SAP AG
Form 20-F
March 21, 2014

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 20-F

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

**OR**

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2013**

**OR**

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

**OR**

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

**For the transition period from____ to_____**

**Commission file number: 1-14251**

# SAP AG

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

**SAP CORPORATION**

*(Translation of Registrant s name into English)*

**Federal Republic of Germany**

*(Jurisdiction of incorporation or organization)*

**Dietmar-Hopp-Allee 16**

**69190 Walldorf**

**Federal Republic of Germany**

*(Address of principal executive offices)*

**Wendy Boufford**

**c/o SAP Labs**

**3410 Hillview Avenue, Palo Alto, CA, 94304, United States of America**

**650-849-4000 (Tel)**

**650-843-2041 (Fax)**

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

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

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

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

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

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

**Ordinary Shares, without nominal value: 1,228,504,232 (as of December 31, 2013)****

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

Yes þ No ¨

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

Yes ¨ No þ

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

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

Yes þ No ¨

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

Yes ¨ No ¨

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

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

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

Item 17 ¨ Item 18 ¨

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

Yes ¨ No þ

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

** Including 34,795,554 treasury shares.

## INTRODUCTION

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

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

Unless otherwise specified herein, euro financial data have been converted into dollars at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate ) on December 31, 2013, which was US$1.3779 per 1.00. No representation is made that such euro amounts actually represent such dollar amounts or that such euro amounts could have been or can be converted into dollars at that or any other exchange rate on such date or on any other date. The rate used for the convenience translations also differs from the currency exchange rates used for the preparation of the Consolidated Financial Statements. This convenience translation is not a requirement under IFRS and, accordingly, our independent registered public accounting firm has not audited these US$ amounts. For information regarding recent rates of exchange between euro and dollars, see Item 3. Key Information Exchange Rates. On March 7, 2014, the Noon Buying Rate for converting euro to dollars was US$1.3868 per 1.00.

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

SAP, ABAP, Adaptive Server, Advantage Database Server, Afaria, Ariba, Business ByDesign,

BusinessObjects, ByDesign, Crystal Reports, hybris, PartnerEdge, PowerBuilder, PowerDesigner, Quadrem, R/3, Replication Server, SAP BusinessObjects Explorer, SAP Business Workflow, SAP EarlyWatch, SAP Fiori, SAP HANA, SAP Jam, SAP Lumira, SAP NetWeaver, SAPPHIRE, SAPPHIRE NOW, SQL Anywhere, StreamWork, Sybase, SuccessFactors, The Best-Run Businesses Run SAP, TwoGo, Web Intelligence and other SAP products and services mentioned herein as well as their respective logos are trademarks or registered trademarks of SAP AG (or an SAP affiliate company) in Germany and other countries.

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

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

## FORWARD-LOOKING STATEMENTS

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

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

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.

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

We may not be able to protect our critical information and assets or to safeguard our business operations against disruption.
We describe these and other risks and uncertainties in the Risk Factors section.

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

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

This report includes statistical data about the IT industry and global economic trends that comes from information published by sources including International Data Corporation (IDC), a provider of market information and advisory services for the

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

# INTERNAL MANAGEMENT SYSTEM

We use various performance measures to help manage our performance with regard to our primary financial goals, which are revenue and margin, and our primary non-financial goals, which are customer loyalty and employee engagement. We view revenue and margin as indicators for our current performance, while customer loyalty and employee engagement are indicators for our future performance.

## Measures We Use to Manage Our Financial Performance

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

In 2013, we used the following key measures to manage our operating financial performance:

*Non-IFRS software and cloud subscriptions:* Our key revenue drivers, software and cloud subscriptions, include software plus cloud subscription and support revenue. The principal source of our software revenue is the fees customers pay for on-premise software licenses resulting in software being installed on the customer s hardware. We generate cloud subscription and support revenue when we provide software and the respective support for delivery in the cloud. We evaluate software and cloud subscriptions both at actual currency and at constant currency.

*Non-IFRS software and software-related service (SSRS) revenue:* We use non-IFRS SSRS revenue and constant currency non-IFRS SSRS revenue to measure our revenue growth. Our SSRS revenue includes software and related support revenue plus cloud subscription and support revenue. Software revenue and cloud subscription and

support revenue are our key revenue drivers because they tend to affect our other revenue streams. Generally, customers who buy software licenses also enter into maintenance contracts, and these generate recurring software-related service revenue in the form of support revenue after the software sale. Maintenance contracts cover support services and software updates and enhancements. Software revenue as well as cloud subscription and support revenue also tend to stimulate service revenue from consulting and training sales.

*Bookings/billings revenue:* For our cloud activities we look at the recognized revenue as well as the contract value generated in a given period (bookings/billings). We measure bookings/billings as the amounts that we are contractually entitled to invoice the customers over the shorter of the contract term and the first 12 months following the contract execution date, anniversary of contract execution date, or contract renewal date (12 months bookings/billings). We evaluate bookings/billings both at actual currency and at constant currency. In contrast to the cloud subscription and support revenue recognized over the period of providing the cloud service rather than in the period of contract closure, the bookings/billings numbers give insight into the future revenue potential. When evaluating 12 months bookings/billings numbers, we consider both the total bookings/billings and the subset of bookings/billings that results from new customers or additional sales to existing customers in the reporting period rather than from subsequent years or renewals of existing contracts. There is no comparable IFRS measure for this figure.

*Non-IFRS operating profit/non-IFRS operating margin:* In 2013, we used non-IFRS operating profit/non-IFRS operating margin and constant currency non-IFRS operating profit/non-IFRS operating margin to measure our overall operational process efficiency and overall business performance. Non-IFRS operating margin is the ratio of our non-IFRS operating profit to total non-IFRS revenue, expressed as a percentage. See below for more information on the IFRS and non-IFRS measures we use.

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

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

*Financial income, net:* This measure provides insight especially into the return on liquid assets

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

*Days Sales Outstanding (DSO) and Days Payables Outstanding (DPO):* We manage working capital by controlling the days sales outstanding for operating receivables, or DSO (defined as average number of days from the raised invoice to cash receipt from the customer), and the days payables outstanding for operating liabilities, or DPO (defined as average number of days from the received invoice to cash payment to the vendor).

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

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

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

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

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

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

In 2013, we used the following key measures to manage our non-financial performance in the areas of employee engagement and customer loyalty:

*Employee Engagement Index:* 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. The index is derived from surveys conducted among our employees. With this measure, we recognize that we can achieve our growth strategy with engaged employees only.

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

## Value-Based Management

Our holistic view of the performance measures described above, together with our associated analyses, comprises the information we use for value-based management. We use planning and

control processes to manage the compilation of these key measures and their availability to our decision makers across various management levels.

SAP s long-term strategic plans are the point of reference for our other planning and controlling processes, including a multiyear plan through 2017. We identify future growth and profitability drivers at a highly aggregated level. This process is intended to identify the best areas in which to target sustained investment. Next, we evaluate our multiyear plans for our support and development functions and break down the customer-facing plans by sales region. Based on our detailed annual plans, we determine the budget for the respective year. We also have processes in place to forecast revenue and profit on a quarterly basis, to quantify whether we expect to realize our strategic goals, and to identify any deviations from plan. We continuously monitor the concerned units in the Group to analyze these developments and define any appropriate actions.

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

## Non-IFRS Financial Measures Cited in This Report

As in previous years, we provided our 2013 financial outlook on the basis of certain non-IFRS measures. Therefore, this report contains a non-IFRS based comparison of our actual performance in 2013 against our outlook in the Report on Economic Position section.

## *Reconciliations of IFRS to Non-IFRS Financial Measures for 2013 and 2012*

The following table reconciles our IFRS financial measures to the respective and most comparable non-IFRS financial measures of this report for each of 2013 and 2012. Due to rounding, the sum of the numbers presented in this table might not precisely equal the totals we provide.

**Reconciliations of IFRS to Non-IFRS Financial Measures for the Years Ended December 31**

| millions, unless otherwise stated | 2013 | | | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|
| | IFRS | Adj. | Non-IFRS | Currency Impact | Non-IFRS Constant Currency | IFRS | Adj. | Non-IFRS |
| **Revenue measures** | | | | | | | | |
| Software | 4,516 | 2 | 4,518 | 224 | 4,743 | 4,658 | 0 | 4,658 |
| Cloud subscriptions and support | 696 | 61 | 757 | 29 | 786 | 270 | 73 | 343 |
| Software and cloud subscriptions | 5,212 | 63 | 5,275 | 253 | 5,529 | 4,928 | 73 | 5,001 |
| Support | 8,738 | 19 | 8,756 | 371 | 9,128 | 8,237 | 9 | 8,246 |
| **Software and software-related service revenue** | **13,950** | **82** | **14,032** | **625** | **14,657** | **13,165** | **81** | **13,246** |
| Consulting | 2,242 | 0 | 2,242 | 87 | 2,329 | 2,442 | 0 | 2,442 |
| Other services | 623 | 0 | 623 | 24 | 647 | 616 | 0 | 616 |
| **Professional services and other service revenue** | **2,865** | **0** | **2,865** | **111** | **2,976** | **3,058** | **0** | **3,058** |
| **Total revenue** | **16,815** | **82** | **16,897** | **736** | **17,633** | **16,223** | **81** | **16,304** |
| **Operating expense measures** | | | | | | | | |
| Cost of software and software-related services | 2,597 | 364 | 2,233 | | | 2,555 | 414 | 2,141 |
| Cost of professional services and other services | 2,402 | 123 | 2,278 | | | 2,520 | 128 | 2,392 |
| **Total cost of revenue** | **4,999** | **487** | **4,512** | | | **5,075** | **542** | **4,533** |
| **Gross profit** | **11,816** | **570** | **12,385** | | | **11,147** | **624** | **11,771** |
| Research and development | 2,282 | 120 | 2,162 | | | 2,261 | 129 | 2,132 |
| Sales and marketing | 4,131 | 205 | 3,926 | | | 3,912 | 223 | 3,689 |
| General and administration | 866 | 70 | 796 | | | 949 | 164 | 784 |
| Restructuring | 70 | 70 | 0 | | | 8 | 8 | 0 |
| TomorrowNow litigation | 0 | 0 | 0 | | | 0 | 0 | 0 |
| Other operating income/expense, net | 12 | 0 | 12 | | | 23 | 0 | 23 |
| **Total operating expenses** | **12,336** | **953** | **11,383** | **348** | **11,731** | **12,181** | **1,067** | **11,114** |
| **Operating profit measures** | | | | | | | | |
| **Operating profit** | **4,479** | **1,035** | **5,514** | **388** | **5,902** | **4,041** | **1,148** | **5,190** |
| **Operating margin (in %)** | **26.6** | | **32.6** | | **33.5** | **24.9** | | **31.8** |

## *Explanation of Non-IFRS Measures*

We disclose certain financial measures, such as non-IFRS revenue, non-IFRS operating expenses, non-IFRS operating profit, non-IFRS operating margin, non-IFRS earnings per share, constant currency revenue, and operating profit measures that are not prepared in accordance with IFRS and are therefore considered non-IFRS financial measures. Our non-IFRS financial measures may not correspond to non-IFRS financial measures that other companies report. The non-IFRS

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

We believe that the disclosed supplemental historical and prospective non-IFRS financial information provides useful information to investors because management uses this information, in addition to financial data prepared

in accordance with IFRS, to attain a more transparent understanding of our past performance and our anticipated future results. In 2013, we used these non-IFRS measures consistently in our internal planning and forecasting, reporting and compensation, as well as in our external communications as follows:

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

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

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

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

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

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

**Non-IFRS Revenue**

Revenue items identified as non-IFRS revenue have been adjusted from the respective IFRS financial measures by including the full amount of support revenue, cloud subscriptions revenue, and other similarly recurring revenues that we are not permitted to record as revenue under IFRS due to fair value accounting for the contracts in effect at the time of the respective acquisitions.

Under IFRS, we record at fair value the contracts in effect at the time entities were acquired. Consequently, our IFRS support revenue, our IFRS cloud subscriptions and support revenue, our IFRS software and cloud subscription revenue, our IFRS software and software-related service revenue, and our IFRS total revenue for periods subsequent to acquisitions do not reflect the full

amount of revenue that would have been recorded by entities acquired by SAP had they remained stand-alone entities. Adjusting revenue numbers for this revenue impact provides additional insight into the comparability across periods of our ongoing performance.

We also report our non-IFRS deferred cloud subscription and support revenue to provide additional insight into amounts that are contracted for and invoiced and that are expected to be recognized in cloud subscription and support revenue in the future. To align the reporting of this non-IFRS deferred revenue number, we adjust this number, like our non-IFRS revenue numbers, for the effect of fair value accounting for the contracts in effect at the time of the respective acquisitions.

**Non-IFRS Operating Expense**

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

Acquisition-related charges

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

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

- Acquisition-related third-party expenses

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

- Expenses from our share-based payments

- Restructuring expenses

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

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

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

**Usefulness of Non-IFRS Measures**

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

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

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

- Non-IFRS and non-GAAP measures are widely used in the software industry. In many cases, inclusion of our non-IFRS measures may facilitate comparison with our competitors corresponding non-IFRS and non-GAAP measures.

Additionally, we believe that our adjustments to our IFRS financial measures for the results of our discontinued TomorrowNow activities are useful to investors for the following reason:

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

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

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

- The eliminated amounts could be material to us.

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

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

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

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

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

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

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

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

In the past we have issued share-based payment awards to our employees every year and we intend to continue doing so in the future. Thus, our share-based payment expenses are recurring although the amounts usually change from period to period.

Despite these limitations, we believe that the presentation of the non-IFRS measures and the corresponding IFRS measures, together with the relevant reconciliations, provides useful information to management and investors regarding present and future business trends relating to our financial condition and results of operations. We do not evaluate our growth and performance without considering both non-IFRS measures and the comparable IFRS measures. We caution the readers of our financial reports to follow a similar approach by considering our non-IFRS measures only in addition to, and not as a substitute for or superior to, revenue or other measures of our financial performance prepared in accordance with IFRS.

**Constant Currency Information**

We believe it is important for investors to have information that provides insight into our sales. Revenue measures determined under IFRS provide information that is useful in this regard. However, both sales volume and currency effects impact period-over-period changes in sales revenue. We do not sell standardized units of products and services, so we cannot provide relevant information on sales volume by providing data on the changes in product and service units sold. To provide additional information that may be useful to investors in breaking down and evaluating changes in sales volume, we present

information about our revenue and various values and components relating to operating profit that are adjusted for foreign currency effects. We calculate constant currency revenue and operating profit measures by translating foreign currencies using the average exchange rates from the previous year instead of the current year.

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

## *Free Cash Flow*

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

**Free Cash Flow**

| millions | 2013 | 2012 | Change (in %) |
|---|---|---|---|
| Net cash flows from operating activities | 3,832 | 3,822 | 0% |
| | 566 | 541 | 5% |

| | | | |
|---|---|---|---|
| Purchase of intangible assets and property, plant, and equipment (without acquisitions) | | | |
| **Free cash flow** | **3,266** | **3,281** | **0%** |

# PART I

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

Not applicable.

## ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

## ITEM 3. KEY INFORMATION

## SELECTED FINANCIAL DATA

The following table sets forth our selected consolidated financial data as of and for each of the years in the five-year period ended December 31, 2013. The consolidated financial data has been derived from, and should be read in conjunction with, our Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), presented in Item 18. Financial Statements of this report.

Our selected financial data and our Consolidated Financial Statements are presented in euros. Financial data as of and for the year ended December 31, 2013 has been translated into U.S. dollars for the convenience of the reader.

Part I

Item 3

**SELECTED FINANCIAL DATA: IFRS**

| millions, unless otherwise stated | 2013[1] US$ | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| **Income Statement Data: Years ended December 31,** | | | | | | |
| Software and software-related service revenue | 19,221 | 13,950 | 13,165 | 11,319 | 9,794 | 8,198 |
| Total revenue | 23,169 | 16,815 | 16,223 | 14,233 | 12,464 | 10,672 |
| Operating profit | 6,171 | 4,479 | 4,041 | 4,884 | 2,591 | 2,588 |
| Operating margin in %[2] | 26.6 | 26.6 | 24.9 | 34.3 | 20.8 | 24.3 |
| Profit after tax | 4,581 | 3,325 | 2,803 | 3,437 | 1,813 | 1,750 |
| Profit attributable to owners of parent | 4,583 | 3,326 | 2,803 | 3,435 | 1,811 | 1,748 |
| Earnings per share[2] | | | | | | |
| Basic in | 3.84 | 2.79 | 2.35 | 2.89 | 1.52 | 1.47 |
| Diluted in | 3.83 | 2.78 | 2.35 | 2.89 | 1.52 | 1.47 |
| **Other Data:** | | | | | | |
| Weighted-average number of shares outstanding | | | | | | |
| Basic | 1,193 | 1,193 | 1,192 | 1,189 | 1,188 | 1,188 |
| Diluted | 1,195 | 1,195 | 1,193 | 1,190 | 1,189 | 1,189 |
| **Statement of Financial Position Data: At December 31,** | | | | | | |
| Cash and cash equivalents | 3,786 | 2,748 | 2,477 | 4,965 | 3,518 | 1,884 |
| Total assets[3] | 37,332 | 27,094 | 26,306 | 23,227 | 20,839 | 13,374 |
| Current financial liabilities[4] | 1,031 | 748 | 802 | 1,331 | 142 | 146 |
| Non-current financial liabilities[4] | 5,179 | 3,758 | 4,446 | 2,925 | 4,449 | 729 |
| Issued capital | 1,693 | 1,229 | 1,229 | 1,228 | 1,227 | 1,226 |
| Total equity | 22,112 | 16,048 | 14,133 | 12,689 | 9,824 | 8,491 |

(1) Amounts presented in US$ have been translated for the convenience of the reader at 1.00 to US$1.3779, the Noon Buying Rate for converting 1.00 into dollars on December 31, 2013. See Item 3. Key Information Exchange Rates for recent exchange rates between the Euro and the dollar.

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

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

(4) The balances include primarily bonds, private placements and bank loans. Current is defined as having a remaining life of one year or less; non-current is defined as having a remaining term exceeding one year. The significant increase in non-financial liabilities in 2010 was due to an acquisition-term loan used to finance the acquisition of Sybase. In addition, we issued two bonds and a U.S. private placement transaction, of which, the proceeds were primarily used to finance the acquisition of Sybase. The significant increase in non-financial liabilities in 2012 was due to the issuance of a U.S. private placement transaction and Eurobonds in the course of the acquisition of Ariba. See Note (17b) to our Consolidated Financial Statements for more information on our financial liabilities.

## EXCHANGE RATES

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

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

The following table sets forth (i) the average, high and low Noon Buying Rates for the euro expressed as U.S. dollars per 1.00 for the past five years on an annual basis and (ii) the high and low Noon Buying Rates on a monthly basis from July 2013 through and including March 7, 2014.

| **Year** | **Average**[(1)] | **High** | **Low** |
|---|---|---|---|
| 2009 | 1.3955 | 1.5100 | 1.2547 |
| 2010 | 1.3216 | 1.4536 | 1.1959 |
| 2011 | 1.4002 | 1.4875 | 1.2926 |
| 2012 | 1.2909 | 1.3463 | 1.2062 |
| 2013 | 1.3303 | 1.3816 | 1.2774 |
| **Month** | | **High** | **Low** |
| 2013 | | | |
| July | | 1.3282 | 1.2774 |
| August | | 1.3426 | 1.3196 |
| September | | 1.3537 | 1.3120 |
| October | | 1.3810 | 1.3490 |
| November | | 1.3606 | 1.3357 |
| December | | 1.3816 | 1.3552 |
| 2014 | | | |
| January | | 1.3682 | 1.3500 |
| February | | 1.3806 | 1.3507 |
| March (through March 7, 2014) | | 1.3868 | 1.3731 |

(1) The average of the applicable Noon Buying Rates on the last day of each month during the relevant period.

The Noon Buying Rate on March 7, 2014 was US$1.3868 per 1.00.

## DIVIDENDS

### Dividend Distribution Policy

Dividends are jointly proposed by SAP AG s Supervisory Board (Aufsichtsrat) and Executive Board (Vorstand) based on SAP AG s year-end stand-alone statutory financial statements, subject to approval by the Annual General Meeting of Shareholders. Dividends are officially declared for the prior year at SAP AG s Annual General Meeting of Shareholders. SAP AG s Annual General Meeting of Shareholders usually convenes during the second quarter of each year. Dividends are usually remitted to the custodian bank on behalf of the shareholder within one business day following the Annual General Meeting of Shareholders. Record holders of the ADRs on the dividend record date will be entitled to receive payment of the dividend declared in respect of the year for which it is declared. Cash dividends payable to such holders will be paid to the Depositary in euro and, subject to certain exceptions, will be converted by the Depositary into U.S. dollars.

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

## Annual Dividends Paid and Proposed

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

| Year Ended December 31, | Dividend Paid per Ordinary Share | |
|---|---|---|
| | | US$ |
| 2009 | 0.50 | 0.60[1] |
| 2010 | 0.60 | 0.85[1] |
| 2011 | 1.10[2] | 1.38[1] |
| 2012 | 0.85 | 1.11[1] |
| 2013 (proposed) | 1.00[3] | 1.39[3],[4] |

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

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

(3) Subject to approval at the Annual General Meeting of Shareholders of SAP AG currently scheduled to be held on May 21, 2014.

(4) Translated for the convenience of the reader from euro into U.S. dollars at the Noon Buying Rate for converting euro into U.S. dollars on March 7, 2014 of US$1.3868 per 1.00. The dividend paid may differ due to changes in the exchange rate.

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

## RISK FACTORS

## Economic, Political, Social, and Regulatory Risk

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

Our business is influenced by multiple risk factors that are both difficult to predict and beyond our influence and control. These factors include global economic and business conditions and fluctuations in national currencies. Other examples are political developments and general regulations, as well as budgetary constraints or shifts in spending priorities of national governments.

Macroeconomic developments, such as a global economic crisis, chronic fiscal imbalances and slowing economic conditions in emerging markets, might decrease the ability of our customers to invest in our solutions. In addition, changes in the euro rates for particular currencies might have an adverse effect on business activities with local customers and partners. All of this could have an adverse effect on our business results, financial condition, profitability or expected growth, and could have an adverse effect on our stock price. Furthermore, political instabilities in regions such as the Middle East and Africa, and natural disasters, contribute to economic and political uncertainty that could also have an adverse effect on our business results, financial condition, profitability, and expected growth.

This could have an adverse effect on our customers ability and willingness to make investments in our products and services. These events could reduce the demand for SAP software and services, and lead to:

- Delays in purchases, decreased deal size, or cancelations of proposed investments

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

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

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

- Market disruption from aggressive competitive behavior, acquisitions, or business practices
- Increased price competition and demand for cheaper product and services

This could have an adverse effect on our business, financial position, profit, and cash flows.

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

We are a global company and currently market our products and services in more than 180 countries and territories in the Americas (including Latin America and North America), APJ, and EMEA regions. Our business in these countries is subject to numerous risks inherent in international business operations. Among others, these risks include:

- Conflict and overlap among tax regimes
- Possible tax constraints impeding business operations in certain countries
- Expenses associated with the localization of our products and compliance with local regulatory requirements
- Discriminatory or conflicting fiscal policies
- Operational difficulties in countries with a high corruption perception index
- Protectionist trade policies and regulations for import and export
- Works councils, labor unions, and immigration laws in different countries
- Data protection and privacy in regard to access by government authorities to customer, partner, or employee data
- Difficulties enforcing intellectual property and contractual rights in certain jurisdictions
- Country-specific software certification requirements

As we expand further into new countries and markets, these risks could intensify. The compliance with applicable laws and regulations to our business is sometimes unclear, subject to change over time, and sometimes may conflict between different jurisdictions. Additionally these laws and governments approach to enforcement, as well as our products and services, are continuing to change and evolve. Compliance with these types of regulation may involve significant costs or require changes in products or business practices. Non-compliance could result in penalties being imposed on us or orders that we stop the alleged noncompliant activity. One or more of these factors could have an adverse effect on our operations globally or in one or more countries or regions, which could have an adverse effect on our business, financial position, profit, and cash flows.

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

Terrorist attacks and other acts of violence or war, civil and political unrest (such as in the Middle East and parts of Africa), or natural disasters (such as hurricanes, flooding, or similar events) could have a significant adverse effect on the related economy or beyond. Such an event could lead, for example, to the loss of a significant number of our employees, or to the disruption or disablement of operations at our locations, and could affect our ability to provide business services and maintain effective business operations. Furthermore, this could have a significant adverse effect on our partners as well as our customers and their investment decisions, which could have an adverse effect on our reputation, business, financial position, profit, and cash flows.

## *Market Risks*

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

In 2013, we offered a wide range of support services including SAP MaxAttention, SAP Enterprise Support, and SAP Product Support for

Large Enterprises. We continue to depend materially on the success of our support portfolio and on our ability to deliver high-quality services. Traditionally, our large installed customer base generates additional new software, maintenance, consulting, and training revenue. Existing customers might cancel or not renew their maintenance contracts, decide not to buy additional products and services, switch to subscription models, or accept alternative offerings from other vendors, which could have an adverse effect on our maintenance business, financial position, profit, and cash flows.

**The success of our cloud computing strategy depends on an increasing market adoption of the cloud solutions and managed cloud services. Insufficient adoption of our solutions and services could lead to a loss of SAP s position as a leading cloud company.**

The market for cloud computing is increasing and shows strong growth relative to the market for our on-premise solutions. To offer a broad cloud service portfolio and generate the associated business value for our customers, we have acquired cloud computing companies such as SuccessFactors and Ariba. Due to ongoing contracts and previous substantial investments to integrate traditional on-premise enterprise software into their businesses, customers and partners might be reluctant or unwilling to migrate to the cloud.

Other factors that could affect the market acceptance of cloud solutions include:

- Concerns with entrusting a third party to store and manage critical employee or company confidential data
- Customer concerns about security capabilities and reliability
- Customer concerns about the ability to scale operations for large enterprise customers
- The level of configurability or customizability of the software
- Missing integration scenarios between on-premise products and cloud-to-cloud solutions

If organizations do not perceive the benefits of cloud computing, the market for cloud business might not develop further, or it may develop more

slowly than we expect, either of which could have an adverse effect on our business, financial position, profit, reputation and cash flows.

Among measures to communicate and demonstrate the value and the benefits of our cloud solutions to the market, we significantly invest in infrastructure and processes that ensure secure operations of our cloud solutions including compliance with all local legal regulations regarding data protection and privacy as well as data security.

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

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

SAP faces increased competition in its business environment from traditional as well as new competitors. This could result in increased price pressure, cost increases, and loss of market share, which could have an adverse effect on our business, financial position, profit, and cash flows. Additionally customers could change their buying behavior by accelerating their acceptance of cloud solutions to reduce their investments. Furthermore, the trend in the market to invest more in cloud solutions might lead to a risk related to the potential loss of existing on-premise customers. It may also have a temporary adverse effect on our revenue due to conversions from on-premise licenses to cloud subscriptions from existing SAP customers in our installed base.

### *Business Strategy Risks*

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

Our software business consists of new software licenses, software license updates, and support and maintenance fees, as well as of cloud software subscriptions. Our customers are looking to take advantage of technological breakthroughs from SAP without compromising their previous IT investments. However, the introduction of new SAP solutions, technologies, and business models are subject to uncertainties as to whether customers will be able to realize the expected benefits. Uncertainty may lead customers to wait for reference customers first, which might result in a lower level of adoption of our new solutions, technologies, business models and flexible consumption models, or no adoption at all. This could have an adverse effect on our business, financial position, profit, and cash flows.

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

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

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

Our customers renewal rates may decline or fluctuate as a result of a number of factors,

including their satisfaction or dissatisfaction with our cloud product portfolio, our customer support, concerns on efficient and secure cloud operations and in compliance with legal and regulatory requirements, our pricing, the prices of competing products or services, mergers and acquisitions affecting our customer base, the effects of global economic conditions, or reductions in our customers spending levels. If our customers do not renew their subscriptions, renew on less favorable terms, or fail to purchase additional modules or users, our revenue and billings may decline, and we may not realize significantly improved operating results from our customer base. This could have an adverse effect on our business, financial position, profit, and cash flows.

**If we are unable to scale and enhance an effective partner ecosystem, increased revenue already included in our forecast might be endangered.**

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

If partners consider our products less strategic and/or financially less attractive or if SAP fails to establish a network of qualified partners that meet our quality requirements and the requirements of our customers, then, among other things, partners might not:

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

- Provide high-quality products and services to our customers

Drive growth of references by creating customer use cases and demo systems

Sufficiently embed our solutions to profitably drive product adoption, especially with new innovations like SAP HANA

Enable and train sufficient resources to promote sell and support to scale into targeted markets

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

Renew their existing agreements with us or enter into new agreements on terms acceptable to us or at all.

If one or more of these risks materialize, this may have an adverse effect on the demand for our products and services. As a result we may not be able to scale our business to compete successfully with other software vendors, which could have an adverse effect on our reputation, business, financial position, profit, and cash flows.

## *Human Capital Risks*

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

Our success is dependent on appropriate alignment of our internal and external workforce planning processes and our location strategy with our general strategy. It is critical that we manage our internationally dispersed workforce effectively, taking short and long-term workforce and skill requirements into consideration. This applies to the management of our internal as well as our external workforce. Changes in headcount and infrastructure needs could result in a mismatch between our expenses and revenue. Failure to manage our geographically dispersed workforce effectively could hinder our ability to run our business efficiently and successfully and could have an adverse effect on our business, financial position, profit, and cash flows.

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

Our highly qualified workforce is the foundation for our continued success. Competition in our industry for highly skilled and specialized personnel and leaders, both male and female, is intense. In certain regions and specific technology

and solution areas, we have set ambitious growth targets, specifically in countries such as Brazil, China, and Russia. If we are unable to identify, attract, develop, motivate, adequately compensate, and retain well-qualified personnel, both male and female, or if existing highly skilled and specialized personnel leave SAP and ready successors or adequate replacements are not available, we may not be able to manage our operations effectively, which could have an adverse effect on our reputation and our business, financial position, profit, and cash flows. Furthermore, we may not be able to develop, sell, or implement successful new solutions and services as planned. This is particularly true as we continue to introduce new and innovative technology offerings and expand our business in emerging markets. Missing or inadequately executed benefit and compensation programs could limit SAP s ability to attract or retain qualified employees and lead to financial losses. In addition, we might not be able to achieve our internal gender diversity objectives to increase the number of women in management from 18% in 2010 to 25% by 2017. Finally, hiring such personnel could expose us to claims by other companies seeking to prevent their employees from working for a competitor.

## *Organizational and Governance-Related Risks*

**Laws and regulatory requirements in Germany, the United States, and elsewhere have become much more stringent.**

As a stock corporation domiciled in Germany with securities listed in Germany and the United States, we are subject to German, U.S., and other governance-related regulatory requirements. Changes in laws and regulations and related interpretations, including changes in accounting standards and taxation requirements and increased enforcement actions and penalties may alter the business environment in which we operate. Regulatory requirements have become significantly more stringent in recent years, and some legislation, such as the anticorruption legislation in Germany, the U.S. Foreign Corrupt Practices Act, the UK Bribery Act, and other local laws prohibiting corrupt payments by employees, vendors, distributors, or agents, is being applied more rigorously. Emerging markets are a significant focus of our international growth strategy. The nature of these markets presents a number of inherent risks. A failure by us to

comply with applicable laws and regulations, or any related allegations of wrongdoing against us, whether merited or not, could have an adverse effect on our business, financial position, profit, cash flows and reputation.

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

As a global software and service provider, SAP is required to comply with the laws in the locations where SAP does business. SAP and its subsidiaries are facing a surge of data protection and privacy laws and regulations around the world, with further changes to be expected in the future, for example, by the European Data Protection Regulation proposed by the European Commission. These laws and regulations amend and supplement existing requirements regarding the processing of personal data that SAP and SAP customers must fulfill and which we must consequently address with our products and services. Failure to comply with applicable laws or to adequately address privacy concerns of customers, even if unfounded, could lead to investigations by supervisory authorities, civil liability, fines, (in the future, potentially calculated based on the Company s annual turnover), loss of customers, damage to our reputation, and could have an adverse effect on our business, financial position, profit, and cash flows.

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

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

Our solutions and green IT

Our own operations energy management and other environmental issues such as carbon management, water use, and waste

Because our customers, employees, and investors expect a reliable energy and carbon strategy, we have reemphasized our previously communicated targets, especially our 2020 target for greenhouse gas emissions. In addition, our customers might no longer recognize SAP for its environmental leadership and might buy other vendors products and services. Consequently, we could fail to achieve our revenue target. If we do not meet stakeholder expectations in the areas identified, our rating in sustainable investment indices might decrease, which could have an adverse effect on our reputation, business, financial position, profit, and cash flows.

**Unethical behavior and non-compliance with our integrity standards due to intentional and fraudulent behavior of employees could harm our business, financial position, profit, and reputation.**

SAP s leadership position in the global market is founded on the long-term and sustainable trust of our stakeholders worldwide. Our heritage is one of corporate transparency, open communication with financial markets, and adherence to recognized standards of business integrity. The SAP Code of Business Conduct, adopted by the Executive Board on January 29, 2003, put into words the already existing guidelines and expectations for the business behavior practiced at SAP.

However, we may encounter unethical behavior and non-compliance with our integrity standards due to intentional and fraudulent behavior of individual employees, possibly in collusion with external third parties. In addition to intentional behavior, problems could also arise due to negligence in the adherence to rules and regulations. Unethical behavior and misconduct attributable to SAP could not only lead to criminal charges, fines and claims by injured parties, but also to financial loss, and severe reputational damage. This could have an adverse effect on our business, financial position, profit, and cash flows.

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

If SAP AG s principal shareholders and the holdings of entities controlled by them vote in the same manner, this could delay, prevent or facilitate a change in control of SAP or other significant changes to SAP AG or its capital structure. See Item 7. Major Shareholders and Related-Party Transactions Major Shareholders for further information.

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

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

### *Communication and Information Risks*

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

Confidential or strictly confidential information that is related to topics such as our strategy, new technologies, mergers and acquisitions, unpublished financial results, or personal data, could be prematurely or inadvertently disclosed. This could require us to notify multiple regulatory agencies and, where appropriate, the data owner, which could result in a loss of reputation for SAP. For example, leaked information during a merger or acquisition deal could cause the loss of our deal target, or our share price could decline in case of prematurely published financial results. This could have an adverse effect on our market position and lead to fines and penalties. In addition, this could have an adverse effect on our business, financial position, profit, and cash flows.

### *Financial Risks*

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

Our revenue and operating results can vary and have varied in the past, sometimes substantially,

from quarter to quarter. Our revenue in general, and in particular our software revenue, is difficult to forecast for a number of reasons, including:

- The relatively long sales cycles for our products

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

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

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

- Changes in customer budgets

Decreased software sales that could have an adverse effect on related maintenance and services revenue

The timing, size, and length of a customer s services projects

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

Seasonality of a customer s technology purchases

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

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

Since many of our customers make their IT purchasing decisions near the end of calendar quarters, and with a significant percentage of those decisions being made during our fourth quarter, even a small delay in purchasing decisions for our on-premise software could have an adverse effect on our revenue results for a given year. Our dependence on large transactions has decreased in recent years with a trend towards an increased number of transactions coupled with a decrease in deal size. However, the loss or delay of one or a few large opportunities, which are still characteristic of the large enterprise segment, could have an adverse effect on our business, financial position, profit, and cash flows.

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

Macroeconomic factors such as an economic downturn could have an adverse effect on our future liquidity. We use a globally centralized financial management to control financial risk, such as liquidity, exchange rate, interest rate, counterparty, and equity price risks. The primary aim is to maintain liquidity in the Group at a level that is adequate to meet our obligations at any time. Our total group liquidity was 2,841 million on December 31, 2013. This position is supported by our strong operating cash flows, of which a large part is recurring, and by credit facilities on which we can draw if necessary. However, adverse macroeconomic factors could increase the default risk associated with our total group liquidity. This could have an impact on the valuation of our financial assets, which could have an adverse effect on our business, financial position, profit, and cash flows.

SAP s investment policy with regard to total group liquidity is set out in our internal treasury guideline document, which is a collection of uniform rules that apply globally to all companies in the Group. Among its stipulations, it requires that with limited exceptions we invest only in assets and funds rated BBB flat or better. The weighted average rating of the investments of our total group liquidity is in the range A to A . We continue to pursue a policy of cautious investment characterized by wide portfolio diversification with a variety of counterparties, predominantly short-term investments, and standard investment instruments.

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

To comply with IFRS, management is required to make many judgments, estimates, and assumptions that affect the reported financial figures. The facts and circumstances as well as assumptions on which management bases these estimates and judgments, and management s judgment regarding the facts and circumstances may change from time to time and this could result in significant changes in the estimates and judgments and consequently in the reported financials. Such changes could have an adverse effect on our business, financial position, profit and cash flows.

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

We regularly monitor our compliance with applicable financial reporting standards and review new pronouncements and drafts thereof that are relevant to us. As a result of new standards, changes to existing standards, and changes in their interpretation, we might be required to change our accounting policies, particularly concerning revenue recognition, to alter our operational policies so that they reflect new or amended financial reporting standards, or to restate our published financial statements. Such changes may have an adverse effect on our reputation, business, financial position, and profit, or cause an adverse deviation from our revenue and operating profit target.

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

Our Group-wide management reporting and our external financial reporting are both in euros. Nevertheless, a significant portion of our business is conducted in currencies other than the euro. Approximately 71% of our revenue in 2013 was attributable to operations outside the euro area and was translated into euros. Consequently, period-over-period changes in the euro rates for particular currencies can significantly affect our reported revenue and income. In general, appreciation of the euro relative to another currency has an adverse effect while depreciation of the euro relative to another currency has a positive effect. Variable interest balance-sheet items are also subject to changes in interest rates. Such changes may have an adverse effect on our business, financial position, profit and cash flows or cause an adverse deviation from our revenue and operating profit target.

For more information about our currency and interest rate risks and our related hedging activity, see the Notes to the Consolidated Financial Statements section, Notes (24) and (25).

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

We use derivative instruments to reduce the impact of our share-based payments on our income statement and to limit future expense associated with those plans. We decide case-by-case whether and to what extent we should hedge this risk. The expense of hedging the share-based payments could exceed the benefit achieved by hedging them. On the other hand, a decision to leave the plans materially unhedged could prove disadvantageous. This could have an adverse effect on our business, financial position, profit and cash flows or cause an adverse deviation from our revenue and operating profit target.

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

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

- the announcement of new products or product enhancements by us or our competitors;
- technological innovation by us or our competitors;
- quarterly variations in our results or our competitors results of operations or results that fail to meet market expectations;
- changes in revenue and revenue growth rates on a consolidated basis or for specific geographic areas, business units, products or product categories;
- changes in our externally communicated outlook;
- changes in our capital structure, for example due to the potential future issuance of addition debt instruments;
- general market conditions specific to particular industries;
- litigation to which we are a party;
- general and country specific economic or political conditions (particularly wars, terrorist attacks, etc.);
- proposed and completed acquisitions or other significant transactions by us or our competitors; and
- general market conditions.

Many of these factors are beyond our control. In the past, companies that have experienced volatility in the market price of their stock have been subject to shareholder lawsuits, including securities class action litigation. Any such lawsuits against us, with or without merit, could result in substantial costs and the diversion of management s attention and resources, resulting in a decline in our results of operations and our stock price.

## *Project Risks*

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

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

As a result of these and other risks, SAP and/or some of our customers have incurred significant implementation costs in connection with the purchase and installation of SAP software products. Some customers implementations have taken longer than planned. We cannot guarantee that we can reduce or eliminate protracted installation or significant third-party consulting costs, that trained consultants will be readily available, that our costs will not exceed the fees agreed in fixed-price contracts, or that customers will be satisfied with the implementation of our software and solutions. Unsuccessful, lengthy, or costly customer implementation and integration projects could result in claims from customers, harm SAP s reputation, and could have an adverse effect on our business, financial position, profit, and cash flows.

### *Product and Technology Risks*

**There is a risk that undetected security vulnerabilities shipped and deployed within our software products might cause damage to SAP and our customers.**

Customer systems or systems operated by SAP itself to provide services could potentially be compromised by vulnerabilities if they are exploited by hackers. This could lead to theft, destruction, or abuse of data, or systems could be rendered unusable (such as denial of service attack). The detection of security vulnerabilities in our software, our customers systems, or SAP systems used in the provision of services, especially in case of exploitation, could prevent us from meeting our contractual obligations and subsequently might lead to customer claims and reputational damage, which might have an adverse effect on our business, financial position, profit, and cash flows.

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

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

Also, new products could contain undetected defects or they might not be mature enough from the customer s point of view for business-critical solutions. The detection and correction of any

defects after shipment could be expensive and time consuming and we might not be able to meet the expectations of customers regarding time and quality in the defect resolution process. In some circumstances, we might not be in a position to rectify such defects or entirely meet the expectations of customers, specifically as we are expanding our product portfolio into additional markets. As a result, we might be faced with customer claims for cash refunds, damages, replacement software, or other concessions. The risk of defects and their adverse consequences could increase as we seek to introduce a variety of new software products simultaneously at a higher innovation rate. Significant undetected defects or delays in introducing new products or product enhancements could affect market acceptance of SAP software products and could have an adverse effect on our reputation, business, financial position, profit, and cash flows.

The use of existing SAP software products by customers in business-critical solutions and processes and the relative complexity and technical interdependency of our software products create a risk that customers or third parties may pursue warranty, performance, or other claims against us for actual or alleged defects in SAP software products, in our provision of services, or in our application hosting services. We have in the past been, and may in the future be, subject to warranty, performance, or other similar claims.

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

**Changes in our rights to use software and technologies we license from third parties, which are an integral part of SAP s products, could slow down time to market and influence our license pricing and therefore the competitiveness with other software vendors. Furthermore, it could diminish our software s functional capabilities and therefore could jeopardize the stability of our solution portfolio offering.**

The numerous third-party technologies we have licensed and certain open source software components we use have become an integral part of our product portfolio. We depend on those technologies for the functionality of our software or cloud services. Changes to, or the loss of, third-party licenses as well as open source licenses being construed could significantly increase the cost of these licenses and significantly reduce software functionality and/or usability of SAP s software products. As a result, we might incur additional development or license costs to ensure the continued functionality of our products, which could have an adverse effect on our business, financial position, profit, and cash flows. This risk increases with each acquisition of a company or a company s intellectual property assets that had been subject to third-party technology licensing, open source software, and product standards less rigorous than our own.

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

Our future success depends upon our ability to keep pace with technological and process innovations and new business models, as well as our ability to develop new products and services, enhance and expand our existing products and services portfolio, and integrate products and services we obtain through acquisitions. To be successful, we are required to shift our products and our go-to-market approach to a cloud-based delivery model to satisfy changing customer demand.

We might not be successful in bringing new solutions, solution enhancements, and/or services to market before our competitors. We may also face increasing competition from open source software initiatives in which competitors may

provide software and intellectual property free and/or under terms and conditions unfavorable for SAP. In addition, we might not be able to generate enough revenue to offset the significant research and development costs we incur to deliver technological innovations. Moreover, we might not anticipate and develop technological improvements or succeed in adapting our products and processes to technological change, changing regulatory requirements, emerging industry standards, and changing requirements of our customers and partners. Finally, we might not succeed in producing high-quality products, enhancements, and releases in a timely and cost-effective manner to compete with products, solutions, and other technologies offered by our competitors, which could have an adverse effect on our reputation, business, financial position, profit, and cash flows.

**Our technology and/or product strategy may not be successful or our customers and partners might not adopt our technology platforms and other innovations accordingly.**

We offer customers a broad portfolio of products, solutions, and services. Our technology strategy centers on SAP HANA as the real-time in-memory computing platform for analytics and applications. The success of our technology strategy depends on the convergence of SAP HANA with our mobile, cloud, and SAP NetWeaver technology platform. It also depends on the delivery of SAP solutions based on the SAP HANA platform as well as the success of our new framework to meet changing customer expectations regarding end-to-end user experience. Our technology strategy also relies on our ability to maintain a dynamic network of partner organizations developing their own business applications using our technology platforms.

We might not be successful in integrating our platforms, enabling the complete product portfolio, harmonizing our user interface design and technology, or bringing new solutions based on the SAP HANA platform to the market as fast as expected. In addition, we may not be able to compete effectively in the area of managed cloud services. As a result, our partner organizations and customers might not adopt the SAP HANA platform and our managed cloud services quickly enough or they might consider competitive solutions. As a result, this could have an adverse effect on our reputation, business, financial position, profit, and cash flows.

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

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

- Lost or delayed market acceptance and sales
- Breach of warranty or other contract breach or misrepresentation claims
- Sales credits or refunds to our customers or partners
- Loss of customers and/or partners
- Diversion of development and customer service resources
- Breach of data protection and privacy laws and regulations
- Customers considering competitive cloud offerings

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

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 only use specific

and/or local data centers. However, if these security measures are breached as a result of third-party action, employee error and 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 application suite, 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 the number of products in our industry segment grows, as we acquire companies with increased use of third-party code including open source code, as we expand into new industry segments with our products, resulting in greater overlap in the functional scope of products, and as non-practicing entities that do not design, manufacture, or distribute products increasingly assert intellectual property infringement claims.

Any claims, with or without merit, and negotiations or litigation relating to such claims, could preclude us from utilizing certain technologies in our products, be time-consuming, result in costly litigation, and require us to pay damages to third parties, stop selling or reconfigure our products and, under certain circumstances, pay fines and indemnify our customers, 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.

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 non-SAP software upon which we depend.

**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.

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

To expand our business, we have in the past made acquisitions of businesses, products, and

technologies. We expect to continue to make such acquisitions in the future. Management s negotiation of potential acquisitions and alliances and integration of acquired businesses, products, or technologies demands time, focus, and resources of management and of the workforce. Acquisitions of companies, businesses, and technology expose us to unpredictable operational difficulties, expenditures, and risks. These risks include, among others:

- The selection of the wrong integration model for the acquired company
- The failure to integrate the acquired business and its different business and licensing models
- The failure to integrate the acquired technologies or products with our current products and technologies
- The failure to integrate the acquired company s operations across SAP s different cultures, languages, and local protocols, all within the constraints of applicable local laws
- The failure to meet the needs of the acquired company s customers and partners in the combined company

The diversion of management s time and attention from daily operations

The loss of key personnel of the acquired business

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

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

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

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

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

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 nondisclosure agreements, and deploying protection technology. Despite our efforts, we might not be able to prevent third parties from obtaining, using, or selling without authorization what we regard as our proprietary technology and information. All of these measures afford only limited protection, and our proprietary rights could be challenged, invalidated, held unenforceable, or otherwise affected. Some intellectual property might be vulnerable to disclosure or misappropriation by employees, partners, or other third parties. 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 position and our financial position, and result in reduced sales. Any

legal action we bring to enforce our proprietary rights could also involve enforcement against a partner or other third party, which may have 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 SAP include state-driven economic espionage as well as competitor-driven industrial espionage, and criminal activities including, but not limited to cyber-attacks against on-premise software, hosted, and cloud services. This might result in, for example, leakage 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 expose our business operations and 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 dependent on the exchange of a wide range of information across our global operations and on the availability of our infrastructure. With regard 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, which could have an adverse effect on our business, financial profile, profit, and cash flows.

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

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 are 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 losses in connection with venture capital investments.**

Through our partnership with SAP Ventures, we plan to continue investing in new and promising technology businesses. Many such investments generate net losses and require additional expenditures from their investors. Changes to planned business operations have in the past, and may in the future, affect the performance of companies in which SAP Ventures holds investments, and that could have an adverse effect on the value of our investments in SAP 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 AG. SAP AG is translated in English to SAP Corporation. SAP AG, formerly known as SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung, was incorporated under the laws of the Federal Republic of Germany in 1972. Where the context requires in the discussion

below, SAP AG refers to our predecessors, Systemanalyse und Programmentwicklung GbR (1972-1976) and SAP Systeme, Anwendungen, Produkte in der Datenverarbeitung GmbH (1976-1988). SAP AG became a stock corporation (Aktiengesellschaft) in 1988. Our principal executive offices, headquarters and registered office are located at Dietmar-Hopp-Allee 16, 69190 Walldorf, Germany. Our telephone number is +49-6227-7-47474.

As part of our activities to reduce the number of legal entities in the SAP group, in 2013 we integrated certain subsidiaries into the following significant SAP subsidiaries: SAP America, Inc., SAP Canada Inc., SAP Deutschland AG & Co. KG, SAP France, SAP Nederland B.V., and SAP JAPAN Co., Ltd.

For a (i) description of our principal capital expenditures and divestitures and the amount invested (including interests in other companies) since January 1, 2011 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.

## VISION, MISSION, AND STRATEGY

SAP s continued growth over four decades is attributable to our focus on innovation, a broad portfolio, and our ability to stay close to our customers and understand their ever-changing needs.

### Our Vision and Mission

SAP s vision is to help the world run better and improve people s lives. Our mission is to help every customer become a best-run business. We do this by delivering technology innovations that address the challenges of today and tomorrow without disrupting our customers business operations. For example, enterprise mobility is transforming usage of IT; in-memory technology is simplifying the IT architecture in the enterprise and driving high-value applications; and cloud delivery of IT solutions is simplifying the consumption of technology. We offer solutions that drive business outcomes and enable our customers to run better. We help our customers derive value from their SAP solutions in a cost-effective and predictable way, with our professional services, support, and cloud delivery.

## Our Goals for Sustained Business Success

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

### *Revenue*

We aim to achieve at least 22 billion total revenue by 2017. SAP still aims to achieve at least 20 billion total revenue by 2015 (2013: 16.9 billion non-IFRS total revenue). An important part to achieving this is our continued focus on innovations, as we expect to become the cloud company with 3.0 to 3.5 billion total revenue from our cloud business by 2017. In 2014, we expect to increase non-IFRS software and software-related services (SSRS) growth by 6% and 8% at constant currencies.

### *Margin*

We aim for 35% non-IFRS operating margin (2013: 32.6%). In order to capture growth opportunities in the cloud, we expect to reach this goal in 2017 instead of 2015, as previously stated. In 2014, we expect between 5.8 billion to 6.0 billion non-IFRS operating profit at constant currencies.

### *Customer Loyalty*

We use the Net Promoter Score (NPS) to measure customer loyalty. In 2014, we are aiming for an increase in NPS by four percentage points (2013: 12.1%).

### *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 are committed to achieving a score of 82% in 2015 (2013: 77%). Despite the slight drop in employee engagement in 2013 compared to 2012, we expect to see an incremental increase in our industry-leading score in 2014.

These four goals affirm our commitment to innovation and sustainability, and will help us deliver on our vision and mission.

In addition to the primary KPIs, which directly measure our performance with regard to our four company objectives, SAP manages a large set of secondary performance indicators, which influence the primary KPIs in a variety of ways. Our integrated report seeks to clarify some of those relationships, for example the link between our energy consumption and our margin.

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

## Our Strategy: Simplify Everything with SAP Cloud powered by SAP HANA

Organizations around the world are now entering a new era of business model innovation, made possible by the convergence of cloud, mobile, social, and in-memory technologies.

However, businesses often contend with layers of IT complexity that have been built up over the decades. This complexity is the result of several factors, including the proliferation of hardware and custom applications. In addition, investments in innovations often take a long time to implement or to realize business value. Due to the complexity of the current consumption model, customers are not able to respond fast enough to changing market conditions. We believe that simplicity is the key: By solving the challenge of business complexity, we can help unlock our customers innovation potential. We are committed to leading this simplification.

In today s technology industry, the biggest winners have grown by offering simplicity and ease of consumption over a cloud model, which has translated to massive user adoption and market success.

In 2014, SAP will focus on helping its customers simplify everything, so they can do anything.

With the SAP HANA platform, we have an opportunity to simplify our product portfolio and IT landscape for our customers. SAP HANA can radically simplify enterprise applications as it collapses the entire IT stack. With SAP HANA cloud platform, we have the ability to take our core on-premise applications to the cloud and offer a choice of cloud deployments to our customers.

With SAP Cloud powered by SAP HANA, we will focus our simplification on three areas simplifying our consumption model, simplifying our portfolio, and simplifying user experience.

- *Simplify software consumption by moving our entire portfolio to the cloud:* We are transitioning our consumption model to SAP Cloud powered by SAP HANA where we can deliver end-to-end solutions and drive business outcomes for the customers. We will offer our entire portfolio of solutions applications, analytics, and platform through SAP Cloud powered by SAP HANA. We will move our core SAP Business Suite software to the cloud as a managed service, delivered by both SAP and our partners. We will also accelerate our investments in line-of-business public cloud solutions across SuccessFactors, Ariba, and our cloud portfolio, all running on SAP HANA. We will deliver a true, integrated cloud to our customers. As we are committed to offering flexibility and choice, we will continue to offer an on-premise deployment model to our customers.

- *Simplify our products with SAP HANA as the common platform:* We will standardize every SAP product (including SuccessFactors and Ariba) on the common SAP HANA platform, and deliver integration across our portfolio. This will drive a simplified suite experience for our customers and partners. Our partners and ecosystem can either extend our solutions or build end-to-end applications based on the SAP HANA platform.

- *Simplify the user experience:* We will simplify the user experience (UX) by offering a mobile first approach based on SAP Fiori applications, which offer a simple and easy-to-use experience for broadly used SAP software functions that work seamlessly across devices. We will build applications that show empathy with the user and dramatically improve the experience of our customer s customers and our customers employees.

In addition to simplifying our business model, we will focus on end-to-end delivery of

industry-specific solutions that can drive business value and outcomes. We will continue to build an open ecosystem and our partner network to deliver SAP Cloud powered by SAP HANA on their cloud infrastructure. Our ecosystem will play a vital role in building new solutions on the SAP HANA platform and delivering value to our customers.

With our focus on simplification, we aim to better innovate and grow.

Today SAP only receives a small percentage of each customer s overall IT spend. By investing in innovations and shifting our customers to a cloud business model, we will be able to help reduce their total cost of ownership (TCO) on IT. This enables customers to reinvest the TCO savings in new innovations and SAP could capture a higher share of customer IT spend.

Additionally, SAP will drive innovation and top-line growth across the following dimensions:

- Drive the Big Data agenda for our customers with our real-time in-memory SAP HANA platform and predictive analytics solutions

- Establish SAP HANA as a standard enterprise business platform and monetize through partners and ecosystem

- Focus on the customer s customer by extending to business-to-business-to-consumer (B2B2C) through our portfolio of omnichannel and CRM solutions

- Drive accelerated growth in selected industries such as banking, insurance, retail, public sector, and healthcare

- Emerging markets will continue to be a growth driver, with high double-digit growth in software and cloud revenues expected through 2017. In addition to our investments in China, Russia, and the Middle East, we are expanding our investments in Africa.

We will stay committed to our customers success and evolve our execution to drive further value creation for our customers. We strive to provide our customers a significant competitive advantage and to help make their growth more sustainable financially, ecologically, and socially.

For more information about SAP s goals, see the Report on Expected Developments section.

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## OVERVIEW OF THE SAP GROUP

Founded in 1972, SAP today is the world leader in enterprise applications in terms of software and software-related service revenue, and the world s third-largest independent software manufacturer based on market capitalization. Our continued growth over four decades is attributable to relentless innovation, a diverse portfolio, and our ability to anticipate ever-changing customer requirements. With more than 253,500 customers in over 180 countries, the SAP Group includes subsidiaries in major countries and employs more than 66,500 people.

Our company s culture puts our customers success at the center of everything we do, and is driven by our passions which are:

*Success* We measure our success by our customers success.

*Accountability* We embrace accountability and strive to always make good on our promises.

*Professionalism* We exhibit professionalism by consistently delivering quality work.

*Integrity* We are honest and fair and take responsibility for all our actions.

*Teamwork* We value teamwork because it enables us to exceed our individual limits and share greater success.

*Trust* We work for each other s success and take personal responsibility for all of our relationships.

For more information about our business conduct, see the Business Conduct section of the SAP Integrated Report 2013 online.

SAP is headquartered in Walldorf, Germany; our legal corporate name is SAP AG. The corporation

is listed on the Frankfurt Stock Exchange as well as stock exchanges in Berlin and Stuttgart in Germany and the New York Stock Exchange in the United States. At the end of 2013, our market capitalization was 76.5 billion. SAP is a member of the German DAX and of the Dow Jones EURO STOXX 50 index.

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

SAP markets and distributes our products, solutions, and services primarily through a worldwide network of local subsidiaries, which are licensed to distribute SAP offerings to customers in defined territories. Distributorship agreements are in place with independent resellers in some countries. For more information, see the Business Model section.

As of December 31, 2013, SAP AG controlled directly or indirectly 272 subsidiaries. Our subsidiaries perform various tasks such as sales and marketing, consulting, research and development, customer support, training, or administration. For a complete list of subsidiaries, associates, and other equity investments, see the Notes to the Consolidated Financial Statements section, Note (33).

For management reporting, our activities are broken down into two divisions, On-Premise and Cloud, which are further divided into operating segments. Our On-Premise division is composed of two operating segments, On-Premise Products and On-Premise Services. Our Cloud division is also composed of two operating segments, Cloud Applications and Ariba. For more information about our segments, see the Notes to the Consolidated Financial Statements section, Note (28).

The following table illustrates our most significant subsidiaries based on total revenues as of December 31, 2013:

| Name of Subsidiary | Ownership % | Country of Incorporation | Function |
|---|---|---|---|
| **Germany** | | | |
| SAP Deutschland AG & Co. KG, Walldorf | 100 | Germany | Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration |
| **Rest of EMEA** | | | |
| SAP (UK) Limited, Feltham | 100 | Great Britain | Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration |
| SAP (Schweiz) AG, Biel | 100 | Switzerland | Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration |
| SAP France, Paris | 100 | France | Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration |
| SAP Nederland B.V., s-Hertogenbosch | 100 | The Netherlands | Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration |
| Limited Liability Company SAP CIS, Moscow | 100 | Russia | Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration |
| **United States** | | | |
| SAP America, Inc., Newtown Square | 100 | USA | Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration |
| SAP Industries, Inc., Newtown Square | 100 | USA | Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration |
| **Rest of Americas** | | | |
| SAP Brasil Ltda, São Paulo | 100 | Brazil | Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration |
| SAP Canada Inc., Toronto | 100 | Canada | Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration |
| **Japan** | | | |
| SAP JAPAN Co., Ltd., Tokyo | 100 | Japan | Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration |
| **Rest of APJ** | | | |
| SAP Australia Pty Limited, Sydney | 100 | Australia | Sales & Marketing, Consulting, Training, Customer Support, Research and Development and Administration |

## PORTFOLIO OF PRODUCTS, SOLUTIONS, AND SERVICES

## Our Focus on Customers and Innovation

SAP s portfolio of products, solutions, services, and support is designed with customer centricity

in mind. Our solutions help customers address the major trends and issues of our time such as the unprecedented power of people to connect, the ubiquity of mobile technology, the pressures of population growth and rapid urbanization, and the increasing demand on natural resources. Our software enables companies of all sizes to better connect to their customers and suppliers, and to measure, track, and manage their sustainable operations. Our solutions also address our customers expectations for shorter innovation cycles, an attractive total cost of ownership (TCO), a superior user experience, and choice of consumption options whether on premise or in the cloud.

SAP s portfolio offers solutions to customers of all sizes and across 25 industries, all around the globe. The platform for all our solutions is called SAP HANA. SAP was the first company to introduce an in-memory database not only for analytics, but also for running complete enterprise applications in main memory. SAP HANA is an in-memory data platform that is deployable as an on-premise appliance or in the cloud. It is a revolutionary platform best suited for performing real-time analytics, and developing and deploying real-time applications. Due to its hybrid structure for processing transactional workloads and analytical workloads fully in-memory, SAP HANA combines the best of both worlds. It also offers a unique opportunity for business innovation, simplifying IT landscapes, reducing TCO, and boosting performance by a wide margin. All of our products will be enabled to run on the SAP HANA platform, and we continue to make SAP HANA a key differentiator in both technology and business applications across our entire portfolio.

## Solutions

SAP has built a deep expertise in more than 40 years of delivering market-leading software to distinct industries and lines of business. Our end-to-end solutions for industries and lines of business combine assets across our product, service, technology, and market categories to solve specific customer challenges.

### *Solutions for Lines of Business*

Our line-of-business solutions are relevant across all industries, providing best-practice capabilities to key functional areas within an organization. As a result, they enable professionals to excel within their respective disciplines. Our portfolio of solutions currently covers 12 lines of business:

- Asset management
- Corporate strategy and sustainability
- Finance
- Human resources
- Information technology
- Manufacturing
- Marketing
- Procurement

- R&D and engineering
- Sales
- Service
- Supply chain management

We deliver these solutions on premise or through the cloud as software-as-a-service (SaaS) offerings:

- *SAP Cloud for Human Resources*: Together with existing HR cloud solutions from SAP, SuccessFactors, an SAP company, offers a full suite of cloud solutions that help companies improve workforce productivity and engage, train, motivate, and retain their people.
- *SAP Cloud for Finance*: Cloud solutions that support key financial processes including travel and expense reporting.
- *SAP Cloud for Sales, SAP Cloud for Service, SAP Cloud for Marketing*: These individual cloud portfolios offer applications that manage all aspects of customer interaction marketing, sales, service while employing next-generation social capabilities.
- *SAP Cloud for Procurement*: The portfolio from Ariba, an SAP company, combines the world s largest cloud-based business network with cloud-based applications for buying, selling, and managing cash used by companies around the globe to connect to their trading partners.
- *Cloud Suites*: SAP offers SAP Business Suite powered by SAP HANA in the cloud. In addition, SAP Business ByDesign and SAP Business One Cloud provide two cloud suites for subsidiaries and small businesses.

### *Solutions for Industries*

For decades, SAP has developed deep expertise within specific industry groups. Our product development teams include professionals from within those industries, and we continually engage

with customers to develop solutions that represent industry best practices. With the 2013 addition of the SAP for Sports & Entertainment industry portfolio, SAP now supports enterprises in 25 industries.

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

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

SAP offers a number of targeted solutions for small businesses and midsize companies, including the SAP Business All-in-One solution, the SAP Business One application, and Edge solutions, which combine business management and business intelligence software. These solutions are targeted and optimized for small businesses and midsize companies, and provide growing enterprises with the capabilities they need to compete in a global market.

SAP also offers affordable, scalable solutions in the cloud, such as SAP Business ByDesign and SuccessFactors HCM Suite. These solutions are relevant for companies of all sizes, including small and midsize enterprises. Additionally, we offer SAP Business One Cloud to small businesses and midsize companies. SAP Business One Cloud is a comprehensive and easy-to-consume cloud offering with predictable costs.

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## Products

In 2013, SAP offered innovative products in five market categories: Applications, Analytics, Mobile, Database and Technology, and Cloud, all powered by the SAP HANA platform.

We will continue to offer products in these market categories, along with innovations designed to meet customer needs now and in the future. As described in the Vision, Mission, and Strategy section of this management report, our strategy will focus even more on how our products deliver simplicity, better business outcomes, and sustainable business value.

In 2013, our product portfolio comprised the following:

### *Applications*

SAP is the recognized leader in enterprise applications. Based on our leading technology and our unmatched business process know-how, we deliver innovations without disruptions.

*SAP Business Suite* software helps create a comprehensive business process platform for companies to run better and perform better every day.

The main applications in SAP Business Suite are:

- *SAP Customer Relationship Management (SAP CRM):* Provides a comprehensive set of functionality for marketing, sales, and service to engage with customers.

- *SAP ERP:* Supports critical business processes such as finance, HR, and other essential corporate functions.

- *SAP Product Lifecycle Management (SAP PLM):* Manages the product and asset lifecycle across the extended supply chain.

- *SAP Supplier Relationship Management (SAP SRM):* Supports key procurement activities.

- *SAP Supply Chain Management (SAP SCM)*: *Helps adapt supply chain processes to a rapidly changing competitive landscape.*

*SAP Business Suite* is also available *powered by SAP HANA* as our next-generation business suite that captures and analyzes data in real time on a single in-memory platform. In the past, companies

would run separate disk-based systems; one to capture transactional data, and one to analyze data in a data warehouse. SAP Business Suite powered by SAP HANA allows customers to work with a single in-memory data management system, empowering customers to run their business in real time to transact, analyze, and predict instantly and proactively. This gives companies the ability to translate real-time insights into action immediately, while removing the complexity of redundant system data and systems. Customers can now manage mission-critical business processes, such as planning, execution, reporting, and analysis, in real time using the same relevant live data. This simplification lowers TCO.

### *Analytics*

Our analytics offerings enable users to unleash the power of collective insight by helping them collect massive amounts of Big Data and use it to drive better business outcomes. The solutions enable users to unlock the data they need empowering them with the right information at the right time to make insightful business decisions, anticipate change, and uncover new opportunities. When using software powered by SAP HANA, companies can gain insight by overcoming the classic trade-off between the speed and flexibility of data analysis. As a result, data analysis becomes much faster and more cost-effective.

Analytic solutions from SAP include:

*Business intelligence (BI)*: Helps users to make fact-based decisions with enterprise business intelligence solutions that enable users to engage with all their data, on any device, across any platform. Our BI solutions include the SAP BusinessObjects BI platform, SAP Crystal Reports, SAP BusinessObjects Dashboards, and SAP Lumira.

*Enterprise performance management (EPM)*: Helps companies improve performance, organizational agility, and decision making. SAP solutions for EPM include SAP Business Planning and Consolidation, SAP Profitability and Cost Management, SAP Financial Consolidation, and SAP Disclosure Management applications.

*Governance, risk, and compliance (GRC)*: Provides organizations with a real-time approach to manage GRC across heterogeneous business environments. SAP solutions for GRC include the SAP Risk Management, SAP Access Control, and SAP Global Trade Services applications as well as the SAP Sustainability Performance Management analytic application.

*Predictive analytics:*  