carrying Amount	Measurement Categories			December 31, 2014			Total
			At	At Fair Value	Level 1	Level 2	Level 3	Fair Value	
			Amortized Cost						
Assets									
Cash and cash equivalents ¹⁾	L&R	3,328	3,328						
Trade and other receivables		4,443							
Trade receivables ¹⁾	L&R	4,255	4,255						
Other receivables ²⁾		188							
Other financial assets		1,699							
Available-for-sale financial assets									
Debt investments	AFS	40		40	40				40
Equity investments	AFS	597		597	108	101	388		597
Investments in associates ²⁾		49							
Loans and other financial receivables									
Financial instruments related to employee benefit plans ²⁾		136							
Other loans and other financial receivables	L&R	324	324			324			324
Derivative assets									
Designated as hedging instrument									
FX forward contracts		10		10		10			10
Interest-rate swaps		77		77		77			77
Not designated as hedging instrument									
FX forward contracts	HFT	411		411		411			411
Call options for share-based payments	HFT	43		43		43			43
Call option on equity shares	HFT	13		13			13		13
Liabilities									
Trade and other payables		1,087							
Trade payables ¹⁾	AC	782	782						
Other payables ²⁾		305							
Financial liabilities		11,542							
Non-derivative financial liabilities									
Loans	AC	4,261	4,261			4,261			4,261
Bonds	AC	4,629	4,629		4,811				4,811
Private placements	AC	2,195	2,195			2,301			2,301
Other non-derivative financial liabilities	AC	123	123			123			123
Derivatives									
Designated as hedging instrument									
FX forward contracts		22		22		22			22
Interest-rate swaps		1		1		1			1
Not designated as hedging instrument									
FX forward contracts	HFT	310		310		310			310
Total financial instruments, net		3,159	4,084	858	4,663	6,053	400		10,315

¹⁾ We do not separately disclose the fair value for cash and cash equivalents, trade receivables, and accounts payable as their carrying amounts are a reasonable approximation of their fair values.

²⁾ Since the line items trade receivables, trade payables, and other financial assets contain both financial and non-financial assets or liabilities (such as other taxes or advance payments), the carrying amounts of non-financial assets or liabilities are shown to allow a reconciliation to the corresponding line items in the Consolidated Statements of Financial Position.

Table of Contents**Fair Values of Financial Instruments Classified According to IAS 39**

millions	Category	December 31, 2015		
		Carrying Amount	At Amortized Cost	At Fair Value
Financial assets				
At fair value through profit or loss	HFT	169		169
Available-for-sale	AFS	908		908
Loans and receivables	L&R	8,926	8,926	
Financial liabilities				
At fair value through profit or loss	HFT	117		117
At amortized cost	AC	10,288	10,288	

millions	Category	December 31, 2014		
		Carrying Amount	At Amortized Cost	At Fair Value
Financial assets				
At fair value through profit or loss	HFT	467		467
Available-for-sale	AFS	637		637
Loans and receivables	L&R	7,906	7,906	
Financial liabilities				
At fair value through profit or loss	HFT	310		310
At amortized cost	AC	11,991	11,991	

Determination of Fair Values

It is our policy that transfers between the different levels of the fair value hierarchy are deemed to have occurred

at the beginning of the period of the event or change in circumstances that caused the transfer. A description of the valuation techniques and the inputs used in the fair value measurement is given below:

Financial Instruments Measured at Fair Value on a Recurring Basis

Type	Fair Value Hierarchy	Determination of Fair Value/Valuation Technique	Significant Unobservable Inputs	Interrelationship Between Significant Unobservable Inputs and Fair Value Measurement
Other financial assets				
Debt investments	Level 1	Quoted prices in an active market	NA	NA
Listed equity investments	Level 1	Quoted prices in an active market	NA	NA
	Level 2	Quoted prices in an active market deducting a discount for the disposal restriction derived from the premium for a respective put option.	NA	NA

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Type	Fair Value Hierarchy	Determination of Fair Value/Valuation Technique	Significant Unobservable Inputs	Interrelationship Between Significant Unobservable Inputs and Fair Value Measurement
Unlisted equity investments	Level 3	Market approach. Comparable company valuation using revenue multiples derived from companies comparable to the investee.	Peer companies used (revenue multiples range from 2.7 to 8.3)	The estimated fair value would increase (decrease) if:
			Revenues of investees;	The revenue multiples were higher (lower)
			Discounts for lack of marketability (10% to 30%)	The investees' revenues were higher (lower)
		Market approach. Venture capital method evaluating a variety of quantitative and qualitative factors such as actual and forecasted results, cash position, recent or planned transactions, and market comparable companies.	NA	NA
		Last financing round valuations	NA	NA
		Liquidation preferences	NA	NA
		Net asset value/Fair market value as reported by the respective funds	NA	NA
Call options for share-based payment plans	Level 2	Monte-Carlo Model.	NA	NA
		Calculated considering risk-free interest rates, the remaining term of the derivatives, the dividend yields, the stock price, and the volatility of our share.		
Call option on equity shares	Level 3	Market approach. Company valuation using EBITDA multiples based on actual results derived from the investee.	EBITDA multiples used	The estimated fair value would increase (decrease) if:
			EBITDA of the investee	The EBITDA multiples were higher (lower)
				The investees' EBITDA were higher (lower)
Other financial assets/Financial liabilities				
FX forward contracts	Level 2	Discounted cash flow using Par-Method.	NA	NA
		Expected future cash flows based on forward exchange rates are discounted over the respective remaining term of the contracts using the respective deposit interest rates and spot rates.		
Interest-rate swaps	Level 2	Discounted cash flow.	NA	NA
		Expected future cash flows are estimated based on forward interest rates from observable yield curves and contract interest rates, discounted at a rate that reflects the credit risk of the counterparty.		

Table of Contents**Financial Instruments Not Measured at Fair Value**

Type	Fair Value Hierarchy	Determination of Fair Value/Valuation Technique
Financial liabilities		
Fixed rate bonds (financial liabilities)	Level 1	Quoted prices in an active market
Fixed rate private placements/ loans (financial liabilities)	Level 2	Discounted cash flows.
		Future cash outflows for fixed interest and principal are discounted over the term of the respective contracts using the market interest rates as of the reporting date.

For other non-derivative financial assets/liabilities and variable rate financial debt, it is assumed that their carrying value reasonably approximates their fair values.

Transfers Between Levels 1 and 2

Transfers of available-for-sale equity investments from Level 2 to Level 1 which occurred because disposal restrictions lapsed and deducting a discount for such restriction was no longer necessary were not material in

all years presented, while transfers from Level 1 to Level 2 did not occur at all.

Level 3 Disclosures

The following table shows the reconciliation from the opening to the closing balances for our unlisted equity investments and call options on equity shares classified as Level 3 fair values:

Reconciliation of Level 3 Fair Values

millions	2015	2014
	Unlisted Equity Investments and Call Options on Equity Shares	Unlisted Equity Investments
January 1	400	239
Transfers		
Into Level 3	12	0
Out of Level 3	80	29
Purchases	170	141
Sales	22	36
Gains/losses		
Included in financial income, net in profit and loss	9	27
Included in available-for-sale financial assets in other comprehensive income	34	21
Included in exchange differences in other comprehensive income	45	37
December 31	568	400
Change in unrealized gains/losses in profit and loss for investments held at the end of the reporting period	0	0

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Changing the unobservable inputs to reflect reasonably possible alternative assumptions would not have a material impact on the fair values of our unlisted equity investments held as available-for-sale as of the reporting date.

(27) SHARE-BASED PAYMENTS

SAP has granted awards under various cash-settled and equity-settled share-based payments to its directors and employees. Most of these awards are described in detail below. SAP has other share-based payment plans not described below, which are individually and in aggregate, immaterial to our Consolidated Financial Statements.

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a) Cash-Settled Share-Based Payments

SAP's cash-settled share-based payments include the following programs: Employee Participation Plan (EPP) and Long-Term Incentive Plan (LTI Plan for the Global Managing Board) 2015, Stock Option Plan 2010 (SOP

2010 (2010-2015 tranches)), Restricted Stock Unit Plan (RSU (2013-2015 tranches)).

As at December 31, 2015, the valuation of our outstanding cash-settled plans was based on the following parameters and assumptions:

Fair Value and Parameters Used at Year End 2015 for Cash-Settled Plans

	LTI Plan 2015 (2012 2015 tranches)	EPP 2015 (2015 tranche)	SOP 2010 (2010-2015 tranches)	RSU (2013-2015 tranches)
Weighted average fair value as at 12/31/2015	71.45	73.38	16.06	71.90
Information how fair value was measured at measurement date				
Option pricing model used	Other ¹⁾	Other ¹⁾	Monte-Carlo	Other ¹⁾
Share price		73.38		73.24
Risk-free interest rate (depending on maturity)	0.25% to	NA	0.03% to	0.16% to
	0.39%		0.38%	0.39%
Expected volatility SAP shares	NA	NA	22.0% to	NA
			41.9%	
Expected dividend yield SAP shares	1.56%	NA	1.56%	1.56%
Weighted average remaining life of options outstanding as at 12/31/2015 (in years)	1.7	0.1	3.4	1.2

¹⁾ For these awards, the fair value is calculated by subtracting the net present value of expected future dividend payments, if any, until maturity of the respective award from the prevailing share price as of the valuation date.

As at December 31, 2014, the valuation of our outstanding cash-settled plans was based on the following parameters and assumptions:

Fair Value and Parameters Used at Year End 2014 for Cash-Settled Plans

	LTI Plan 2015 (2012 2014 tranches)	EPP 2015 (2014 tranche)	SOP 2010 (2010-2014 tranches)	RSU (2013-2014 tranches)
Weighted average fair value as at 12/31/2014	56.40	58.26	10.17	54.09
Information how fair value was measured at measurement date				
Option pricing model used	Other ¹⁾	Other ¹⁾	Monte-Carlo	Other ¹⁾
Share price		58.26		57.37
Risk-free interest rate (depending on maturity)	0.1%	NA	0.1% to	0.1% to
			0.02%	

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Expected volatility SAP shares	NA	NA	19.9% to 23.4 %	0.01% NA
Expected dividend yield SAP shares	1.74%	NA	1.74%	1.76%
Weighted average remaining life of options outstanding as at 12/31/2014 (in years)	1.8	0.1	3.5	1.1

¹⁾ For these awards, the fair value is calculated by subtracting the net present value of expected future dividend payments, if any, until maturity of the respective award from the prevailing share price as of the valuation date.

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Expected volatility of the SAP share price is based on a blend of implied volatility from traded options with corresponding lifetimes and exercise prices as well as historical volatility with the same expected life as the options granted.

Expected remaining life of the options reflects both the contractual term and the expected, or historical, exercise behavior. The risk-free interest rate is derived from German government bonds with a similar duration. Dividend yield is based on expected future dividends.

Changes in Numbers of Outstanding Awards Under Our Cash-Settled Plans

thousands	LTI Plan 2015		EPP 2015		SOP 2010		RSU	
	(2012 tranches)	2015	(2013 tranches)	2015	(2010 tranches)	2015	(2013 tranches)	2015
Outstanding as at 12/31/2013	515		1,845		21,666		1,427	
Granted in 2014	242		2,177		8,965		2,001	
Adjustment based upon KPI target achievement in 2014	41		458		NA		88	
Exercised in 2014	70		1,845		2,730		734	
Forfeited in 2014	55		104		1,619		378	
Outstanding as at 12/31/2014	591		1,615		26,282		2,228	
Granted in 2015	277		2,605		10,866		5,125	
Adjustment based upon KPI target achievement in 2015	109		495		NA		109	
Exercised in 2015	0		1,614		6,585		1,337	
Forfeited in 2015	0		131		1,436		548	
Outstanding as at 12/31/2015	977		2,970		29,127		5,577	
Outstanding awards exercisable as at								
12/31/2014	0		0		3,313		0	
12/31/2015	0		0		4,120		0	
Total carrying amount (in millions) of liabilities as at								
12/31/2014	45		94		167		56	
12/31/2015	74		205		283		166	
Total intrinsic value of vested awards (in millions) as at								
12/31/2014	38		94		49		0	
12/31/2015	76		218		110		0	
Weighted average share price (in) for share options exercised in								
2014	54.96		57.48		56.65		56.62	
2015	NA		56.94		66.20		65.83	
Total expense (in millions) recognized in								
2013	11		118		83		34	
2014	13		82		29		58	
2015	28		200		187		193	

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a.1) Employee Participation Plan (EPP) and Long-Term Incentive Plan (LTI Plan) 2015

SAP implemented two share-based payments in 2012: an Employee Participation Plan (EPP) 2015 for employees and a Long-Term Incentive (LTI) Plan 2015 for members of the Global Managing Board.

The plans are focused on SAP's share price and the achievement of two financial key performance indicators (KPIs): non-IFRS total revenue and non-IFRS operating profit, which are derived from the Company's 2015 financial KPIs. Under these plans, virtual shares, called restricted share units (RSUs), are granted to participants. Participants are paid out in cash based on the number of RSUs that vest.

The RSUs were granted and allocated at the beginning of each year through 2015, with EPP 2015 RSUs subject to annual Executive Board approval. Participants in the LTI Plan 2015 have already been granted a budget for the years 2012 to 2015 (2015 for new plan participants joining in 2015). All participants in the LTI Plan 2015 are members of the Global Managing Board.

The RSU allocation process took place at the beginning of each year based on SAP's share price after the publication of its preliminary annual results for the last financial year prior to the performance period.

At the end of the given year, the number of RSUs that finally vest with plan participants depends on SAP's actual performance for the given year, and might be higher or lower than the number of RSUs originally granted. If performance against both KPI targets reaches at least the defined 60% (80% for 2012 and 2013 tranches) threshold, the RSUs vest. Depending on performance, the vesting can reach a maximum of 150% of the budgeted amount. If performance against either or both of those KPI targets does not reach the defined threshold of 60% (80% for 2012 and 2013 tranches), no RSUs vest and RSUs granted for that year will be forfeited. The adjustment to the threshold of those performance indicators was made to reflect our updated expectations due to the accelerated shift to the cloud. For the year 2015, the RSUs granted at the beginning of the year vested with 112.96% (2014: 77.89%) achievement of the KPI targets for the LTI Plan. For the EPP, the Executive Board set the achievement of the KPI targets at 120.00% (2014: 77.89%).

Under the EPP 2015, the RSUs are paid out in the first quarter of the year after the one-year performance period, whereas the RSUs for members of the Global Managing Board under the LTI Plan 2015 are subject to a three-year holding period before payout, which occurs starting in 2016.

The LTI Plan 2015 includes a look-back provision, due to the fact that this plan is based on certain KPI targets in 2015. The number of RSUs vested under the 2015 tranche was adjusted to reflect the overall achievement for 2015 than represented by the number of RSUs vested from the 2012 to 2014 tranches. However, RSUs that were already fully vested in prior years did not forfeit.

The final financial effect of each tranche of the EPP 2015 and the LTI Plan 2015 will depend on the number of vested RSUs and the SAP share price, which is set directly after the announcement of the preliminary fourth quarter and full-year results for the last financial year under the EPP 2015 (of the respective three-year holding period under the LTI Plan 2015), and thus may be significantly above or below the budgeted amounts.

a.2) SAP Stock Option Plan 2010 (SOP 2010 (2010-2015 Tranches))

Under the SAP Stock Option Plan 2010, we granted members of the Senior Leadership Team/Global Executives, SAP's Top Rewards (employees with an exceptional rating/high potentials) between 2010 and 2015 and only in 2010 and 2011 members of the Executive Board cash-based virtual stock options, the value of which depends on the multi-year performance of the SAP share.

The grant-base value is based on the average fair market value of one ordinary share over the five business days prior to the Executive Board resolution date.

The virtual stock options granted under the SOP 2010 give the employees the right to receive a certain amount of money by exercising the options under the terms and conditions of this plan. After a three-year vesting period (four years for members of the Executive Board), the plan provides for 11 predetermined exercise dates every calendar year (one date per month except in April) until the rights lapse six years after the grant date (seven years for members of the Executive Board). Employees can exercise their virtual stock options only if they are employed by SAP; if they leave the Company, they forfeit them. Executive Board members' options are non-forfeitable once granted. If the service agreement ends in the grant year, the number of options is reduced pro rata temporis. Any options not exercised at the end of their term expire.

The exercise price is 110% of the grant base value (115% for members of the Executive Board) which is 39.03 (40.80) for the 2010 tranche, 46.23 (48.33) for the 2011 tranche, 49.28 for the 2012 tranche, 59.85 for the 2013 tranche, 60.96 for the 2014 tranche, and 72.18 for the 2015 tranche.

Monetary benefits will be capped at 100% of the exercise price (150% for members of the Executive Board).

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a.3) Restricted Stock Unit Plan (RSU Plan (2013 2015 tranches))

We maintain share-based payment plans that allow for the issuance of restricted stock units (RSU) to retain and motivate executives and certain employees.

Under the RSU Plan, we granted a certain number of RSUs between 2013 and 2015 representing a contingent right to receive a cash payment determined by the market value of the same number of SAP SE shares (or SAP SE American Depositary Receipts on the New York Stock Exchange) and the number of RSUs that ultimately vest. Granted RSUs will vest in different tranches, either:

Over a one-to-three year service period only, or

Over a one-to-three year service period and upon meeting certain key performance indicators (KPIs).

The number of RSUs that could vest under the 2015 tranche with performance-based grants was mostly contingent upon a weighted achievement of the following performance milestones for the fiscal year ended on December 31, 2015:

Non-IFRS total revenue (50%); and

Non-IFRS operating profit (50%).

Depending on performance, the number of RSUs vesting could have ranged between 50% and 150% of the number initially granted. Performance against the KPI targets was 112.96% (2014: 90.27%) in fiscal year 2015.

The RSUs are paid out in cash upon vesting.

b) Equity-Settled Share-Based Payments: Share Matching Plan (SMP)

Under the Share Matching Plan (SMP) implemented in 2010, SAP offers its employees the opportunity to purchase SAP SE shares at a discount of 40%. The number of SAP shares an eligible employee may purchase through the SMP is limited to a percentage of the employee's annual base salary. After a three-year holding period, such plan participants will receive one free matching share of SAP for every three SAP shares acquired.

The terms for the members of the Senior Leadership Team/Global Executives are slightly different than those for the other employees. They do not receive a discount when purchasing the shares. However, after a three-year holding period, they receive two free matching SAP shares for every three SAP shares acquired. This plan is not open to members of the SAP Executive Board.

The following table shows the parameters and assumptions used at grant date to determine the fair value of free matching shares, as well as the quantity of shares purchased and free matching shares granted through this program in 2015, 2014, and 2013:

Fair Value and Parameters at Grant Date for SMP

	2015	2014	2013
Grant date	6/5/2015	6/4/2014	9/4/2013
Fair value of granted awards	62.98	52.49	51.09
Information how fair value was measured at grant date			
Option pricing model used		Other ¹⁾	
Share price	66.31	55.61	54.20
Risk-free interest rate	0.08%	0.13%	0.43%
Expected dividend yield	1.67%	1.87%	1.92%
Weighted average remaining contractual life of awards outstanding at year end (in years)	1.5	0.9	1.6
Number of investment shares purchased (in thousands)	1,492	1,550	1,559

¹⁾ For these awards, the fair value is calculated by subtracting the net present value of expected future dividend payments, if any, until maturity of the respective award from the prevailing share price as of the valuation date.

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Changes in Numbers of Outstanding Awards Under SMP

thousands	SMP
Outstanding as at 12/31/2013	3,986
Granted in 2014	568
Exercised in 2014	432
Forfeited in 2014	187
Outstanding as at 12/31/2014	3,935
Granted in 2015	551
Exercised in 2015	2,808
Forfeited in 2015	78
Outstanding as at 12/31/2015	1,600
Recognized Expense at Year End for SMP	

millions	2015	2014	2013
Expense recognized relating to discount	36	35	32
Expense recognized relating to vesting of free matching shares	44	54	51
Total expense relating to SMP	80	89	83

(28) SEGMENT AND GEOGRAPHIC INFORMATION

General Information

On December 4, 2014, we completed our acquisition of Concur and in the first quarter of 2015 we announced our intention to combine all SAP network offerings (that is, predominantly the activities of the purchased Concur business and the network activities of the Ariba and Fieldglass businesses acquired earlier) and launch the SAP Business Network, a network of networks which covers sourcing, procurement, and travel and expenses.

The SAP Business Network qualifies as an operating segment and as a reportable segment under IFRS 8.

Since fiscal year 2015 SAP thus has two reportable segments that are regularly reviewed by our Executive Board, which is responsible for assessing the performance of our Company and for making resource allocation decisions as our Chief Operating Decision Maker (CODM): the Applications, Technology & Services segment and the SAP Business Network segment. These two segments are largely organized and managed separately according to their product and service offerings, notably whether the products and services relate to our business network activities or cover other areas of our business.

The Applications, Technology & Services segment derives its revenue primarily from the sale of software licenses, subscriptions to our cloud applications, and related services (mainly support services and various professional services and premium support services, as well as implementation services of our software products and education services on the use of our products).

The SAP Business Network segment emerged from combining all SAP network offerings into one network of networks that covers temporary workforce sourcing, other procurement, and end-to-end travel and business travel expense management. The SAP Business Network segment derives its revenues mainly from transaction fees charged for the use of SAP's cloud-based collaborative business network and from services relating to the SAP Business Network (including cloud applications, professional services, and education services). Within the SAP Business Network segment, we mainly market and sell the cloud offerings developed by Ariba, Fieldglass, and Concur.

Our Concur and Fieldglass acquisitions are included in the segment information since their respective acquisition dates (December 4, 2014, for Concur and May 2, 2014, for Fieldglass).

Table of Contents**Revenue and Results of Segments**

millions	Applications, Technology & Services				SAP Business Network			Total Reportable Segments			
	2015		2014		2015		2014		2015		2014
	Actual Currency	Constant Currency	Actual Currency	Actual Currency	Constant Currency	Actual Currency	Actual Currency	Constant Currency	Actual Currency	Actual Currency	
Cloud subscriptions and support	961	849	585	1,337	1,151	515	2,297	2,000		1,101	
Software licenses	4,835	4,580	4,381	1	1	0	4,834	4,579		4,381	
Software support	10,061	9,388	8,806	31	26	29	10,092	9,414		8,835	
Software licenses and support	14,896	13,968	13,187	30	25	28	14,926	13,993		13,216	
Cloud and software	15,856	14,817	13,772	1,367	1,176	544	17,223	15,993		14,316	
Services	3,270	3,035	3,099	247	213	101	3,517	3,248		3,199	
Total segment revenue	19,126	17,852	16,871	1,614	1,389	644	20,740	19,241		17,515	
Cost of cloud subscriptions and support	452	421	263	336	293	128	788	715		390	
Cost of software licenses and support	1,994	1,831	1,823	1	1	3	1,994	1,831		1,826	
Cost of cloud and software	2,446	2,252	2,085	337	294	131	2,783	2,546		2,216	
Cost of services	2,897	2,735	2,479	193	171	87	3,090	2,905		2,565	
Total cost of revenue	5,343	4,987	4,564	530	465	217	5,873	5,451		4,781	
Segment gross profit	13,784	12,865	12,307	1,084	924	427	14,868	13,790		12,734	
Total segment expenses	5,865	5,484	5,207	771	675	322	6,637	6,158		5,530	
Segment profit	7,918	7,382	7,099	312	250	105	8,231	7,631		7,204	

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Table of Contents**Revenue and Results of Segments**

millions	Applications, Technology & Services				SAP Business Network			Total Reportable Segments			
	2014		2013		2014		2013		2014		2013
	Actual Currency	Constant Currency	Actual Currency	Actual Currency	Constant Currency	Actual Currency	Actual Currency	Constant Currency	Actual Currency		
Cloud subscriptions and support	585	585	413	515	512	344	1,101	1,097	757		
Software licenses	4,381	4,381	4,519	0	0	0	4,381	4,381	4,519		
Software support	8,806	8,915	8,280	29	29	30	8,835	8,943	8,310		
Software licenses and support	13,187	13,296	12,799	28	28	31	13,216	13,324	12,829		
Cloud and software	13,772	13,881	13,211	544	541	375	14,316	14,422	13,586		
Services	3,099	3,136	3,175	101	101	85	3,199	3,236	3,259		
Total segment revenue	16,871	17,017	16,386	644	641	460	17,515	17,658	16,846		
Cost of cloud subscriptions and support	263	263	124	128	127	84	390	389	208		
Cost of software licenses and support	1,823	1,839	1,741	3	3	8	1,826	1,842	1,749		
Cost of cloud and software	2,085	2,102	1,865	131	130	91	2,216	2,232	1,956		
Cost of services	2,479	2,518	2,447	87	88	68	2,565	2,606	2,516		
Total cost of revenue	4,564	4,619	4,312	217	218	160	4,781	4,837	4,472		
Segment gross profit	12,307	12,397	12,074	427	423	300	12,734	12,820	12,374		
Total segment expenses	5,207	5,269	5,018	322	322	201	5,530	5,591	5,218		
Segment profit	7,099	7,128	7,056	105	101	99	7,204	7,229	7,155		

Segment asset/liability information is not regularly provided to our CODM. Goodwill by operating segment is disclosed in Note (15).

Measurement and Presentation

Our management reporting system reports our intersegment services as cost reductions and does not track them as internal revenue. Intersegment services mainly represent utilization of human resources of one segment by another segment on a project-by-project basis. Intersegment services are charged based on internal cost rates including certain indirect overhead costs, excluding a profit margin.

Most of our depreciation and amortization expense affecting segment profits is allocated to the segments as part of broader infrastructure allocations and is thus not tracked separately on the operating segment level. Depreciation and amortization expense that is directly allocated to the operating segments is immaterial in all operating segments presented.

Our management reporting system produces a variety of reports that differ by the currency exchange rates used in the accounting for foreign-currency transactions and operations. Reports based on actual currencies use the same currency rates as are used in our financial

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statements. Reports based on constant currencies report revenues and expenses using the average exchange rates from the previous year's corresponding period.

We use an operating profit indicator to measure the performance of our operating segments. However, the accounting policies applied in the measurement of operating segment revenue and profit differ as follows from the IFRS accounting principles used to determine the operating profit measure in our income statement:

The measurements of segment revenue and results include the recurring revenues that would have been recorded by acquired entities had they remained stand-alone entities but which are not recorded as revenue under IFRS due to fair value accounting for customer contracts in effect at the time of an acquisition.

The expenses measured exclude:

Acquisition-related charges

- i Amortization expense and impairment charges for intangibles acquired in business combinations and certain stand-alone acquisitions of intellectual property (including purchased in-process research and development)
- i Settlements of pre-existing relationships in connection with a business combination
- i Acquisition-related third-party costs
- Expenses from the TomorrowNow litigation and the Versata litigation
- Share-based payment expenses
- Restructuring expenses

Certain corporate-level activities are not allocated to our segments, including finance, accounting, legal, human resources, and marketing. They are disclosed in the reconciliation under other expenses and other revenue respectively.

The segment information for prior periods has been restated to conform to the new two-segment structure.

Reconciliation of Revenue and Segment Results

millions	2015		2014		2013
	Actual	Constant	Actual	Constant	Actual
	Currency	Currency	Currency	Currency	Currency
Total segment revenue for reportable segments	20,740	19,241	17,515	17,658	16,846
Other revenue	64	58	64	65	51
Adjustment for currency impact	0	1,505	0	142	0
Adjustment of revenue under fair value accounting	11	11	19	19	82
Total revenue	20,793	20,793	17,560	17,560	16,815
Total segment profit for reportable segments	8,231	7,631	7,204	7,229	7,155
Other revenue	64	58	64	65	51
Other expenses	1,947	1,786	1,631	1,665	1,725
Adjustment for currency impact	0	443	0	9	0
Adjustment for Revenue under fair value accounting	11	11	19	19	82
Acquisition-related charges	738	738	562	562	555
Share-based payment expenses	724	724	290	290	327
Restructuring	621	621	126	126	70
TomorrowNow and Versata litigation	0	0	309	309	31
Operating profit	4,252	4,252	4,331	4,331	4,479
Other non-operating income/expense, net	256	256	49	49	17
Financial income, net	5	5	25	25	66
Profit before tax	3,991	3,991	4,355	4,355	4,396

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Geographic Information

We have aligned our revenue by region disclosures with the changes made to the structure of our income statement as outlined in Note (3b).

The amounts for revenue by region in the following tables are based on the location of customers. The regions in the following table are broken down into EMEA (Europe, Middle East, and Africa), Americas (North America and Latin America) and APJ (Asia Pacific Japan).

Revenue by Region

millions	Cloud Subscriptions and Support Revenue			Cloud and Software Revenue		
	2015	2014	2013	2015	2014	2013
EMEA	507	277	176	7,622	6,819	6,616
Americas	1,579	709	457	6,929	5,276	5,097
APJ	200	101	64	2,663	2,221	2,237
SAP Group	2,286	1,087	696	17,214	14,315	13,950

Total Revenue by Region

millions	2015	2014	2013
Germany	2,771	2,570	2,513
Rest of EMEA	6,409	5,813	5,462
EMEA	9,181	8,383	7,975
United States	6,750	4,898	4,487
Rest of Americas	1,678	1,591	1,746
Americas	8,428	6,489	6,233
Japan	667	600	631
Rest of APJ	2,517	2,088	1,975
APJ	3,185	2,688	2,606
SAP Group	20,793	17,560	16,815

Non-Current Assets by Region

millions	2015	2014
Germany	2,395	2,399
The Netherlands	2,843	2,917
France	2,175	2,116
Rest of EMEA	2,557	2,477
EMEA	9,969	9,909
United States	19,124	17,568
Rest of Americas	139	152
Americas	19,264	17,720
APJ	599	518
SAP Group	29,832	28,147

The table above shows non-current assets excluding financial instruments, deferred tax assets, post-employment benefits, and rights arising under insurance contracts.

For information about the breakdown of our workforce by region, see Note (7).

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(29) BOARD OF DIRECTORS

Executive Board

Memberships on supervisory boards and other comparable governing bodies of enterprises, other than subsidiaries of SAP on December 31, 2015

Bill McDermott

Chief Executive Officer, Labor Relations Director

Strategy, Governance, Business Development,

Corporate Development,

Communications and Marketing, Human Resources,

Business Network

Board of Directors, ANSYS, Inc., Canonsburg, PA, United States

Board of Directors, Under Armour, Inc., Baltimore, MD, United States

Robert Enslin

Global Customer Operations

Global Sales, Industry & LoB Solutions Sales, Services Sales, Sales Operations, Global Customer Office

Michael Kleinemeier (from November 1, 2015)

Global Service & Support

Global Consulting Delivery, Global and Regional Support and Premium Engagement Functions, Maintenance Go-to-Market, Global User Groups, Mobile Services

Bernd Leukert

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Chief Technology Officer

Products & Innovation

Global Development Organization, Innovation & Cloud Delivery, Product Strategy, Development Services, SAP Global Security

Supervisory Board, DFKI (Deutsches Forschungszentrum für Künstliche Intelligenz GmbH), Kaiserslautern, Germany (from October 13, 2015)

Luka Mucic

Chief Financial Officer, Chief Operating Officer

Global Finance and Administration including Investor Relations and Data Protection & Privacy, Process Office, Business Innovation & IT

Gerhard Oswald

Product Quality & Enablement

Quality Governance & Validation, Scale, Enablement & Transformation, Logistics Services

Supervisory Board

Memberships on supervisory boards and other comparable governing bodies of enterprises, other than subsidiaries of SAP on December 31, 2015

Prof. Dr. h.c. mult. Hasso Plattner^{2), 4), 6), 7), 8)}

Chairman

Margret Klein-Magar^{1), 2), 4)}

Deputy Chairperson

Vice President, Head of SAP Alumni Relations

Chairperson of the Spokespersons Committee of Senior Managers of SAP SE

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Pekka Ala-Pietilä ⁴⁾, ⁵⁾, ⁶⁾, ⁷⁾

Chairman of the Board of Directors, Huhtamäki Oyj, Espoo, Finland

Chairman of the Board of Directors, Solidium Oy, Helsinki, Finland (until April 22, 2015)

Board of Directors, Pöyry Plc, Vantaa, Finland

Chairman of the Board of Directors, CVON Group Limited, London, United Kingdom

Board of Directors, CVON Limited, London, United Kingdom

Chairman of the Board of Directors, CVON Innovation Services Oy, Turku, Finland

Board of Directors, CVON Future Limited, London, United Kingdom

Chairman of the Board of Directors, Blyk International Ltd., London, United Kingdom

Board of Directors, Sanoma Corporation, Helsinki, Finland

Panagiotis Bissiritsas ¹⁾, ³⁾, ⁴⁾, ⁵⁾

Support Expert

Martin Duffek (from May 20, 2015) ¹⁾, ³⁾, ⁸⁾

Product Manager

Prof. Anja Feldmann ⁴⁾, ⁸⁾

Professor at the Electrical Engineering and Computer Science Faculty at the Technische Universität Berlin

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Prof. Dr. Wilhelm Haarmann ^{2), 5), 7), 8)}

Attorney-at-law, certified public auditor, certified tax advisor

Linklaters LLP, Rechtsanwälte, Notare, Steuerberater, Frankfurt am Main, Germany

Supervisory Board, Celesio AG, Stuttgart, Germany (until March 1, 2015)

Andreas Hahn (from May 20, 2015) ^{1), 2), 4)}

Product Expert, Industry Standards & Open Source

Prof. Dr. Gesche Joost (from May 28, 2015) ^{4), 8)}

Professor for Design Research and Head of the Design Research Lab, University of Arts Berlin

Lars Lamadé ^{1), 2), 7), 8)}

Head of Customer & Events GSS COO

Managing Director, Rhein Neckar-Loewen GmbH, Kronau, Germany

Bernard Liautaud ^{2), 4), 6)}

General Partner Balderton Capital, London, United Kingdom

Board of Directors, nlyte Software Ltd., London, United Kingdom

Board of Directors, Talend SA, Suresnes, France

Board of Directors, Wonga Group Ltd., London, United Kingdom

Board of Directors, SCYTL Secure Electronic Voting SA, Barcelona, Spain

Board of Directors, Vestiaire Collective SA, Levallois-Perret, France

Board of Directors, Dashlane, Inc., New York, NY, United States

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Board of Directors, Recorded Future, Inc., Cambridge, MA, United States

Board of Directors, eWise Group, Inc., Redwood City, CA, United States

Board of Directors, Qubit Digital Ltd., London, United Kingdom

Board of Directors, Stanford University, Stanford, CA, United States

Board of Directors, Citymapper Ltd., London, United Kingdom

Board of Directors, Sunrise Atelier, Inc., New York, NY, United States (until February 11, 2015)

Board of Directors, Opbeat Inc., San Francisco, CA, United States

Christine Regitz (from May 20, 2015) ^{1), 4), 8)}

Vice President User Experience

Chief Product Expert

Dr. Erhard Schipporeit ^{3), 7)}

Independent Management Consultant

Supervisory Board, Talanx AG, Hanover, Germany

Supervisory Board, Deutsche Börse AG, Frankfurt am Main, Germany

Supervisory Board, HDI V.a.G., Hanover, Germany

Supervisory Board, Hannover Rückversicherung SE, Hanover, Germany

Supervisory Board, Fuchs Petrolub SE, Mannheim, Germany

Supervisory Board, BDO AG, Hamburg, Germany

Board of Directors, Fidelity Funds SICAV, Luxembourg

Supervisory Board, Rocket Internet AG, Berlin, Germany (until June 23, 2015)

Robert Schuschnig-Fowler (from May 20, 2015) ^{1), 8)}

Account Manager, Senior Support Engineer

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Dr. Sebastian Sick (from May 20, 2015) ^{1), 2), 5), 7)}

Head of Company Law Unit, Hans Böckler Foundation

Supervisory Board, Georgsmarienhütte GmbH, Georgsmarienhütte, Germany

Jim Hagemann Snabe ^{2), 5)}

Supervisory Board Member

Board of Directors, Bang & Olufsen A/S, Struer, Denmark

Board of Directors, Danske Bank A/S, Copenhagen, Denmark

Supervisory Board, Allianz SE, Munich, Germany

Supervisory Board, Siemens AG, Munich, Germany

Pierre Thiollet (from May 20, 2015) ^{1), 4)}

Webmaster

Prof. Dr.-Ing. Dr.-Ing. E. h. Klaus Wucherer ³⁾

Managing Director of Dr. Klaus Wucherer Innovations- und Technologieberatung GmbH, Erlangen, Germany

Deputy Chairman of the Supervisory Board, HEITEC AG, Erlangen, Germany

Supervisory Board, Dürr AG, Bietigheim-Bissingen, Germany (until December 31, 2015)

Deputy Chairman of the Supervisory Board, LEONI AG, Nuremberg, Germany

Chairman of the Supervisory Board, Festo AG & Co. KG, Esslingen, Germany

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Supervisory Board Members Who Left During 2015

Catherine Bordelon (until May 20, 2015)

Christiane Kuntz-Mayr (until May 20, 2015)

Steffen Leskovar (until May 20, 2015)

Dr. h. c. Hartmut Mehdorn (until May 15, 2015)

Dr. Kurt Reiner (until May 20, 2015)

Mario Rosa-Bian (until May 20, 2015)

Stefan Schulz (until May 20, 2015)

Information as at December 31, 2015

1) Elected by the employees

2) Member of the Company's General and Compensation Committee

3) Member of the Company's Audit Committee

4) Member of the Company's Technology and Strategy Committee

5) Member of the Company's Finance and Investment Committee

6) Member of the Company's Nomination Committee

7) Member of the Company's Special Committee

8) Member of the Company's People and Organization Committee

Allocating the fair value of the share-based payments to the respective years they are economically linked to the total compensation of the Executive Board members for the years 2015, 2014, and 2013 was as follows:

Executive Board Compensation

thousands	2015	2014	2013
Short-term employee benefits	15,137	16,196	24,728
Share-based payment ¹⁾	10,365	8,098	8,603
Subtotal¹⁾	25,502	24,294	33,331
Post-employment benefits	1,278	3,249	1,324
Thereof defined-benefit	288	2,276	189
Thereof defined-contribution	990	973	1,135
Total¹⁾	26,780	27,543	34,655

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¹⁾ Portion of total executive compensation allocated to the respective year based on management view

The share-based payment amounts disclosed above are based on the grant date fair value of the restricted share units (RSUs) issued to Executive Board members during the year.

The Executive Board members already received, in 2012, the LTI grants for the years 2012 to 2015 subject to continuous service as member of the Executive Board in the respective years. Although these grants are linked to and thus, economically, compensation for the Executive Board members in the respective years, section 314 of

the German Commercial Code (HGB) requires them to be included in the total compensation number for the year of grant. Upon his appointment to the Executive Board in 2015, Michael Kleinemeier received a grant related to 2015. Vesting of the LTI grants is dependent on the respective Executive Board member's continuous service for the Company.

The share-based payment as defined in section 314 of the German Commercial Code (HGB) amounts to 263,200 and 4,622 RSUs respectively (2014: 8,720,200) based on the allocation for 2015 for Michael Kleinemeier, which was granted in 2015 in line with his appointment to the Executive Board. The prior-year amount includes the allocations for 2014 and 2015 for Robert Enslin, Bernd Leukert and Luka Mucic, which were granted in 2014 in line with their appointment to the Executive Board.

Considering the grant date fair value of the RSUs allocated during the year instead of the economically allocated amount of share-based payments in the table above, the sum of short-term employee benefits and share-based payment amounts to 15,400,400 (2014: 23,216,200) and the total Executive Board compensation amounts to 16,678,400 (2014: 26,464,700).

Share-Based Payment for Executive Board Members

	2015	2014	2013
Number of RSUs granted	192,345	153,909	152,159
Number of stock options granted	0	0	0
Total expense in thousands	22,310	11,133	8,596

In the table above, the share-based payment expense is the amount recorded in profit or loss under IFRS 2 in the respective period.

The defined benefit obligation (DBO) for pensions to Executive Board members and the annual pension entitlement of the members of the Executive Board on reaching age 60 based on entitlements from performance-based and salary-linked plans were as follows:

Retirement Pension Plan for Executive Board Members

thousands	2015	2014	2013
DBO December 31	8,948	11,273	9,077
Annual pension entitlement	427	475	452

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The total annual compensation of the Supervisory Board members for 2015 is as follows:

Supervisory Board Compensation

thousands	2015	2014	2013
Total compensation	3,728	3,227	2,966
Thereof fixed compensation	3,250	924	870
Thereof committee remuneration	479	515	416
Thereof variable compensation	NA	1,788	1,680

The Supervisory Board members do not receive any share-based payment for their services. As far as members who are employee representatives on the Supervisory Board receive share-based payment, such compensation is for their services as employees only and is unrelated to their status as members of the Supervisory Board.

Payments to/DBO for Former Executive Board Members

thousands	2015	2014	2013
Payments	1,580	3,462	1,387
DBO December 31	32,758	33,764	29,181

SAP did not grant any compensation advance or credit to, or enter into any commitment for the benefit of, any member of the Executive Board or Supervisory Board in 2015, 2014, or 2013.

Shareholdings of Executive and Supervisory Board Members

Number of SAP shares	2015	2014	2013
Executive Board	45,309	36,426	30,201
Supervisory Board	90,262,686	107,467,372	119,316,444

(30) RELATED PARTY TRANSACTIONS

Certain Executive Board and Supervisory Board members of SAP SE currently hold, or held within the last year, positions of significant responsibility with other entities, as presented in *Note (29)*. We have relationships with certain of these entities in the ordinary course of business, whereby we buy and sell products, assets and services at prices believed to be consistent with those negotiated at arm's length between unrelated parties.

Companies controlled by Hasso Plattner, chairman of our Supervisory Board and Chief Software Advisor of

SAP, engaged in the following transactions with SAP: providing consulting services to SAP, receiving sport sponsoring from SAP, making purchases of SAP products and services.

Christiane Kuntz-Mayr, vice chairperson and member of the SAP Supervisory Board until May 20, 2015, acted as a managing director of family & kids @ work gemeinnützige UG (family & kids @ work).

Wilhelm Haarmann practices as a partner in the law firm Linklaters LLP in Frankfurt am Main, Germany. SAP occasionally purchased and purchases legal and similar services from Linklaters.

Occasionally, members of the Executive Board of SAP SE obtain services from SAP for which they pay a consideration believed to be consistent with those negotiated at arm's length between unrelated parties.

All amounts related to the abovementioned transactions were immaterial to SAP in all periods presented.

In total, we sold products and services to companies controlled by members of the Supervisory Board in the amount of 1 million (2014: 4 million), we bought products and services from such companies in the amount of 7 million (2014: 1 million), and we provided sponsoring and other financial support to such companies in the amount of 5 million (2014: 7 million). Outstanding balances at year end from transactions with such companies were 0 million (2014: 2 million)

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for amounts owed to such companies and 0 million (2014: 1 million) for amounts owed by such companies. All these balances are unsecured and interest free and settlement is expected to occur in cash. Commitments (the longest of which is for 10 years) made by us to purchase further goods or services from these companies and to provide further sponsoring and other financial support amount to 11 million as at December 31, 2015 (2014: 13 million).

In total, we sold services to members of the Executive Board and the Supervisory Board in the amount of 2 million (2014: 0 million) and we received services from members of the Supervisory Board (including services from employee representatives on the Supervisory Board in their capacity as employees of SAP) in the amount of 1 million (2014: 2 million). Amounts owed to Supervisory Board members from these transactions were 0 million as at December 31, 2015 (2014: 0 million). All these balances are unsecured and interest free and settlement is expected to occur in cash.

For information about the compensation of our Executive Board and Supervisory Board members, see Note (29).

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At the Annual General Meeting of Shareholders held on May 20, 2015, our shareholders elected KPMG AG Wirtschaftsprüfungsgesellschaft as SAP's

independent auditor for 2015. KPMG AG Wirtschaftsprüfungsgesellschaft and other firms in the global KPMG network charged the following fees to SAP for audit and other professional services related to 2015 and the previous years:

Fees for Audit and Other Professional Services

millions	2015			2014			2013	
	KPMG AG (Germany)	Foreign KPMG Firms	Total	KPMG AG (Germany)	Foreign KPMG Firms	Total KPMG AG (Germany)	Foreign KPMG Firms	Total
Audit fees	3	6	9	2	6	8	2	9
Audit-related fees	0	0	0	0	0	0	1	1
Tax fees	0	0	0	0	0	0	0	0
All other fees	0	0	0	0	0	0	0	0
Total	3	6	9	2	6	8	3	10

Audit fees are the aggregate fees charged by KPMG for auditing our consolidated financial statements and the statutory financial statements of SAP SE and its subsidiaries. Audit-related fees are fees charged by KPMG for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under audit fees. Tax fees are fees for professional services rendered by KPMG for tax advice on transfer pricing, restructuring, and tax compliance on current, past, or contemplated transactions. The All other fees category includes other support services, such as training and advisory services on issues unrelated to accounting and taxes.

(32) EVENTS AFTER THE REPORTING PERIOD

After December 31, 2015, the following change took place:

We are in the process of preparing the consolidation of intellectual property rights held by SAP's group company hybris AG at the level of SAP SE in Germany. Based on deviating applicable tax rates, the Group expects an overall positive income tax effect in a range between approximately 180 million and 220 million in 2016.

Table of Contents**(33) SUBSIDIARIES AND OTHER EQUITY INVESTMENTS****Subsidiaries**

Name and Location of Company	Owner- ship	Total Revenue in 2015 ¹⁾	Profit/ Loss (-) after Tax for 2015 ¹⁾	Total Equity as at 12/31/2015 ¹⁾	Number of Employees as at 12/31/2015 ²⁾	Foot- note
	%	thousands	thousands	thousands		
Major Subsidiaries						
Ariba, Inc., Palo Alto, CA, United States	100.0	642,877	145,271	3,697,333	1,425	
Concur Technologies, Inc., Bellevue, WA, United States	100.0	638,122	18,115	6,552,341	2,741	
LLC SAP CIS, Moscow, Russia	100.0	356,480	18,607	42,319	659	
SAP (Beijing) Software System Co., Ltd., Beijing, China	100.0	759,818	83,167	94,864	4,562	
SAP (Schweiz) AG, Biel, Switzerland	100.0	751,860	45,934	44,193	611	
SAP (UK) Limited, Feltham, United Kingdom	100.0	1,132,753	16,073	15,358	1,511	10)
SAP America, Inc., Newtown Square, PA, United States	100.0	4,559,147	402,385	14,709,940	6,114	
SAP Asia Pte Ltd, Singapore, Singapore	100.0	386,585	35,614	34,567	1,020	
SAP Australia Pty Ltd, Sydney, Australia	100.0	631,863	7,537	187,392	1,064	
SAP Brasil Ltda, São Paulo, Brazil	100.0	527,180	15,176	17,826	1,481	
SAP Canada, Inc., Toronto, Canada	100.0	669,947	22,740	455,322	2,598	
SAP Deutschland SE & Co. KG, Walldorf, Germany	100.0	3,477,774	466,454	1,258,713	4,505	7), 9)
SAP France, Levallois Perret, France	100.0	1,095,886	218,454	1,582,376	1,427	
SAP India Private Limited, Bangalore, India	100.0	488,794	53,742	254,822	1,800	
SAP Industries, Inc., Newtown Square, PA, United States	100.0	601,898	40,492	538,411	385	
SAP Italia Sistemi Applicazioni Prodotti in Data Processing S.p.A., Vimercate, Italy	100.0	464,458	20,554	337,584	601	
SAP Japan Co., Ltd., Tokyo, Japan	100.0	681,109	30,866	515,703	994	
SAP Labs India Private Limited, Bangalore, India	100.0	285,633	26,359	28,703	5,947	
SAP Labs, LLC, Palo Alto, CA, United States	100.0	582,128	10,367	314,276	1,924	
SAP Nederland B.V., s-Hertogenbosch, the Netherlands	100.0	494,173	21,096	17,016	504	11)
SAP Service and Support Centre (Ireland) Limited, Dublin, Ireland	100.0	114,647	6,430	41,152	1,131	
SuccessFactors, Inc., South San Francisco, CA, United States	100.0	714,646	21,254	3,152,160	1,104	
Sybase, Inc., Dublin, CA, United States	100.0	597,125	390,137	5,897,666	677	

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Name and Location of Company	Owner- ship %	Foot- note
Other Subsidiaries ³⁾		
SAP Kazakhstan LLP, Almaty, Kazakhstan	100.0	
110405, Inc., Newtown Square, PA, United States	100.0	
Ambin Properties (Proprietary) Limited, Johannesburg, South Africa	100.0	
Ariba Czech s.r.o., Prague, Czech Republic	100.0	
Ariba India Private Limited, Gurgaon, India	100.0	
Ariba International Holdings, Inc., Wilmington, DE, United States	100.0	
Ariba International Singapore Pte Ltd, Singapore, Singapore	100.0	
Ariba International, Inc., Wilmington, DE, United States	100.0	
Ariba Investment Company, Inc., Wilmington, DE, United States	100.0	
Ariba Slovak Republic s.r.o., Košice, Slovakia	100.0	
Ariba Software Technology Services (Shanghai) Co., Ltd., Shanghai, China	100.0	
Ariba Technologies India Private Limited, Bangalore, India	100.0	
Ariba Technologies Netherlands B.V., Hertogenbosch, the Netherlands	100.0	11)
Beijing Zhang Zhong Hu Dong Information Technology Co., Ltd., Beijing, China	0	5)
b-process, Paris, France	100.0	
Business Objects (UK) Limited, London, United Kingdom	100.0	
Business Objects Holding B.V., Hertogenbosch, the Netherlands	100.0	11)
Business Objects Option LLC, Wilmington, DE, United States	100.0	
Business Objects Software (Shanghai) Co., Ltd., Shanghai, China	100.0	
Business Objects Software Limited, Dublin, Ireland	100.0	
Christie Partners Holding C.V., Utrecht, the Netherlands	100.0	
ClearTrip Inc. (Mauritius), Ebene, Mauritius	54.2	
ClearTrip Inc., George Town, Cayman Islands	54.2	
Cleartrip MEA FZ LLC, Dubai, United Arab Emirates	54.2	
Name and Location of Company	Owner- ship %	Foot- note
ClearTrip Private Limited, Mumbai, India	54.2	
CNQR Operations Mexico S. de R.L. de C.V., San Pedro Garza Garcia, Mexico	100.0	
Concur (Austria) GmbH, Vienna, Austria	100.0	
Concur (Canada), Inc., Toronto, Canada	100.0	
Concur (France) SAS, Paris, France	100.0	
Concur (Germany) GmbH, Frankfurt am Main, Germany	100.0	
Concur (Italy) S.r.l., Milan, Italy	100.0	
Concur (Japan) Ltd., Bunkyo-ku, Japan	75.0	
Concur (New Zealand) Limited, Wellington, New Zealand	100.0	
Concur (Philippines) Inc., Makati City, Philippines	100.0	
Concur (Switzerland) GmbH, Zurich, Switzerland	100.0	
Concur Czech (s.r.o.), Prague, Czech Republic	100.0	
Concur Denmark ApS, Frederiksberg, Denmark	100.0	
Concur Holdings (France) SAS, Paris, France	100.0	
Concur Holdings (Netherlands) B.V., Amsterdam, the Netherlands	100.0	11)
Concur Holdings (US) LLC, Wilmington, DE, United States	100.0	
Concur International Holdings (Netherlands) CV, Amsterdam, the Netherlands	100.0	
Concur Technologies (Australia) Pty. Limited, Sydney, Australia	100.0	
Concur Technologies (Hong Kong) Limited, Hong Kong, China	100.0	
Concur Technologies (India) Private Limited, Bangalore, India	100.0	
Concur Technologies (Singapore) Pte Ltd, Singapore, Singapore	100.0	
Concur Technologies (UK) Limited, London, United Kingdom	100.0	10)
ConTgo Consulting Limited, London, United Kingdom	100.0	10)
ConTgo Limited, London, United Kingdom	100.0	10)
ConTgo MTA Limited, London, United Kingdom	100.0	10)
ConTgo Pty. Ltd., Sydney, Australia	100.0	
Crossgate UK Limited, Slough, United Kingdom	100.0	

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Name and Location of Company	Owner- ship %	Foot- note
Crystal Decisions (Ireland) Limited, Dublin, Ireland	100.0	
Crystal Decisions Holdings Limited, Dublin, Ireland	100.0	
Crystal Decisions UK Limited, London, United Kingdom	100.0	
EssCubed Procurement Pty. Ltd., Johannesburg, South Africa	100.0	
Extended Systems, Inc., Dublin, CA, United States	100.0	
Fieldglass AsiaPac PTY Ltd, Brisbane, Australia	100.0	
Fieldglass Europe Limited, London, United Kingdom	100.0	10)
Financial Fusion, Inc., Dublin, CA, United States	100.0	
FreeMarkets International Holdings Inc. de Mexico, de S. de R.L. de C.V., Mexico City, Mexico	100.0	
FreeMarkets Ltda., São Paulo, Brazil	100.0	
Gelco Information Network, Inc., Minneapolis, MN, United States	100.0	
GlobalExpense (Consulting) Limited, London, United Kingdom	100.0	
GlobalExpense (UK) Limited, London, United Kingdom	100.0	10)
H-G Holdings, Inc., Wilmington, DE, United States	100.0	
H-G Intermediate Holdings, Inc., Wilmington, DE, United States	100.0	
hybris (US) Corp., Wilmington, DE, United States	100.0	
hybris AG, Zug, Switzerland	100.0	
hybris Australia Pty Limited, Surry Hills, Australia	100.0	
hybris GmbH, Munich, Germany	100.0	9)
hybris Hong Kong Limited, Hong Kong, China	100.0	
hybris UK Limited, London, United Kingdom	100.0	10)
Inxight Federal Systems Group, Inc., Wilmington, DE, United States	100.0	
KXEN Limited, Feltham, United Kingdom	100.0	
LLC SAP Labs , Moscow, Russia	100.0	
LLC SAP Ukraine , Kiev, Ukraine	100.0	
Merlin Systems Oy, Espoo, Finland	100.0	
Multiposting SAS, Paris, France	100.0	4)
Multiposting Sp.z o.o., Warsaw, Poland	100.0	4)
Name and Location of Company	Owner- ship %	Foot- note
Nihon Ariba K.K., Tokyo, Japan	100.0	
OutlookSoft Deutschland GmbH, Walldorf, Germany	100.0	
Plateau Systems Australia Ltd, Brisbane, Australia	100.0	
Plateau Systems LLC, South San Francisco, CA, United States	100.0	
PT SAP Indonesia, Jakarta, Indonesia	99.0	
PT Sybase 365 Indonesia, Jakarta, Indonesia	100.0	
Quadrem Africa Pty. Ltd., Johannesburg, South Africa	100.0	
Quadrem Australia Pty Ltd., Brisbane, Australia	100.0	
Quadrem Brazil Ltda., Rio de Janeiro, Brazil	100.0	
Quadrem Chile Ltda., Santiago de Chile, Chile	100.0	
Quadrem Colombia SAS, Bogotá, Colombia	100.0	
Quadrem International Ltd., Hamilton, Bermuda	100.0	
Quadrem Netherlands B.V., Amsterdam, the Netherlands	100.0	11)
Quadrem Overseas Cooperatief U.A., Amsterdam, the Netherlands	100.0	
Quadrem Peru S.A.C., Lima, Peru	100.0	
Ruan Lian Technologies (Beijing) Co., Ltd., Beijing, China	100.0	
San Borja Partricipadoes LTDA, São Paulo, Brazil	100.0	
SAP Andina y del Caribe, C.A., Caracas, Venezuela	100.0	
SAP Argentina S.A., Buenos Aires, Argentina	100.0	
SAP Asia (Vietnam) Co., Ltd., Ho Chi Minh City, Vietnam	100.0	
SAP Azerbaijan LLC, Baku, Azerbaijan	100.0	4)
SAP Belgium NV/SA, Brussels, Belgium	100.0	
SAP Beteiligungs GmbH, Walldorf, Germany	100.0	
SAP Bulgaria EOOD, Sofia, Bulgaria	100.0	
SAP Business Compliance Services GmbH, Siegen, Germany	100.0	
SAP Business Services Center Europe s.r.o., Prague, Czech Republic	100.0	
SAP Business Services Center Nederland B.V., s-Hertogenbosch, the Netherlands	100.0	11)
SAP Chile Limitada, Santiago, Chile	100.0	

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Name and Location of Company	Owner- ship %	Foot- note
SAP China Co., Ltd., Shanghai, China	100.0	4)
SAP China Holding Co., Ltd., Beijing, China	100.0	4)
SAP Colombia SAS., Bogotá, Colombia	100.0	
SAP Commercial Services Ltd., Valletta, Malta	100.0	
SAP Costa Rica, S.A., San José, Costa Rica	100.0	
SAP ČR, spol. s r.o., Prague, Czech Republic	100.0	
SAP Cyprus Ltd, Nicosia, Cyprus	100.0	
SAP d.o.o., Zagreb, Croatia	100.0	
SAP Danmark A/S, Copenhagen, Denmark	100.0	
SAP Dritte Beteiligungs- und Vermögensverwaltungs GmbH, Walldorf, Germany	100.0	8), 9)
SAP East Africa Limited, Nairobi, Kenya	100.0	
SAP Egypt LLC, Cairo, Egypt	100.0	
SAP EMEA Inside Sales S.L., Barcelona, Spain	100.0	
SAP Erste Beteiligungs- und Vermögensverwaltungs GmbH, Walldorf, Germany	100.0	8), 9)
SAP España Sistemas, Aplicaciones y Productos en la Informática, S.A., Madrid, Spain	100.0	
SAP Estonia OÜ, Tallinn, Estonia	100.0	
SAP Financial, Inc., Toronto, Canada	100.0	
SAP Finland Oy, Espoo, Finland	100.0	
SAP Foreign Holdings GmbH, Walldorf, Germany	100.0	
SAP France Holding, Levallois Perret, France	100.0	
SAP Fünfte Beteiligungs- und Vermögensverwaltungs GmbH, Walldorf, Germany	100.0	9)
SAP Global Marketing, Inc., New York, NY, United States	100.0	
SAP Hellas S.A., Athens, Greece	100.0	
SAP Holdings (UK) Limited, Feltham, United Kingdom	100.0	10)
SAP Hong Kong Co., Ltd., Hong Kong, China	100.0	
SAP Hosting Beteiligungs GmbH, St. Leon-Rot, Germany	100.0	
SAP Hungary Rendszerek, Alkalmazások és Termékek az Adatfeldolgozásban Informatikai Kft., Budapest, Hungary	100.0	
Name and Location of Company	Owner- ship %	Foot- note
SAP India (Holding) Pte Ltd, Singapore, Singapore	100.0	
SAP International Panama, S.A., Panama City, Panama	100.0	
SAP International, Inc., Miami, FL, United States	100.0	
SAP Investments, Inc., Wilmington, DE, United States	100.0	
SAP Ireland Limited, Dublin, Ireland	100.0	
SAP Ireland-US Financial Services Ltd., Dublin, Ireland	100.0	
SAP Israel Ltd., Ra'anana, Israel	100.0	
SAP Korea Ltd., Seoul, South Korea	100.0	
SAP Labs Bulgaria EOOD, Sofia, Bulgaria	100.0	
SAP Labs Finland Oy, Espoo, Finland	100.0	
SAP Labs France SAS, Mougins, France	100.0	
SAP Labs Israel Ltd., Ra'anana, Israel	100.0	
SAP Labs Korea, Inc., Seoul, South Korea	100.0	
SAP Latvia SIA, Riga, Latvia	100.0	
SAP Malaysia Sdn. Bhd., Kuala Lumpur, Malaysia	100.0	
SAP Malta Investments Ltd., Valletta, Malta	100.0	
SAP México S.A. de C.V., Mexico City, Mexico	100.0	
SAP Middle East and North Africa L.L.C., Dubai, United Arab Emirates	49.0	5)
SAP National Security Services, Inc., Newtown Square, PA, United States	100.0	
SAP Nederland Holding B.V., 's-Hertogenbosch, the Netherlands	100.0	11)
SAP New Zealand Limited, Auckland, New Zealand	100.0	
SAP Norge AS, Lysaker, Norway	100.0	
SAP North West Africa Ltd, Casablanca, Morocco	100.0	4)
SAP Österreich GmbH, Vienna, Austria	100.0	
SAP PERU S.A.C., Lima, Peru	100.0	
SAP Philippines, Inc., Makati, Philippines	100.0	
SAP Polska Sp. z o.o., Warsaw, Poland	100.0	
SAP Portals Europe GmbH, Walldorf, Germany	100.0	
SAP Portals Holding Beteiligungs GmbH, Walldorf, Germany	100.0	
SAP Portals Israel Ltd., Ra'anana, Israel	100.0	

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Name and Location of Company	Owner-ship	Foot-note
	%	
SAP Portugal Sistemas, Aplicações e Produtos Informáticos, Sociedade Unipessoal, Lda., Porto Salvo, Portugal	100.0	
SAP Projektverwaltungs- und Beteiligungs GmbH, Walldorf, Germany	100.0	8)
SAP Public Services Hungary Kft., Budapest, Hungary	100.0	
SAP Public Services, Inc., Washington, DC, United States	100.0	
SAP Puerto Rico GmbH, Walldorf, Germany	100.0	9)
SAP Retail Solutions Beteiligungsgesellschaft mbH, Walldorf, Germany	100.0	
SAP Romania SRL, Bucharest, Romania	100.0	
SAP Saudi Arabia Software Services Ltd, Riyadh, Kingdom of Saudi Arabia	100.0	
SAP Saudi Arabia Software Trading Ltd, Riyadh, Kingdom of Saudi Arabia	75.0	
SAP Sechste Beteiligungs- und Vermögensverwaltungs GmbH, Walldorf, Germany	100.0	9)
SAP sistemi, aplikacije in produkti za obdelavo podatkov d.o.o., Ljubljana, Slovenia	100.0	
SAP Slovensko s.r.o., Bratislava, Slovakia	100.0	
SAP Software and Services LLC, Doha, Qatar	49.0	4), 5)
SAP Svenska Aktiebolag, Stockholm, Sweden	100.0	
SAP Systems, Applications and Products in Data Processing (Thailand) Ltd., Bangkok, Thailand	100.0	
SAP Taiwan Co., Ltd., Taipei, Taiwan	100.0	
SAP Technologies Inc., Palo Alto, CA, United States	100.0	
SAP Training and Development Institute FZCO, Dubai, United Arab Emirates	100.0	
SAP Türkiye Yazılım Üretim ve Ticaret A.Ş., Istanbul, Turkey	100.0	
SAP UAB, Vilnius, Lithuania	100.0	
SAP Ventures Investment GmbH, Walldorf, Germany	100.0	9)
SAP Vierte Beteiligungs- und Vermögensverwaltungs GmbH, Walldorf, Germany	100.0	
SAP West Balkans d.o.o., Belgrade, Serbia	100.0	
Name and Location of Company	Owner-ship	Foot-note
	%	
SAP Zweite Beteiligungs- und Vermögensverwaltungs GmbH, Walldorf, Germany	100.0	8), 9)
Sapphire SAP HANA Fund of Funds, L.P., Wilmington, DE, United States	0	6)
Sapphire Ventures Fund I, L.P., Wilmington, DE, United States	0	6)
Sapphire Ventures Fund II, L.P., Wilmington, DE, United States	0	6)
SAPV (Mauritius), Ebene, Mauritius	0	6)
SAS Financière Multiposting, Paris, France	100.0	4)
SeeWhy (UK) Limited, Windsor, United Kingdom	100.0	10)
Shanghai SuccessFactors Software Technology Co., Ltd., Shanghai, China	100.0	
SuccessFactors (Philippines), Inc., Pasig City, Philippines	100.0	
SuccessFactors (UK) Limited, London, United Kingdom	100.0	10)
SuccessFactors Asia Pacific Limited, Hong Kong, China	100.0	
SuccessFactors Australia Holdings Pty Ltd, Brisbane, Australia	100.0	
SuccessFactors Australia Pty Limited, Brisbane, Australia	100.0	
SuccessFactors Cayman, Ltd., Grand Cayman, Cayman Islands	100.0	
SuccessFactors Hong Kong Limited, Hong Kong, China	100.0	
SuccessFactors International Holdings, LLC, San Mateo, CA, United States	100.0	
Sybase (UK) Limited, Maidenhead, United Kingdom	100.0	
Sybase 365 Ltd., Tortola, British Virgin Islands	100.0	
Sybase 365, LLC, Dublin, CA, United States	100.0	
Sybase Angola, LDA, Luanda, Angola	100.0	
Sybase Iberia S.L., Madrid, Spain	100.0	
Sybase India Ltd., Mumbai, India	100.0	
Sybase International Holdings Corporation, LLC, Dublin, CA, United States	100.0	
Sybase Philippines, Inc., Makati City, Philippines	100.0	
Sybase Software (China) Co., Ltd., Beijing, China	100.0	

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Name and Location of Company	Owner-ship %	Foot-note
Sybase Software (India) Private Ltd., Mumbai, India	100.0	
Syclo International Limited, Leeds, United Kingdom	100.0	
Systems Applications Products Africa (Proprietary) Limited, Johannesburg, South Africa	100.0	
Systems Applications Products Africa Region (Proprietary) Limited, Johannesburg, South Africa	100.0	
Systems Applications Products Nigeria Limited, Victoria Island, Nigeria	100.0	
Systems Applications Products South Africa (Proprietary) Limited, Johannesburg, South Africa	89.5	
TechniData GmbH, Markdorf, Germany	100.0	
Technology Licensing Company, LLC, Atlanta, GA, United States	100.0	
TomorrowNow, Inc., Bryan, TX, United States	100.0	
Travel Technology, LLC, Atlanta, GA, United States	100.0	
TripIt LLC, Wilmington, DE, United States	100.0	
TRX Data Service, Inc., Glen Allen, VA, United States	100.0	
TRX Europe Limited, London, United Kingdom	100.0	10)
TRX Fulfillment Services, LLC, Atlanta, GA, United States	100.0	
TRX Germany GmbH, Berlin, Germany	100.0	
TRX Luxembourg, S.a.r.l., Luxembourg City, Luxembourg	100.0	
TRX Technologies India Private Limited, Raman Nagar, India	100.0	
TRX Technology Services, L.P., Atlanta, GA, United States	100.0	
TRX UK Limited, London, United Kingdom	100.0	10)
TRX, Inc., Atlanta, GA, United States	100.0	

¹⁾ These figures are based on our local IFRS financial statements prior to eliminations resulting from consolidation and therefore do not reflect the contribution of these companies included in the Consolidated Financial Statements. The translation of the equity into Group currency is based on period-end closing exchange rates, and on average exchange rates for revenue and net income/loss.

²⁾ As at December 31, 2015, including managing directors, in FTE.

³⁾ Figures for profit/loss after tax and total equity pursuant to HGB, section 285 and section 313 are not disclosed if they are of minor significance for a fair presentation of the profitability, liquidity, capital resources and financial position of SAP SE, pursuant to HGB, section 313 (2) sentence 3 no. 4 and section 286 (3) sentence 1 no. 1.

⁴⁾ Consolidated for the first time in 2015.

⁵⁾ Agreements with the other shareholders provide that SAP SE fully controls the entity.

⁶⁾ SAP SE does not hold any ownership interests in four structured entities, SAPV (Mauritius), Sapphire SAP HANA Fund of Funds, L.P., Sapphire Ventures Fund I, L.P. and Sapphire Ventures Fund II, L.P. However, based on the terms of limited partnership agreements under which these entities were established, SAP SE is exposed to the majority of the returns related to their operations and has the current ability to direct these entities' activities that affect these returns, in accordance with IFRS 10 (Consolidated Financial Statements). Accordingly, the results of operations are included in SAP's consolidated financial statements.

⁷⁾ Entity whose personally liable partner is SAP SE.

⁸⁾ Entity with profit and loss transfer agreement.

⁹⁾ Pursuant to HGB, section 264 (3) or section 264b, the subsidiary is exempt from applying certain legal requirements to their statutory stand-alone financial statements including the requirement to prepare notes to the financial statements and a review of operations, the requirement of independent audit and the requirement of public disclosure.

¹⁰⁾ Pursuant to sections 479A to 479C of the UK Companies Act 2006, the entity is exempt from having its financial statements audited on the basis that SAP SE has provided a guarantee of the entity's liabilities in respect of its financial year ended 31 December 2015.

¹¹⁾ Pursuant to article 2:403 of the Dutch Civil Code, the entity is exempt from applying certain legal requirements to their statutory stand-alone financial statements including the requirement to prepare the financial statements, the requirement of independent audit and the requirement of public disclosure on the basis that SAP SE has provided a guarantee of the entity's liabilities in respect of its financial year ended 31 December 2015.

Other Equity Investments

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Name and Location of Company	Owner- ship %
Joint Arrangements and Investments in Associates	
China DataCom Corporation Limited, Guangzhou, China	28.30
Convercent, Inc., Denver, CO, United States	44.16
Evature Technologies (2009) Ltd., Ramat Gan, Israel	30.46
Greater Pacific Capital (Cayman) L.P., Grand Cayman, Cayman Islands	5.35
Nor1, Inc., Santa Clara, CA, United States	18.64
Procurement Negócios Eletrônicos S/A, Rio de Janeiro, Brazil	17.00
SAP - NOVABASE, A.C.E., Porto Salvo, Portugal	66.66
StayNTouch Inc., Bethesda, MD, United States	37.40
Visage Mobile Inc., San Francisco, CA, United States	40.60
Yapta, Inc., Seattle, WA , United States	46.49

Name and Location of Company
Equity Investments with Ownership of at Least 5%
 Alchemist Accelerator Fund I LLC, San Francisco, CA,
 United States

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Name and Location of Company

All Tax Platform - Solucoes Tributarias S.A., São Paulo, Brazil
 Alteryx, Inc., Irvine, CA, United States
 Amplify Partners II L.P., Cambridge, MA, United States
 Amplify Partners L.P., Cambridge, MA, United States
 AP Opportunity Fund, LLC, Menlo Park, CA, United States
 ArisGlobal Holdings LLC, Stamford, CT, United States
 Char Software, Inc., Boston, MA, United States
 Costanoa Venture Capital II L.P., Palo Alto, CA,

United States

Costanoa Venture Capital QZ, LLC, Palo Alto, CA,

United States

Cyphort, Inc., Santa Clara, CA, United States
 Data Collective II L.P., San Francisco, CA, United States
 Data Collective III L.P., San Francisco, CA, United States
 EIT ICT Labs GmbH, Berlin, Germany
 FeedZai S.A., Lisbon, Portugal
 Follow Analytics, Inc., San Francisco, CA, United States
 GK Software AG, Schöneck, Germany
 IDG Ventures USA III, L.P., San Francisco, CA, United States
 InnovationLab GmbH, Heidelberg, Germany
 Integral Ad Science, Inc., New York, NY, United States
 iYogi Holdings Pvt. Ltd., Port Louis, Mauritius
 Jibe, Inc., New York, NY, United States
 Kaltura, Inc., New York, NY, United States
 Krux Digital, Inc., San Francisco, CA, United States
 Lavante, Inc., San Jose, CA, United States
 Local Globe VII, L.P., St. Peter Port, Guernsey, Channel Islands
 Looker Data Sciences, Inc., Santa Cruz, CA, United States

Name and Location of Company

MuleSoft, Inc., San Francisco, CA, United States
 MVP Strategic Partnership Fund GmbH & Co. KG, Grünwald, Germany
 Narrative Science, Inc., Chicago, IL, United States
 Notation Capital, L.P., Brooklyn, NY, United States
 On Deck Capital, Inc., New York, NY, United States
 OpenX Software Limited, Pasadena, CA, United States
 Patent Quality, Inc., Bellevue, WA, United States
 Point Nine Capital Fund II GmbH & Co. KG, Berlin, Germany
 Point Nine Capital Fund III GmbH & Co. KG, Berlin, Germany
 Post for Systems, Cairo, Egypt
 PubNub, Inc., San Francisco, CA, United States
 Realize Corporation, Tokyo, Japan
 Return Path, Inc., New York, NY, United States
 Rome2rio Pty. Ltd., Albert Park, Australia
 ScytI, S.A., Barcelona, Spain
 Smart City Planning, Inc., Tokyo, Japan
 Socrata, Inc., Seattle, WA, United States
 Storm Ventures V, L.P., Menlo Park, CA, United States
 SV Angel IV L.P., San Francisco, CA, United States
 T3C Inc., Mountain View, CA, United States
 TableNow, Inc., San Francisco, CA, United States
 Technologie- und Gründerzentrum Walldorf Stiftung GmbH, Walldorf, Germany
 The Currency Cloud Group Limited, London, United Kingdom
 The SAVO Group Ltd., Chicago, IL, United States
 TidalScale, Inc., Santa Clara, CA, United States
 Upfront V, L.P., Santa Monica, CA, United States