# Letter from the Co-CEOs

Dear Stakeholders,

The real-time world has now become reality. Cloud computing is changing the way software is consumed, evidenced by a shift in spending from hardware to software. Currently, there are more mobile devices in the world than people, giving billions of people computing power in their pockets. Fifteen billion of those devices are connected to the Internet, bringing people and businesses closer to each other across the globe.

Technology has moved beyond supporting business. More than ever, technology is the business.

At the same time, today's technological advances create challenges of their own. Data volumes are doubling every 18 months, generating overwhelming information management challenges. And, as technology contributes to the growth of a global middle class – expected to be nearly five billion strong by 2030 – the world's resources will be stressed to their limits.

Customers look to SAP to help them face this world of accelerating change in real time. Based on our unparalleled knowledge of critical business processes, they expect us to help them overcome global competition; use economic, natural, and social resources more wisely; interact with customers in new and personalized ways; and process the exabytes of information that flow into their data centers each year. Our purpose as a company is clearly defined as helping the world run better and improving people's lives.

**A STRATEGY OF INNOVATION**
In 2010, we introduced a highly focused innovation strategy that doubled our addressable market by offering solutions across five market categories – Applications, Analytics, Cloud, Mobile, and Database and Technology. With a neverending focus on our customers, that strategy continues to deliver gratifying results to date.

In 2012, we experienced another four quarters of double-digit software and software-related (SSRS) growth (non-IFRS) – we have now had 12 consecutive quarters of double-digit SSRS growth. For the full year, non-IFRS SSRS revenue grew 17% (13% at constant currencies). Software and cloud subscriptions revenue growth was even stronger with 21% growth (17% at constant currencies), which is twice as fast as our closest competitor. Our cloud momentum continued to accelerate, and the annual cloud revenue run rate approached €850 million.
We achieved a full-year non-IFRS operating profit of €5.2 billion, growing 11% (7% at constant currencies). We achieved this profitable growth while making continued investments in global go-to-market activities and our cloud business.

These results demonstrate that customers see the value of our innovations, and recognize that we deliver solutions that help them succeed in a hyperconnected and unpredictable world.

And today, we have become the leader in applications, analytics, and mobile. We are also the fastest-growing database company, and continue to build unrivaled momentum in cloud.

From left: **Jim Hagemann Snabe;** Co-CEO, **Bill McDermott,** Co-CEO

## SAP HANA® AND THE CLOUD

In 2012, two innovations in particular – SAP HANA® and our cloud-based solutions – delivered outstanding results.

With SAP HANA, we have once again reinvented real time. The SAP HANA platform allows customers to take advantage of in-memory computing technology across all five market categories. Since 2010, we have introduced premier applications that run on SAP HANA, such as the SAP® 360 Customer solution and the SAP NetWeaver® Business Warehouse application. And, we raised the bar once again in January 2013, by introducing SAP Business Suite powered by SAP HANA – something we believe is as dramatic an innovation as SAP R/3® was in the 1990s. Customers recognize a breakthrough when they see one, and SAP HANA has already generated €392 million in software revenue in 2012.

With our acquisition of SuccessFactors and other cloud innovations, we now have the most comprehensive and consistent cloud portfolio in the market. And through the cloud-based Ariba Network – the largest of its kind in the world – we are adding the power of globally connected business.

Innovations such as SAP HANA and our cloud solutions are changing the way that customers consume software and conduct business. Simply put, we are delivering innovations that address today's and tomorrow's challenges without causing disruption to our customers' business operations.

## LEVERAGING OUR STRENGTHS

We continue to leverage our traditional strengths, which include broad experience across 24 industries, and a large and expanding ecosystem of suppliers and business partners. Our partner network continuously presents additional opportunities to develop innovative products and solutions while significantly increasing our potential sales channels. In fact, indirect sales now make up 34% of SAP's total software revenue.

## TOWARD A SUSTAINABLE FUTURE

Our commitment to a sustainable world is strong, as we seek to minimize our own environmental footprint and positively impact the communities in which we work. In 2012, for example, 60% of the electricity consumed by SAP came from renewable sources. We reduced our greenhouse gas emissions slightly despite strong business growth. And, our employees delivered more than 130,000 hours of volunteering in the communities in which we work. Our commitment to achieving sustainable success is further demonstrated in this report, where we integrate our sustainability and financial reporting.

At the same time, our commitment to more than 232,000 customers and over 64,000 employees has never been stronger, as we aim to increase our customer loyalty, measured by the Net Promoter Score, by eight percentage points, while increasing employee engagement to 82%. We continue to focus on leadership and employee development, and have also made strides toward our goal of having women in 25% of leadership positions. At the end of 2012, 19.4% of our leadership positions were held by women (2011: 18.7%).

We are well on our way to achieving our 2015 goals of more than €20 billion in revenue, with a 35% non-IFRS operating margin, and one billion people interacting with our software. Further, we aim to build a €2 billion cloud business and to remain the fastest-growing database company. And, we will achieve all of this while helping our customers minimize their environmental impact.

**HELPING THE WORLD RUN BETTER**
Companies that will lead in the 21st century define success more broadly than financial performance. They look at their impact on the world – socially, environmentally, and economically. Our solutions give us a huge opportunity to respond to challenges and opportunities, whether that means addressing the lack of opportunity for people throughout the world or contending with stress on our ecosystems. We believe that our business success hinges on our ability to seize this opportunity and fulfill our vision to make the world run better – in real time.

Best regards,

**Bill McDermott**
Co-CEO, SAP AG

**Jim Hagemann Snabe**
Co-CEO, SAP AG

# Global Managing Board

**GERHARD OSWALD**
Member of the Executive Board of SAP AG, Application Development and Support
Joined SAP: 1981
Appointed to Executive Board: 1996

**DR. WERNER BRANDT**
Member of the Executive Board of SAP AG, Chief Financial Officer
Joined SAP: 2001
Appointed to Executive Board: 2001

**JIM HAGEMANN SNABE**
Co-CEO and Member of the Executive Board of SAP AG
Joined SAP: 1990
Appointed to Executive Board: 2008

**BILL MCDERMOTT**
Co-CEO and Member of the Executive Board of SAP AG
Joined SAP: 2002
Appointed to Executive Board: 2008

**LUISA DEPLAZES DELGADO**
Member of the Executive Board of SAP AG, Human Resources, Labor Relations Director
Joined SAP: 2012
Appointed to Executive Board: 2012

**DR. VISHAL SIKKA**
Member of the Executive Board of SAP AG, Technology and Innovation
Joined SAP: 2002
Appointed to Executive Board: 2010

**BOB CALDERONI**
Member of the Global Managing Board of SAP AG, Chairman and CEO of Ariba, an SAP company
Joined SAP: 2012

**LARS DALGAARD**
Member of the Executive Board of SAP AG, CEO of SuccessFactors, an SAP company
Joined SAP: 2012
Appointed to Executive Board: 2012

**ROBERT ENSLIN**
Member of the Global Managing Board of SAP AG, President of Global Customer Operations
Joined SAP: 1992

# Investor Relations

SAP stock rose almost 50% in 2012 and thus clearly outperformed the significant benchmark indexes. In July 2012, SAP became the most valuable publicly traded German company on the Deutsche Aktienindex (DAX 30). Our dialog with investors focused on SAP's growth strategy for SAP HANA and on the acquisitions of SuccessFactors and Ariba, which further strengthened our cloud solutions growth area.

**STOCK MARKETS WEATHER DEBT CRISIS AND ECONOMIC CONCERNS**

The euro area debt crisis and anxiety about the global economy predominated the trading year 2012. Yet, despite these difficult conditions, share prices rose noticeably in most markets around the world during the course of the year.

German stocks started off the year better than expected: In mid-March, the DAX hit the 7,000-point mark for the first time since the end of July 2011. Overall, the index rose in the first six months from 5,898.35 points on December 30, 2011, to 6,946.83 points on March 30, 2012. The positive market sentiment was thanks first and foremost to a new rescue package for Greece, including the successful restructuring of the nation's debt and cash flow injections made by the European Central Bank (ECB).

In the second quarter, however, the stock exchanges were increasingly weighed down by the political situation in Greece, financial problems with the Spanish banks, concerns about Spain's financial stability, and worries about global economic growth. Spain's refinancing problems at the beginning of June triggered unrest in the markets, causing the DAX to drop to 5,969.40 points on June 5, its lowest level for the year.

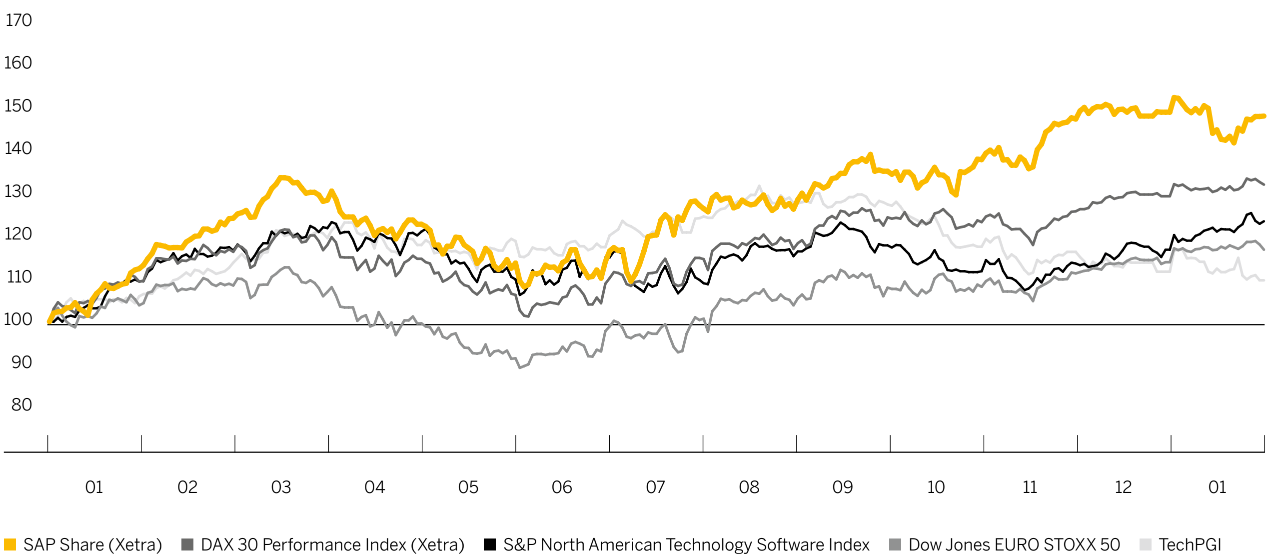
This was followed by an upward trend that lifted the DAX past 7,000 points in mid-August again. Worldwide share prices were given an additional boost at the beginning of September when the ECB decided to buy unlimited euro area government bonds (subject to specific conditions). Around the same time, the German Federal Constitutional Court approved the euro rescue package, while the U.S. Federal Reserve announced plans to stimulate the global economy by making substantial securities purchases and maintaining a low interest rate policy. Against this encouraging backdrop, the DAX rallied to 7,451.62 points, temporarily its highest level of the year, on September 21.

In the weeks that followed, concerns about the Spanish economy and fears of a global economic downturn curbed the markets, so that the DAX hovered in a comparatively narrow range of 260 points until the beginning of November. The conflict in the Middle East, the euro crisis, and U.S. budgetary concerns pushed the DAX back down below 7,000 points on November 16. However, this was soon followed by an optimism-driven stock market rally that pushed the DAX to its peak of the year at 7,672.10 points on December 20, which was also its highest level in five years. The index finished 2012 at 7,612.39 points.

**SAP STOCK CLEARLY OUTPERFORMS SIGNIFICANT BENCHMARK INDEXES**

In 2012, SAP stock rose 48.6%, thus clearly outperforming the significant benchmark indexes. This is the fifth largest increase among DAX-listed companies. The DAX 30 and Dow Jones EURO STOXX 50, which cover 50 large companies from euro area countries, only gained 29.1% and 13.8% respectively, while the U.S. Dow Jones Industrial Average index managed to win just 7.3%. The S&P 500 improved by 13.4% and the S&P North American Technology Software Index rose 16.7%. Comparing across industries, SAP stock performed well above average here as well: The Technology Peer Group Index (TechPGI), which lists ten major technology companies, only gained 11.6% in 2012. In July 2012, SAP became the most valuable company listed on the DAX, with a market capitalization of €62.8 billion.

**SAP Stock in Comparison to DAX 30, Dow Jones EURO STOXX 50, S&P North American Technology Software Index, and to TechPGI**
**December 31, 2011 (= 100%) to January 31, 2013**
Percent




SAP stock started the first quarter of 2012 at €40.85, the Xetra closing price on December 31, 2011. It reached its lowest level for the entire year of €41.45 shortly thereafter on January 12. The announcement of our 2011 financial results – the best year ever in the company's 40-year history to this point – then triggered an upwards trend that pushed SAP stock past the €50.00 mark on February 24. The last time the stock had moved to this level was in October 2000. In addition, SAP had one day earlier announced that in light of the record year and on the occasion of SAP's 40th anniversary, it would recommend to the Annual General Meeting of Shareholders (subject to Supervisory Board approval) an increase in the dividend per share to €1.10, which included a special dividend of €0.35 per share to mark the company's anniversary. This represented an overall increase of 83% over the previous year's dividend. SAP's successful showing at the annual CeBIT computer industry fair in Hannover, Germany, and the announcement of additional investments totaling US$450 million in the Middle East and Africa region boosted the SAP share price even higher; it reached its peak of the first quarter on March 15 and 16, at €54.51, amid a positive market environment.

**Key Facts About SAP Stock/SAP ADRs**

| | |
|---|---|
| **Listings** | |
| Germany | Berlin, Frankfurt, Stuttgart |
| United States (ADR) | New York Stock Exchange |
| **IDs and symbols** | |
| WKN/ISIN | 716460/DE0007164600 |
| NYSE (ADR) | 803054204 (CUSIP) |
| Reuters | SAPG.F or .DE |
| Bloomberg | SAP GR |
| **Weight (%) in indexes at 12/31/2012** | |
| DAX 30 | 8.30% |
| Prime All Share | 6.77% |
| CDAX | 6.82% |
| HDAX | 7.09% |
| Dow Jones STOXX 50 | 2.02% |
| Dow Jones EURO STOXX 50 | 3.51% |

In the second quarter, SAP stock movement more or less mirrored overall market behavior. Doubts about Spain's financial strength, coupled with ongoing political uncertainty in the euro area, caused the share price to fall below the €50.00 mark again. The publication of first-quarter earnings on April 25, however, ultimately nudged SAP stock back up to €50.51 on the trading days that followed. SAP stock consequently slid to €44.16, its low point of the quarter, on June 4, before eventually recovering somewhat to end the half year at €46.55.

Publication of strong second-quarter figures in the latter half of July led to a renewed upswing in the share price, which climbed to €52.30 on July 30. In August, it hovered in a comparatively narrow range of €51.26 to €52.90 until the markets perked up once again, pushing SAP stock to its high for the quarter of €56.69 on September 25.

The beginning of the fourth quarter was fraught with worries about Spain's sovereign debt, which put pressure on the markets. On October 23, SAP stock fell to €52.86, its lowest level of the quarter. The very next day, however, the announcement of record software revenue in the third quarter buoyed SAP stock upwards, which continued to climb until a lull in general stock sentiment in mid-November slowed the pace somewhat. On November 29, amid positive market sentiment, SAP stock broke the €60.00 barrier and on December 11, reached €61.43, its highest level for the year and best performance since March 2000. It closed the fourth quarter of 2012 at €60.69.

SAP stock fell below the €60.00 mark again in mid-January 2013, following the announcement of initial preliminary figures for the fourth quarter and for 2012 as a whole. SAP had produced record revenues and boosted its operating results (non-IFRS, at constant currencies) to €5.02 billion in 2012, yet a number of investors had apparently expected even better figures. Publication of the entire preliminary results and outlook on January 23, 2013, however, subsequently pushed SAP stock back up to €59.20.

## DIVIDEND PAYOUT OF €0.85 PER SHARE

We believe our shareholders should benefit appropriately from the profit the Company made in 2012. We wish to continue our dividend policy, which is that the payout ratio should be more than 30% of the profit after tax of the Group.

Therefore, the Executive Board and the Supervisory Board will recommend that the shareholders approve a total dividend of €0.85 per share for fiscal year 2012 at the Annual General Meeting of Shareholders. For 2011, in addition to the regular dividend of €0.75 per share, SAP also paid a special dividend of €0.35 in celebration of SAP AG's 40th anniversary. Without the consideration of the special dividend for 2011, this corresponds to a year-on-year dividend increase of €0.10, or 13%, in 2012. Based on this recommendation, the overall dividend payout ratio (which here means total distributed dividend as a percentage of profit) would be 36% (2011: 26% excluding the special dividend and 38% including the special dividend).

## CAPITAL STOCK INCREASED

SAP's capital stock on December 31, 2012, is €1,228,504,232.00 (2011: €1,228,083,382.00). It is issued as 1,228,504,232 no-par shares, each with an attributable value of €1 in relation to the capital stock.

## LARGER FREE FLOAT

The proportion of our stock in free float increased again slightly in 2012. Applying the definition accepted on the Frankfurt Stock Exchange – which excludes treasury stock from the free float – on December 31, 2012, the free float stood at 74.4% (December 31, 2011: 73.3%). In January 2013, approximately 22.7% (January 2012: 23.6%) of the stock was under the control of three founders and their trusts and holding companies. U.S. institutions remained the next largest group of shareholders, holding around 19.4% (19.3%) of the stock. Institutions in the United Kingdom and Ireland held about 13.6% (12.9%), followed by Continental European investors outside Germany, who held approximately 12.8% (12.2%). Institutions in Germany held 7.8% (7.9%) and investors from the rest of the world held 3.0% (3.1%) of the stock in January 2013. Private or unidentified investors held 17.7% (17.8%). SAP held 3.0% (3.1%) of the stock in treasury.

**Return on SAP Common Stock – WKN 716460/ISIN DE0007164600**

Percent, unless otherwise stated

| | | | |
|---|---|---|---|
| Initial investment €10,000 | | | |
| Date of investment | 12/31/2002 | 12/31/2007 | 12/31/2011 |
| Period of investment | 10 years | 5 years | 1 year |
| Value on 12/31/2012 [1] in € | 36,415 | 18,538 | 15,211 |
| **Average annual return** | **13.8** | **13.1** | **52.1** |
| Performance comparators | | | |
| DAX 30 Performance – total return index | 10.2 | –1.2 | 29.1 |
| REX General Bond – total return index | 4.9 | 6.4 | 4.6 |
| S&P 500 Composite – total return index | 4.7 | 3.8 | 14.2 |
| S&P North American Technology Software Index – price index | 7.1 | 6.8 | 15.6 |

[1] Assuming all dividends were reinvested

Source: Datastream

**Return on SAP ADRs – 803054204 (CUSIP)**

Percent, unless otherwise stated

| | | | |
|---|---|---|---|
| Initial investment US$10,000 | | | |
| Date of investment | 12/31/2002 | 12/31/2007 | 12/31/2011 |
| Period of investment | 10 years | 5 years | 1 year |
| Value on 12/31/2012 [1] in US$ | 45,202 | 16,760 | 15,396 |
| **Average annual return** | **16.3** | **10.9** | **54.0** |
| Performance comparators | | | |
| S&P 500 Composite – total return index | 7.1 | 1.7 | 16.0 |

[1] Assuming all dividends were reinvested

Source: Datastream

**COMMUNICATION WITH INVESTORS**

Our directors and senior officers again aimed for the greatest possible transparency and openness in their continuous dialog with our shareholders. In several hundred one-on-one meetings held at SAP, during investor road shows worldwide, and at investor events, we answered inquiries from institutional investors and analysts about our business. We also held telephone conferences and analyst meetings when we published our quarterly results. Investor presentations at the SAPPHIRE® NOW customer conferences, which took place in Madrid, Spain in Orlando, Florida, in the United States' and in Beijing, China, were key elements of our communication with the financial markets. These events focused on the growth areas of mobile and cloud computing, as well as SAP HANA. In addition, SAP engages in regular dialog with "socially responsible investors" (SRIs), by providing insight into SAP's environmental, social, and corporate governance policies.

**COMPREHENSIVE SERVICE FOR PRIVATE INVESTORS**

Providing a full service for retail investors is a priority for SAP. Our services for private investors include the shareholder hotline, the e-mail contact at investor@sap.com, and investor relations information on our Web site. There is a range of information for investors about SAP and SAP stock online, including a text message service, press releases delivered by e-mail, Twitter feeds, and our quarterly SAP Investor magazine, which investors can subscribe to free of charge. We also publish an overview of the latest analyst assessments in collaboration with Vara Research. All key events at which members of our Executive Board speak to financial analysts and institutions are broadcast live on the Internet, and we post the presentation materials on the Investor Relations Web site and on other online slide hosting services. Our investor relations team presented information at stock exchanges, shareholder forums, and shareholder conventions in Germany and in the United States, for example, at the BetterInvesting National Convention in Houston, Texas.

# Corporate Governance Report

## RESPONSIBLE MANAGEMENT

At SAP, a global company with numerous subsidiaries and an international shareholder structure, good corporate governance is the foundation of effective corporate management. For us, corporate governance means the application of international and national values and principles of responsible and transparent company management and control that are geared towards sustainable added value. We are convinced that good corporate governance strengthens the trust placed in our Company by the financial markets, our shareholders, business partners, and employees.

## CORPORATE GOVERNANCE AT SAP

Because SAP is listed on the German stock exchange, our corporate governance is based on the German Stock Corporation Act and on the German Corporate Governance Code (the "Code" in this report). The current version of the Code is dated May 15, 2012, and was published in the Bundesanzeiger (German Federal Gazette) on June 15, 2012. SAP also complies with the provisions that are relevant to German companies listed on the New York Stock Exchange (NYSE). These include the Corporate Governance Standards of the NYSE as they apply to non-U.S. companies, the U.S. Sarbanes-Oxley Act, and the requirements of the U.S. Securities and Exchange Commission (SEC). Our Executive and Supervisory Boards provide the Company's shareholders with information about its implementation of the Code's recommendations by publishing an annual declaration of implementation, as required by the German Stock Corporation Act, section 161. In addition, the Executive Board publishes a corporate governance statement pursuant to the German Commercial Code, section 289a, describing certain aspects of the Company's corporate governance in greater detail. This report on corporate governance at SAP in 2012, prepared by the Executive and Supervisory Boards, is a requirement of the Code, section 3.10, sentence 1.

## EXECUTIVE BOARD

The Executive Board currently has seven members. It is solely responsible for managing the Company. It has a duty to exercise its management powers in the interest of the Company and in pursuit of the sustained growth of corporate value. It discusses and agrees on its strategy for the Company with the Supervisory Board, ensures compliance with the requirements of the law throughout the Group, and maintains effective risk management structures and internal risk controls.

## GLOBAL MANAGING BOARD

The Executive Board set up the Global Managing Board in 2012 to support its work. It is made up of all Executive Board members plus additional global managers who steer and scale the Company's business. These additional members are appointed by the Executive Board upon consent of the Supervisory Board. The committee advises the Executive Board and helps it make decisions, but the Executive Board retains overall responsibility for all corporate activities. It meets regularly and its meetings are chaired by the co-CEOs.

## SUPERVISORY BOARD

The SAP Supervisory Board has 16 members who, in equal numbers, represent the shareholders and the employees. It appoints, monitors, and advises the Executive Board. The Executive Board involves the Supervisory Board in decisions on matters of fundamental importance for the Company. The Supervisory Board has reserved to itself the approval of certain defined transactions of fundamental importance.

## COMPOSITION OF THE SUPERVISORY BOARD

In accordance with the recommendation in section 5.4.1, paragraph 2, of the Code, the Supervisory Board has set the following concrete objectives for its composition:

– There should never be fewer than two people from the international stage on the investor representatives' side of the Supervisory Board.
– No Supervisory Board member should be an employee, consultant, or director of a significant SAP competitor.
– At least four shareholder representatives on the Supervisory Board should be independent members in the meaning of section 5.4.2 of the Code.
– No member of the Supervisory Board should be older than 75 years.
– At least one woman should sit on the Supervisory Board as a shareholder representative.

We believe the current composition of the Supervisory Board fulfills all of these objectives.

The Code recommends (at section 5.4.1, third paragraph, first sentence) that when the Supervisory Board proposes candidates for election or reelection to the Supervisory Board, it should take into account the objectives it set for its composition. In our Declaration of Implementation dated October 29, 2012, we reported that we did not follow that recommendation. Our Supervisory Board will, of course, have regard to the adopted objectives when seeking to identify suitable persons for candidacy and when preparing its recommendation of candidates to the Annual General Meeting of Shareholders. In the interest of SAP, however, it must be in a position to recommend to the General Meeting of Shareholders those candidates it believes are best suited for the vacant Supervisory Board seats. Ordinarily, one of the suitability criteria will be whether a person's candidacy is consistent with the concrete objectives. However, that need not always be the only decisive criterion for proposing a particular candidate. The law, which empowers the Annual General Meeting of Shareholders to elect members to the Supervisory Board, requires neither that the meeting adhere to the Supervisory Board's objectives nor that it elect the Supervisory Board's proposed candidates.

The Supervisory Board also takes the following guidelines into consideration when deciding upon its composition:

– The Supervisory Board has at all times to be composed in such a way that its members as a group possess the knowledge, ability, and expert experience required to properly complete its tasks in our global IT company.
– Pursuant to the German Stock Corporation Act, section 100 (5), the Supervisory Board must at all times have at least one independent member with significant, recent, and relevant financial or auditing experience.

**INDEPENDENCE OF THE SUPERVISORY BOARD**

SAP believes a sufficient degree of independence of its Supervisory Board members is essential for effective and responsible corporate management and control. As reported above, the Supervisory Board has defined a concrete objective for its composition regarding the minimum number of independent members on the shareholder representative side, as recommended in the amended version of the Code, section 5.4.1, paragraph 2. At its meeting on October 11, 2012, the Supervisory Board determined that all of its shareholder representative members are independent in the meaning of the German Corporate Governance Code, section 5.4.2, and that the number of independent members is sufficient in the meaning of that section.

**DIVERSITY IN THE COMPANY**

The Executive Board follows the recommendation in section 4.1.5 of the Code that requires executive boards to have regard to diversity when appointing people to leadership positions, and in particular to employ appropriate numbers of women in such positions. In support of this, the Company maintains a diversity policy for company leadership appointments. In May 2011, it also set a target to increase the percentage of women in leadership positions from 18% at the beginning of 2011 to 25% in 2017. We believe this is an ambitious target, because there are still more men than women studying engineering subjects. But we also believe that it is achievable. It goes without saying that ability is still the primary selection criterion for any position at SAP. Globally, the percentage of women in leadership positions at the end of 2012 was 19.4%.

Section 5.1.2 of the Code contains the recommendation that supervisory boards should strive for an appropriate representation of women at executive board level as well. The Supervisory Board complies with this provision and has ruled that when a new member is needed for the Executive Board, applications should be sought, and that the shortlist should be 50% women if possible. When we decide whom to appoint, the strengths and performance of the candidates will still be more important than their gender. Another long-term aim of the diversity policy for company leadership appointments mentioned above is to build a diverse pool of potential candidates for future Executive Board vacancies. The Executive Board has a female member: Luisa Deplazes Delgado.

As reported above, the Supervisory Board has defined concrete objectives to promote diversity in its own membership and achieve an appropriate percentage of women members, as envisioned in the second paragraph of section 5.4.1 in the Code.

**DECLARATION OF IMPLEMENTATION PURSUANT TO THE GERMAN STOCK CORPORATION ACT, SECTION 161**

Every year, the Supervisory Board and Executive Board issue a declaration stating whether SAP has implemented and is following the Code's recommendations, and identifying any recommendations that the Company has not followed – with an explanation of why it has not done so. The declaration of implementation that we filed on October 29, 2012, is online at www.sap.com/corporate-en/investors/governance/policies-statutes. Implementation declarations published in previous years are also available on this Web site, and links are provided to current and previous versions of the Code. As reported in the declaration of implementation, we follow all but five of the 83 recommendations in the current Code. The reasons for not following these five recommendations are described in detail in the declaration of implementation.

We voluntarily follow all seven suggestions in the current Code.

**CORPORATE GOVERNANCE STATEMENT**

The Executive Board published our corporate governance statement for 2012 pursuant to the German Commercial Code, section 289a, on February 20, 2013. It is available on SAP's Web site at www.sap.com/corporate-en/investors/governance. It includes the current declaration of implementation pursuant to the German Stock Corporation Act, section 161, certain information on corporate governance practices, and an account of how the Executive Board and the Supervisory Board work, who sits on which Supervisory Board committees, and how those committees work.

**CODE OF BUSINESS CONDUCT**

SAP's corporate governance includes our Code of Business Conduct for employees and members of the Executive Board. The Code of Business Conduct expresses the high standards that we require from our employees and Executive Board members and sets out the main principles that guide our business conduct toward customers, business partners, and shareholders. We see our Code of Business Conduct as the standard for our dealings involving customers, business partners, vendors, shareholders, and competitors. By following our Code of Business Conduct, we demonstrate a commitment against all forms of unfair competitive practice, corruption, and misrepresentation. A Global Compliance Office reporting to our general counsel monitors worldwide compliance with our Code of Business Conduct and other policies applying within the Group. It regularly reviews these internal policies, revises them if necessary, and delivers related employee training.

**THE WORK OF THE EXECUTIVE AND SUPERVISORY BOARDS**

The Executive Board and Supervisory Board cooperate closely for the benefit of the Company. The Executive Board regularly provides the Supervisory Board with full and timely reports on all material matters of strategy, business planning and performance, including any deviations of actual business performance from plan, the risk situation, risk management, and corporate compliance. We provide our shareholders with in-depth information about how the Executive and Supervisory Boards work, how the committees are composed, and how these committees work, in our corporate governance statement. For more information about the joint work of the Executive and Supervisory Boards and about the work of the Supervisory Board and its committees in 2012, see the Report by the Supervisory Board.

**APPLYING INTERNATIONAL CORPORATE GOVERNANCE STANDARDS**

As noted above, SAP is an NYSE-listed company and is therefore subject to certain U.S. financial legislation (including, among others, the Sarbanes-Oxley Act) and to the applicable SEC and NYSE regulations. Besides implementing the requirements of the Sarbanes-Oxley Act, section 404, and other Sarbanes-Oxley Act requirements, including conducting an annual audit of our internal control over financial reporting, we comply with those of the corporate governance standards codified in the NYSE Listed Company Manual, section 303A, that bind non-U.S. companies. The section 303A standards that apply to SAP include the requirement to have an audit committee composed of members who are independent in the meaning of the Sarbanes-Oxley Act and related requirements concerning reporting to NYSE. In accordance with the SEC and NYSE corporate governance rules, we have also published, at Item 16G in our Annual Report on Form 20-F, a report on the significant differences between the NYSE corporate governance standards and the German corporate governance rules, which we apply. We publish our annual report on Form 20-F on our Web site at www.sap.com/corporate-en/investors/newsandreports/reports in English only.

**TRANSPARENCY, COMMUNICATION, AND SERVICE FOR SHAREHOLDERS**

Our shareholders can obtain full and timely information about SAP on our Web site and can access current and historical Company data. Among other information, we post all of our financial reports, all relevant news about the Company's governing bodies and their corporate governance documentation, information requiring ad hoc (current) disclosure, press releases, and news of directors' dealings notifiable pursuant to the German Securities Trading Act, section 15a. Shareholders and the public are able to watch a live broadcast of the entire Annual General Meeting of Shareholders on the Internet. They can vote their shares at the meeting or instruct a proxy of their choice or one of the proxies provided for that purpose by SAP. Our shareholders are also able to participate in the Annual General Meeting of Shareholders on the Internet and to vote their shares by postal ballot. The details are in the invitation to the Annual General Meeting of Shareholders. All of the documentation relating to the Annual General Meeting of Shareholders is posted in good time on SAP's Web site at www.sap.com/agm.

**FINANCIAL ACCOUNTING, RISK MANAGEMENT, AND INTERNAL CONTROL**

The May 2012 Annual General Meeting of Shareholders appointed KPMG to audit the Company's financial statements. We prepare the SAP AG financial statements in accordance with the German Commercial Code and our consolidated financial statements in accordance with IFRSs. We prepare a management report, as required by the German Commercial Code, and the Annual Report on Form 20-F in accordance with SEC requirements. The Executive Board is responsible for financial accounting. The Supervisory Board examines and approves the SAP AG financial statements, the consolidated financial statements, and the combined management report.

In addition to our annual financial statements, we also prepare quarterly reports for the first, second, and third quarters. Our quarterly reports comply with the German Securities Trading Act and are submitted to the Audit Committee of the Supervisory Board before they are published.

In German stock-corporation and commercial law, there are special requirements for internal risk management that apply to SAP. To meet them, our global risk management system supports risk planning, identification, analysis, handling, and resolution. We maintain standard documentation of all our internal control structures and continually evaluate their effectiveness. As a company listed on the NYSE, we instruct our auditor, KPMG, to conduct an annual audit of our internal control over financial reporting in accordance with the requirements of the Sarbanes-Oxley Act, section 404. The audit as at December 31, 2012, confirmed that our internal control is effective. In compliance with the reporting requirements in the German Commercial Code, sections 289 (5) and 315 (2) (5), the combined SAP AG and SAP Group management report contains full information about the principal features of the internal controls and risk management structure applying to SAP's consolidated financial reporting.

# Report by the Supervisory Board

**PROFESSOR
HASSO PLATTNER**

Chairperson of the
Supervisory Board of SAP AG

## Dear Shareholders,

The financial year 2012 was another record year for SAP. The Company achieved the best results in its history, exceeding its own guidance in the process. This is proof that the innovation-centric growth strategy introduced by the Executive Board three years ago is paying off: Non-IFRS total revenue came in at €16.3 billion, non-IFRS software and cloud subscription revenue rose 21% to €5 billion, and the fourth quarter was the twelfth quarter in a row in which SAP reported double-digit growth in non-IFRS software and software-related service revenue. SAP continued to expand its market share in 2012, outpacing the overall software market two-to-one and thus significantly outperforming its main competitors.

SAP also strengthened its position in cloud computing substantially in 2012 by acquiring the two leading cloud providers – SuccessFactors and Ariba. In addition, the Company focused its investments on innovation, notably in the development of its SAP HANA in-memory technology, which ultimately enabled SAP to launch the SAP Business Suite powered by SAP HANA in January 2013. These high investments in the future of SAP are drivers of additional growth and, in 2012, led to a 7% increase in non-IFRS operating profit (at constant currencies) to €5.02 billion, slightly under the Company's forecast. Non-IFRS profit after tax likewise rose 7%, to €3.61 billion.

IFRS profit after tax decreased 18% compared to 2011 to €2.83 billion. This is an effect of developments in the TomorrowNow legal proceedings in 2011, which had positively impacted the 2011 figures: In 2011, SAP considerably reduced the provision it had recorded for the TomorrowNow litigation, which, in turn, contributed €444 million to the rise in profit after tax for 2011.

Consistent application of SAP's customer-oriented innovation strategy played a major role in the high growth momentum. At the center of this success is SAP HANA, the Company's breakthrough in-memory technology that has written a new chapter in software history. SAP HANA makes real-time management of entire enterprises possible, thus allowing companies to develop completely new business models and target individual customers. In 2012, revenue from SAP HANA surged to €392 million, representing a triple-digit year-on-year increase of 142%. This makes SAP HANA the fastest-growing product in the Company's history. After just 18 months on the market, it already contributed significantly to SAP's success in 2012.

And this innovative technology is just the beginning. SAP HANA is opening up revolutionary new possibilities in all five SAP market categories – Applications, Analytics, Cloud, Mobile and Database and Technology. Through the combination of SAP products and solutions with the SAP HANA platform, customers can simplify their IT infrastructure, save costs, and make better decisions based on real-time insight into their business. SAP Business Suite will also benefit from this new technology. Launched in January 2013, the SAP Business Suite powered by SAP HANA clearly demonstrates the power and potential of this key innovation. SAP is convinced that the SAP Business Suite powered by SAP HANA will play as great a role for companies as the introduction of SAP R/3 more than 20 years ago.

The cloud is another strategic growth market of great importance to SAP. With SuccessFactors and Ariba, SAP is now clearly a leading player in the cloud, where customers access their software easily, quickly, and directly via the Internet. Businesses looking for simplification and cost-savings can take advantage of cloud solutions and move non-differentiating core processes into the cloud. SAP is already clearly experiencing the combined growth power of SuccessFactors and Ariba. SAP currently has over 6,000 customers and more than 20 million users in the cloud. Its cloud offering addresses core business areas – money, customers, suppliers, and people. Furthermore, SAP Business ByDesign® and SAP Business One offer a full suite in the cloud designed for small and midsize companies. The acquisition of Ariba added the power of the largest business network to SAP's cloud portfolio. The network makes it possible for SAP to deliver gains in productivity, collaboration, and agility across the entire value chain of suppliers, partners, and customers.

SAP has seen excellent growth in its mobile business as well. As trends like "bring your own device" continue to take hold, SAP's mobile offerings enable customers to connect their employees with real-time information on their mobile devices. SAP is benefiting enormously from this. In 2012, its revenue from mobile applications increased 71% to €222 million, successfully reaching the Company's own, very ambitious growth target. Today, employees can call up real-time business data securely on their mobile devices at any time, from anywhere, thanks to mobile solutions from SAP. And it is SAP's offerings in database and technology that enable customers to orchestrate SAP solutions from all categories securely and in a stable environment.

In 2012, SAP invested heavily in innovations and in the expansion of its global sales activities so as to be able to seize future growth opportunities in strategic markets. In 2011, SAP announced a major multiyear investment in China. This year, it followed through, not only expanding its employee base in China, but also by holding a Supervisory Board meeting in Shanghai, the first DAX company to do so. SAP believes it is important to have a balanced, global presence, and therefore continues to expand in the world's growth markets.

At the heart of SAP's continued success are its more than 64,000 employees. Their huge commitment to SAP's customers, dedication to the Company, and outstanding innovative drive is what delivers this success. SAP attributes this innovative strength to the broad diversity of the employees, not just in terms of culture or ethnicity, but also in terms of gender. The number of women in management, for example, also increased in 2012. Pleasing too was the fact that employee engagement increased further in 2012. According to the 2012 annual SAP employee survey, a large majority of employees believe in the Company's strategy and trust the Executive Board. SAP has also kept carbon emissions flat, despite strong growth.

SAP's vision is to "help the world run better and improve people's lives." In pursuing this vision, the Company has decided to more clearly illustrate the importance that this vision plays for SAP. It is therefore, for the first time, integrating its financial, social, and environmental reporting into one report (www.sapintegratedreport.com). In this way, SAP wants to transparently show all its target groups that sustainability is an integral and inseparable part of the SAP strategy and brings long-term benefits to SAP's customers and the Company.

To effectively perform our duties, the Supervisory Board relies on a close cooperation and dialog with the Executive Board, particularly in a challenging economic environment. This is why this report starts by explaining the ongoing close partnership between the two boards. This report also focuses on the main topics discussed by the Supervisory Board, the work of its committees, corporate governance at SAP, and the audit of the SAP AG and consolidated financial statements.

**COOPERATION BETWEEN THE EXECUTIVE AND SUPERVISORY BOARDS**

In 2012, we discharged the duties imposed on us by the law and by the Company's Articles of Incorporation. We were continuously consulted by the Executive Board on the running of the Company and we scrutinized and monitored the work of management. We monitored the Executive Board's management of the SAP Group with regard to legality, correctness, appropriateness, and cost-effectiveness. In addition, the Executive and Supervisory Boards consulted on the Company's strategic orientation and regularly discussed progress in implementing strategy. We were involved whenever the Executive Board made decisions of fundamental importance to the Company.

The Supervisory Board regularly received full and timely reports from the Executive Board, both from members in person and in written documents. Those reports chiefly concerned the Company's plans, its business performance, the risk situation, risk management, compliance, and transactions of special significance for SAP. The Executive Board also indicated when the Company's business deviated from the plans and targets and explained the reasons for these deviations.

The content and scope of the Executive Board's reports fully met the requirements that the Supervisory Board had placed on them. Besides these reports, the Supervisory Board received supplementary information from the Executive Board. In particular, the Executive Board was available at Supervisory Board meetings for discussions and to answer our questions. We checked the information received from the Executive Board for plausibility as well as critically examining and discussing it. The Supervisory Board maintains a list of the categories of transactions for which the Executive Board must obtain the Supervisory Board's consent. The Supervisory Board keeps the list under constant review to see if it requires amendment. It was most recently amended in 2012. The Supervisory Board carefully considered all transactions in the listed categories and discussed them with the Executive Board, focusing on the benefits, risks, and other effects of each transaction. The Supervisory Board agreed to all transactions for which its consent was sought by the Executive Board.

The Executive Board also kept the chairperson of the Supervisory Board fully and continuously informed between meetings of the Supervisory Board and its committees. In particular, the co-CEOs met regularly with the chairperson of the Supervisory Board to discuss SAP's strategy, planning, the Company's business performance including the risk situation, risk management, compliance, and other key topics and decisions. The Supervisory Board chairperson was informed without delay of important events that were significant for assessing SAP's situation and progress or for the management and governance of the Company.

**SUPERVISORY BOARD MEETINGS AND RESOLUTIONS**

There were four ordinary meetings and two extraordinary meetings of the Supervisory Board in 2012. The resolutions of the Supervisory Board were adopted at these meetings. In addition, a number of resolutions were adopted by circular correspondence vote. The regular election of shareholder and employee representatives on the Supervisory Board also took place in 2012. As a result, the newly elected Supervisory Board held its inaugural meeting immediately following the Annual General Meeting of Shareholders on May 23. It is customary practice for the Supervisory Board to start off its meetings without the Executive Board and first deal with agenda items that either pertain to the Executive Board directly or require an internal discussion among Supervisory Board members. This was the case at all of the ordinary meetings in 2012 as well as at the extraordinary meeting in April. The Supervisory Board discussed the following topics and, where necessary, made resolutions as follows:

**Resolution Adopted by Correspondence in January**
Early in January 2012, we adopted a final resolution, moved using the circular correspondence procedure in December 2011, concerning each Executive Board member's compensation package commencing in 2012, taking into account an opinion on the appropriateness and ambition of the package prepared by compensation consulting firm Hostettler, Kramarsch & Partner (hkp) and a legal opinion prepared by attorneys Allen & Overy concerning the new compensation package. In the same circular correspondence, we adopted a motion confirming the appropriateness of each Executive Board member's compensation, confirming the terms of the Long Term Incentive Plan (LTI Plan) 2015, and setting the objectives (key performance indicators, or KPIs) and their relative weighting for the Short Term Incentive (STI) 2012 element. In addition, we resolved the matter of Executive Board members' individual allocation of rights under the RSU Milestone Plan 2015.

**Meeting in February**
In its meeting on February 16, 2012, the Supervisory Board first received a detailed update on the current developments in the TomorrowNow litigation from its instructed counsel. We were then informed about the final result of the inquiry contracted in November 2010 investigating possible breaches of duty by Executive Board members in connection with the acquisition of TomorrowNow and the related U.S. lawsuit. Until February 2012, there had been no change to the situation described by counsel in the interim reports presented in March and October 2011. We were told that in the course of drawing up the legal opinion, the investigating counsel had still not found any evidence of any breaches of duty by Executive Board members.

We also received and discussed a report from the General and Compensation Committee concerning target achievement under the STI 2011, one of the variable short-term incentive elements of Executive Board compensation for 2011. We first determined the target achievement level against the defined targets, and then decided the payouts for Executive Board members entitled under the STI 2011 by considering this achievement and the discretionary element. In addition, we were informed about the achievement level concerning the annual financial targets for the 2010 and 2011 Medium Term Incentive (MTI) plans. We also resolved the concrete targets concerning the individual KPIs for the STI 2012 approved by correspondence vote in January.

At the recommendation of the General and Compensation Committee, we resolved unanimously to extend Vishal Sikka's appointment to the Executive Board from January 1, 2013, to December 31, 2017.

The Executive Board then gave us an overview of the reporting year 2011 and reported to us about progress in the implementation of the Company's strategy for the period to 2015 in the light of the competitive situation. Based on its operational plan for 2012, which the Executive Board presented in detail, we agreed the budget presented by the Executive Board, including the 2012 capital expenditure budget and liquidity plan.

The Executive Board then explained its plans to engage a law company – in which a member of the Supervisory Board is partner – to pursue the judicial enforcement of SAP's various legal claims. The Supervisory Board agreed to this engagement. The individual member concerned was excluded from the deliberations on and decisions in the respective case, as required to preclude any conflict of interest.

The General and Compensation Committee, the Technology and Strategy Committee, the Audit Committee, and the Finance and Investment Committee reported to us on their meetings. The Compensation Committee reported on its deliberations concerning matters that had been discussed by the full Supervisory Board as well as on the report that the compliance officer had submitted to the Committee in its January meeting. The Technology and Strategy Committee reported on a status report it had received concerning mobile apps that focused specifically on Sybase® Unwired Platform. The Committee then gave us its analysis of a presentation from the Executive Board about the market situation, strategy, and areas for improvement with respect to business intelligence.

The Audit Committee described progress on the 2011 financial statements and advised it had been briefed about the results of the audit focus areas. The Audit Comittee also reported on its deliberations on internal control systems and the pending compliance system review. The Finance and Investment Committee first reported on the very successful venture capital activities of SAP and presented its findings concerning the acquisition of SuccessFactors, which had been the subject of its last two meetings in 2011. The Committee then reported learning from the Executive Board about the planned acquisition of datango AG, the sale of Steeb Anwendungssysteme GmbH, and a planned loan from the European Investment Bank. It also updated us on its deliberations regarding the results of the Company's 2011 acquisitions, SAP's medium- and long-term financial strategy, and the integration of Sybase. Finally, the Nomination Committee explained its recommendation that Anja Feldmann, professor at the Technische Universität Berlin, be proposed to the Annual General Meeting of Shareholders as candidate for the upcoming election of shareholder representatives on the Supervisory Board.

**Meeting in March (Meeting to Discuss the Financial Statements)**
At its March 22, 2012, meeting, the Supervisory Board focused principally on SAP AG's 2011 financial statements and the consolidated financial statements, the audits conducted by KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG), and the Executive Board's proposed resolution on the appropriation of retained earnings for 2011. The Audit Committee reported on all matters for which it is responsible in connection with the 2011 financial statements, particularly on the form and scope of its examination of the documents relating to the financial statements, and recommended that the Supervisory Board approve them. The auditor attended the meeting and reported in detail on the audit, the results of the audit, and its discussions about them at the two preceding meetings of the Audit Committee. He also presented the conclusions of the five focuses the Audit Committee had chosen for the audit. The auditor then discussed the results with the Supervisory Board and answered our questions. The Supervisory Board approved the audit. There were no findings from our own examination, so we gave our consent to the SAP AG and consolidated financial statements for 2011. We checked and endorsed the Executive Board's proposal concerning the appropriation of retained earnings. In addition, we agreed our proposed resolutions for the agenda of the May 2012 Annual General Meeting of Shareholders. The Nomination Committee first presented its deliberations about suitable candidates for election as shareholder representatives on the Supervisory Board and consequently recommended that we propose those candidates to the Annual General Meeting of Shareholders. In the ensuing vote, all members representing the shareholders on the Supervisory Board agreed to follow this recommendation. We adopted a proposal to the Annual General Meeting of Shareholders concerning the election of an auditor for 2012 that followed the recommendation of the Audit Committee.

During this meeting, we were also informed about developments in the growth market China, the new SAP Services strategy, and the business forecast for the first quarter of 2012. Accepting a recommendation from the General and Compensation Committee, we further resolved to amend the 2010 and 2011 MTI elements pursuant to the applicable plan provisions, to eliminate the special effects of the SuccessFactors acquisition on Executive Board compensation.

The General and Compensation Committee, Audit Committee, and Technology and Strategy Committee all gave reports on their recent meetings in relation to the relevant agenda items.

Finally, the head of our legal department gave us an update on the TomorrowNow trial.

**Extraordinary Meeting in April**
At the extraordinary meeting on April 12, 2012, we thoroughly and conclusively discussed the legal opinion we had commissioned in November 2010 on the question of possible breaches of duty by SAP Executive Board members in connection with the acquisition of TomorrowNow and the related

U.S. lawsuit. As reported orally at the Annual General Meeting of Shareholders on May 23, 2012, the investigation determined that no SAP Executive Board member had committed any liability-based violations of duty to the Company in that regard. The attorneys responsible for the investigation were in attendance at the meeting to explain their findings in detail and to answer our questions.

We then resolved to appoint Lars Dalgaard to the Executive Board and decided on his contract of employment. For this agenda item in particular, we checked that the compensation for Lars Dalgaard as suggested by the General and Compensation Committee was consistent with the Company's package for Executive Board members and was reasonable and appropriate.

We also deliberated on the reassignment of Executive Board responsibilities and on the creation of a new steering committee in the form of the Global Managing Board. We consented to the creation of the Global Managing Board, which was to consist of Executive Board members plus selected additional members and advise the Executive Board and help it make decisions. Appointments and terminations of additional members would be by the Executive Board and require Supervisory Board consent. In this context, we further resolved that Rob Enslin be appointed to the Global Managing Board.

**Extraordinary Meeting in May**
At the May 22, 2012, extraordinary meeting, the Executive Board updated us on SAP's cloud computing activities since the Company's acquisition of SuccessFactors and reported on the planned measures for structuring responsibilities in the Cloud division.

Next we discussed in depth the preparation and terms of SAP's acquisition of Ariba, Inc. (Ariba), a company headquartered in Sunnyvale, California, in the United States. In terms of revenue, Ariba is the second biggest cloud services provider in the world, the world's largest trading network for business customers, and the market leader in cloud-based business transactions. The Executive Board informed us in detail about the benefits of the proposed acquisition. The proposed acquisition of Ariba would not be just another cloud takeover but the acquisition of an online interenterprise business network. Such business networks make it easier for companies to make purchases at their partners and suppliers. SAP's 195,000 customers (at that point in time) would be able to access the Ariba platform via prebuilt integration points and soon take advantage of Ariba's cloud-based online trading network. The Executive Board explained in detail its justification of the planned tender offer price based on two fairness opinions (these are independent expert opinions), the internal and external finance requirements, its strategy and schedule for integrating the business, the opportunities the acquisition brought, and the risks it entailed according to due diligence checks. After completion of the acquisition, the Supervisory Board would be asked to approve the appointment of Ariba's CEO to the Global Managing Board. Next, the Finance and Investment Committee reported that it had met before our meeting to examine and discuss in depth the issues and documents relating to the Ariba acquisition, particularly the due diligence reports. The Committee recommended that we consent to the acquisition of Ariba. After discussing the matter thoroughly, the Supervisory Board authorized the Executive Board to conclude a merger agreement between SAP America, Inc., its subsidiary Angel Expansion Corporation created especially for the acquisition, and Ariba, and to purchase all of the shares of Ariba at a price of US$45 per share. We also authorized the Executive Board to finance part of the purchase price with a credit on the terms it described to us. To this end, we also consented to the proposed internal funding arrangements, which also involved other SAP subsidiaries, required to implement the acquisition.

**Inaugural Meeting in May**
Immediately after the Annual General Meeting of Shareholders on May 23, 2012, the Supervisory Board held its inaugural meeting. After bidding farewell to members who had resigned from the Supervisory Board, the newly elected Supervisory

Board elected Hasso Plattner as chairperson of the Supervisory Board and Christiane Kuntz-Mayr as deputy chairperson. This was followed by the election of members to the Mediation Committee.

Finally, we elected members to the General and Compensation Committee, the Audit Committee, the Finance and Investment Committee, the Technology and Strategy Committee, the Nomination Committee, and the Special Committee.

**Meeting in July**
The Supervisory Board meeting on July 12, 2012, focused primarily on Luisa Deplazes Delgado's appointment as SAP's new chief human resources officer. Luisa Deplazes Delgado was in attendance and introduced herself to us. The General and Compensation Committee then explained its reasons for recommending Luisa Deplazes Delgado's appointment to the Executive Board. We resolved Luisa Deplazes Delgado's appointment to the Executive Board as chief human resources officer and labor relations director of SAP AG effective September 1, 2012, as well as her contract of employment and her compensation.

Other focus items were business in the second quarter of 2012, an assessment of the first half of the year, forecasts for the second half of the year, and plans for the future based on the Group's medium-term strategy for the period to 2015. The Executive Board reported to us on the results from the various lines of business, growth in the Company's five market categories, SAP's general competitive position, the positive outcome of the SAPPHIRE conferences, investments in China, and the status of integration of SuccessFactors and Sybase. Members of the Executive Board explained in-depth the Field Services structure and solution and product portfolio management. They also reported on the status of the recently implemented cost-saving measures. In addition, we adopted a resolution to amend the Rules of Procedure of the General and Compensation Committee and the Technology and Strategy Committee. As a result of these agreed amendments, the number of members in the Technology and Strategy Committee was increased to 10 and a deputy chairperson was elected for this Committee.

In anticipation of the successful Ariba acquisition, the Supervisory Board approved the refinancing of the acquisition loan as presented, which involved issuing bonds in euros in several tranches or arranging a private placement in the United States in several tranches (or both).

**Meeting in October**
Our October 11, 2012, meeting took place in Shanghai, China, and focused on the Company's market strategy for China. Holding the meeting in China allowed us to gain direct insight into the structures of the Chinese market and its importance for SAP. We also attended several presentations during our visit to SAP Labs China in Shanghai, where we witnessed the innovative power of this development location firsthand.

The Executive Board reported in detail on business in the third quarter, its forecast for the fourth quarter of 2012, and SAP's position compared to key competitors. Members of the Executive Board then reported to us on the Company's medium-term revenue goals under its strategy for the period to 2015 and on the success of the measures taken so far to achieve those goals. They also updated us on the integration of Sybase and on business developments in the Cloud line of business since the acquisition of SuccessFactors. They explained SAP's current cloud portfolio and named the most important customer contracts.

A further item on the agenda was SAP's market strategy for China. We discussed this matter in depth and received a progress report from the Executive Board with respect to SAP's marketing activities, current growth status, and further potentials on the Chinese market in the coming years.

At the recommendation of the General and Compensation Committee, we next resolved to make further amendments to STI 2012, MTI 2010, MTI 2011, and LTI 2015 so as to eliminate special effects for Executive Board compensation from the Ariba acquisition.

In agreement with the Executive Board, the Supervisory Board then adopted, for regular publication in October 2012, the annual declaration of implementation of the German Corporate

Governance Code (the “Code” in this report) pursuant to the German Stock Corporation Act, section 161. The General and Compensation Committee reported that it had met immediately before our meeting to examine compliance with the declaration of implementation of the Code. Furthermore the Supervisory Board determined that it has an adequate number of independent members. Some Supervisory Board members currently had business dealings with SAP or held senior positions in companies that currently had business dealings with SAP, or had done so in the course of the year. SAP’s business dealings with these persons or companies are or were at arm’s length. In our view, especially given the limited scope and economic weight of those dealings, those business dealings did not affect the independence of the Supervisory Board members concerned.

At appropriate intervals, normally every October, the Supervisory Board conducts an investigation into the efficiency of its own work, in line with the recommendation in section 5.6 of the Code. Since the term of office of the current Supervisory Board membership only started at the end of the Annual General Meeting of Shareholders on May 23, 2012, this investigation was postponed to 2013. This was to give the newly elected members a chance to make their efficiency assessment on the basis of an adequate number of meetings of the Supervisory Board and its committees.

**Resolution Adopted by Correspondence in November**
In November, we approved by circular correspondence vote a capital increase from authorized capital in connection with the SAP Share Matching Plan (SMP) 2012. The background to this was the transfer of SAP shares to employees participating in SMP 2012, who for legal or other reasons were unable to use shares from treasury stock for the transfer.

**Resolution Adopted by Correspondence in December**
In December 2012, we consented by correspondence to a supplement to the RSU Milestone Plan 2015 for Executive Board member Jim Hagemann Snabe, to take into account a change in Danish case law. A further resolution, moved using the circular correspondence procedure in December 2012 concerning the appointment of new regional presidents, was resolved in January 2013 with the consent of the Supervisory Board.

**THE WORK OF THE SUPERVISORY BOARD COMMITTEES**
The Committees made a key contribution to the work of the Supervisory Board and reported on their work to us. The Committees that were set up in 2012 included (as at December 31, 2012):
– **General and Compensation Committee:** Hasso Plattner (chairperson), Panagiotis Bissiritsas, Wilhelm Haarmann, Lars Lamadé, Bernard Liautaud, Margret Klein-Magar
– **Audit Committee:** Erhard Schipporeit (chairperson), Stefan Schulz, Inga Wiele, Klaus Wucherer
– **Finance and Investment Committee:** Wilhelm Haarmann (chairperson), Panagiotis Bissiritsas, Hartmut Mehdorn, Kurt Reiner
– **Technology and Strategy Committee:** Hasso Plattner (chairperson), Stefan Schulz (deputy chairperson), Pekka Ala-Pietilä, Anja Feldmann, Christiane Kuntz-Mayr, Bernard Liautaud, Kurt Reiner, Mario Rosa-Bian, Inga Wiele, Klaus Wucherer
– **Mediation Committee:** Hasso Plattner (chairperson), Christiane Kuntz-Mayr, Hartmut Mehdorn, Mario Rosa-Bian
– **Nomination Committee:** Hasso Plattner (chairperson), Pekka Ala-Pietilä, Bernard Liautaud
– **Special Committee:** Hasso Plattner (chairperson), Pekka Ala-Pietilä, Wilhelm Haarmann, Margret Klein-Magar, Lars Lamadé, Erhard Schipporeit

The Committees that met or acted were the General and Compensation Committee, the Finance and Investment Committee, the Audit Committee, the Technology and Strategy Committee, the Nomination Committee, and the Special Committee.

For more information about the Supervisory Board committees and their individual duties, see SAP’s corporate governance statement pursuant to the German Commercial Code, section 289a, published on our Public Web site at: www.sap.com/corporate-en/investors/governance.

During 2012, the Committees focused on the following topics:
– The **General and Compensation Committee** held seven regular meetings and one extraordinary meeting. In its meetings, the Committee discussed the annual report it receives from the capital market compliance officer each January. It also prepared the Supervisory Board’s resolutions concerning

Executive Board compensation, the appointment of Lars Dalgaard and Luisa Deplazes Delgado to the Executive Board, the extension of existing Executive Board appointments, and the report from the corporate governance officer. The Committee members met with Luisa Deplazes Delgado in an extraordinary meeting in April to get to know the candidate personally prior to recommending her to the Executive Board. At the July 2012 meeting, the Committee deliberated changes to the Rules of Procedure for the General and Compensation Committee and the Technology and Strategy Committee and resolved its recommendation to the Supervisory Board. At its meeting on September 24, 2012, the Committee discussed the Company's implementation of the recommendations in the German Corporate Governance Code, prepared the Supervisory Board's decisions with respect to submission of the implementation declaration and determination of the independence of Supervisory Board members, and resolved to amend the non-competition clause in Executive Board member contracts. At both its March and October 2012 meetings, the Committee agreed its proposed resolutions regarding adjustments to the STI, MTI, and LTI elements of Executive Board compensation. As explained above, the adjustments were aimed at eliminating any special effects arising from the SuccessFactors and Ariba acquisitions. The Committee also discussed succession planning for the Executive Board throughout the year, particularly at its March meeting and at its October meeting. It also consented to the appointment of Bob Calderoni to the Global Managing Board. At its December 2012 meeting, the Committee resolved by circular correspondence vote the agenda for the Supervisory Board meeting on February 14, 2013. It also consented to the secondary employment of an Executive Board member as a supervisory board member or director of a non-SAP company at its July and October 2012 meetings.

– The **Finance and Investment Committee** held five meetings in 2012, one of which was held jointly with the Technology and Strategy Committee. It also adopted one resolution by circular correspondence. At its meeting on February 15, 2012, the Committee discussed the results of the Company's 2011 acquisitions, received a report about SAP's medium and long-term financial strategy, and was updated on the status of the integration of Sybase. The April and May 2012 meetings focused on the Syclo and Ariba acquisitions. The Committee received in-depth information from the Executive Board concerning the acquisitions, consented to the Syclo acquisition, and resolved to recommend the Ariba acquisition to the Supervisory Board. At its meeting in July, the Finance and Investment Committee deliberated the capital market refinancing for the Ariba acquisition and resolved its recommendation to the Supervisory Board. In a joint meeting with the Technology and Strategy Committee, also held in July 2012, the two Committees received a status report on SAP's acquisition strategy and discussed the report on the success of the Company's 2008–2011 acquisitions. In May 2012, the Finance and Investment Committee approved by circular correspondence vote the establishment of the SAP HANA Real-Time Fund. With a volume of approximately €126 million, the SAP HANA Real-Time Fund provides early-stage venture capital funding for individual companies that develop applications for processing real-time data. At the same time, the Fund offers SAP a communication network of investors and companies in this segment.
– The **Audit Committee** held four physical meetings and four telephone conference meetings in 2012. It deliberated on the SAP AG and consolidated financial statements, the combined management report, and the Annual Report on Form 20-F for 2011. It also discussed the future development of risk management in the Group, the monitoring of the financial reporting process, internal controls, the risk management structure, the internal audit system, and compliance in the SAP Group. In addition, the Committee did preparatory work on the Supervisory Board's proposal to the Annual General Meeting of Shareholders with respect to the election of an auditor for 2012, and verified the recommended auditor's independence. Following the election of the auditor, the Audit Committee decided with the auditor on the focus areas of the audit and agreed the auditor's fee. The Audit Committee deliberated regularly on SAP's business performance and its impact on the Company's financial accounting. It discussed with the Executive Board the results for 2011, the results of the 2012 audit, the 2012 quarterly results and quarterly

reports, and the auditor's quarterly reviews of selected software agreements. The auditor attended all physical Audit Committee meetings and reported in depth on its audit work and on its quarterly reviews of selected software agreements. In addition to these discussions in the physical meetings, the Executive Board held telephone conferences with the Audit Committee before the announcement of the preliminary quarterly results to inform Committee members about the preparation and review of the quarterly financial reports and about the preliminary quarterly results. The Audit Committee also discussed each respective quarterly report with the Executive Board in these telephone conferences. The Audit Committee also deliberated on intellectual property litigation in the context of monitoring the Company's internal risk management structures. At the July 11, 2012, meeting, the Audit Comittee was informed about KPMG's planned audit focus areas. The Audit Committee received the latest news on the TomorrowNow litigation, among other things, at its October 10, 2012, meeting. It also discussed the effectiveness of the internal control system, internal audit service, and compliance system. The Committee likewise discussed the internal audit service's audit plan.

– The **Technology and Strategy Committee** met four times in 2012. It discussed the key trends in the software industry in the years to come and SAP's corporate and product strategies. The meetings primarily addressed SAP HANA technology and plans to use SAP HANA as the platform for SAP applications. A further focal point was the Company's cloud computing strategy and its implementation. As already reported above, the Committee also held a joint meeting in July with the Finance and Investment Committee, in which the two Committees discussed SAP's acquisition strategy and took stock of the recent acquisitions. Last but not least, the Technology and Strategy Committee discussed SAP's mobile apps strategy, Sybase Unwired Platform, and the Company's strategy with regard to business intelligence.
– The **Nomination Committee** is composed exclusively of shareholder representatives. It met once in 2012 immediately before the Supervisory Board's March meeting, to prepare the Supervisory Board's recommendation for shareholder representatives to the Annual General Meeting of Shareholders and to submit the Committee's recommendation.
– The **Special Committee** is tasked with coordinating and managing the Supervisory Board's external legal advisors concerned with the investigation and analysis of the facts in connection with the TomorrowNow litigation. It monitored the developments in the case based on information provided by the Executive Board and counsel in the United States. In June 2012, the Special Committee in a circular correspondence vote authorized the Executive Board to conclude a lower court settlement with Oracle in the aforementioned legal action. The Committee was supported in this regard by separate counsel appointed by the Supervisory Board to advise the Committee. The Committee did not meet in 2012. As outlined above, the full Supervisory Board itself discussed the reports and opinions of its legal counsel in depth throughout the first half of the year.

Regular reports from the committees ensured that we were kept fully informed of all matters covered by the committees and were therefore able to discuss and deliberate on those topics thoroughly.

**CORPORATE GOVERNANCE**

SAP's corporate governance officer monitored our compliance with those recommendations in the Code with which in our declaration we claim to comply, and reported in full to the Supervisory Board. Members of the Executive Board and of the Supervisory Board had no conflicts of interest that were required to be disclosed to the Supervisory Board pursuant to sections 4.3.4 and 5.5.2 of the Code. The Supervisory Board, as reported above, consented to the conclusion of a contract with a member of the Supervisory Board. In addition, the General and Compensation Committee consented to a business dealing involving a member of the Executive Board, which was consistent with industry standards and immaterial. Other contracts with members of the Executive Board or Supervisory Board that would have required a prior resolution of the Supervisory Board were not concluded.

For more information about Code compliance, see the Executive and Supervisory Boards' corporate governance report. The Supervisory Board closely examined the Executive Board's corporate governance statement pursuant to the German Commercial Code, section 289a. We approved the statement in conjunction with the management report.

**SAP AG AND CONSOLIDATED ACCOUNTS FOR 2012**

KPMG audited the SAP AG and consolidated financial statements for 2012. The Annual General Meeting of Shareholders elected KPMG as the SAP AG and SAP Group auditor on Wednesday, May 23, 2012. The Supervisory Board proposed the appointment of KPMG on the recommendation of the Audit Committee. Before proposing KPMG to the Annual General Meeting of Shareholders as auditor for the year, the chairperson of the Supervisory Board and the Audit Committee obtained confirmation from KPMG that circumstances did not exist that might prejudice or raise any doubt concerning its independence as the Company's auditor. In that connection, KPMG informed us of the volume of other services it provided to the Group in the past year and had been engaged to provide in the year to come. The Supervisory Board has agreed with KPMG that the auditor should report to the Supervisory Board and record in the auditor's report any fact found during the audit that is inconsistent with the declaration given by the Executive Board and the Supervisory Board concerning implementation of the German Corporate Governance Code. KPMG examined the SAP AG financial statements prepared in accordance with the German Commercial Code, the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRSs) as required by the German Commercial Code, section 315a, and the combined SAP AG and SAP Group management report, and certified them without qualification. The auditor thus confirmed that, in its opinion and based on its audit in accordance with the applicable accounting principles, the SAP AG and consolidated financial statements give a true and fair view of the net assets, financial position, and results of operations of SAP AG and the SAP Group. The auditor also confirmed that the combined SAP AG and SAP Group management report is consistent with the corresponding financial statements and as a whole gives a suitable view of the position of SAP AG and the SAP Group and of foreseeable opportunities and risks. KPMG had completed its audit of SAP's internal control over financial reporting and certified without qualification that it complies with the applicable U.S. standards. The auditor states in its opinion that it considers SAP's internal controls over financial reporting to be effective in all material respects. All Audit Committee and Supervisory Board members received the documents concerning the financial statements mentioned above, the audit reports prepared by KPMG, and the Executive Board's proposal concerning the appropriation of retained earnings in good time.

On February 21, 2013, the Executive Board prepared the financial accounts of SAP AG and the Group for 2012, comprising the SAP AG financial statements, the consolidated financial statements, and the combined management report, and promptly submitted them to the Supervisory Board.

At the meeting of the Audit Committee on March 21, 2013, and at the meeting of the Supervisory Board on March 21, 2013, the Executive Board explained the financial statements of SAP AG and the SAP Group and its proposal concerning the appropriation of retained earnings. It also explained the Annual Report on Form 20-F to the Audit Committee meeting. At the meetings, members of the Executive Board also answered questions from the Audit Committee and the Supervisory Board.

After the Executive Board had explained them, the Audit Committee and the Supervisory Board reviewed the financial statement documents in the light of KPMG's audit reports. The representatives of the auditor who attended presented full reports on the audit and the results of the audit to the Audit Committee and Supervisory Board meetings and explained the audit report. The auditor also reported that it had not identified any material weaknesses in our internal control and risk-management structure for financial reporting. Both the Audit Committee and the Supervisory Board asked detailed questions about the form, scope, and results of the audit. The Audit Committee reported to the Supervisory Board on its own review of the financial accounts, its discussions with the Executive Board and with the auditor, and its supervision of the financial reporting process. It confirmed that as part of its supervisory work, it had addressed the effectiveness of the SAP Group internal control, risk management, and internal auditing structures and found them to be effective.

The Committee also reported that KPMG had told it no circumstances had arisen that might give cause for concern about KPMG's impartiality and had listed the services it had provided that were not part of the audit. The Committee reported that it had examined the auditor's independence, taking the non-audit services it had rendered into consideration, and stated that in the Committee's opinion the auditor possessed the required degree of independence.

The Audit Committee and the Supervisory Board satisfied themselves that KPMG had conducted the audit properly. In particular, they concluded that both the audit reports and the audit itself fulfilled the legal requirements. On the basis of the report and the Audit Committee's recommendation, the Supervisory Board approved the audit and, because there were no findings from our own examination, we gave our consent to the SAP AG financial statements, the consolidated financial statements, and the SAP AG and SAP Group management report (including the Executive Board's corporate governance statement pursuant to the German Commercial Code, section 289a). The financial statements and management report were thus formally adopted. The Supervisory Board's opinion of the Company and the Group coincided with that of the Executive Board as set out in the combined management report. The Supervisory Board considered the proposal presented by the Executive Board concerning the appropriation of retained earnings. We had regard to the requirements of dividends policy, the effects on the liquidity of the Group, and the interests of the shareholders. We also discussed these matters with the auditor. We then endorsed the Executive Board's proposal concerning the appropriation of retained earnings. We approved this present report.

**2012 COMPENSATION FOR EXECUTIVE BOARD MEMBERS**

The Supervisory Board, as reported above, discussed the matter of Executive Board compensation on several occasions in 2012. The discussions focused primarily on setting the key performance indicators (KPI) for the STI 2012, and on the amendments to be made to compensation components to eliminate special effects resulting from acquisitions.

As explained in detail in the Compensation Report, the 2012 total compensation for Executive Board members is made up of a fixed annual salary, a variable compensation component for the current fiscal year (Short-Term Incentive, STI), and a long-term compensation component that is based on the SAP share price (Long-Term Incentive, LTI). The individual variable compensation components developed differently compared to the previous year.

The sum of fixed annual salary plus STI 2012 decreased 37% to 43% for all Executive Board members who were also members of the Executive Board in both 2011 and 2012. The main reason for this reduction is that specific targets upon which the STI is based were not met. Even taking into account the medium-term variable compensation component granted for the fiscal year 2010 (MTI 2010), which is scheduled to be paid out at the end of 2012 in accordance with the three-year vesting period, the compensation based on short-term and medium-term components is still 13% to 21% below the short-term compensation paid out in 2011.

On the other hand, the value of the long-term share-based component (LTI) rose significantly in 2012. This increase is due primarily to a higher allocation resulting from revisions to the long-term share-based compensation plan in 2011, which were based on comparative data from other companies. In addition, in connection with the higher LTI allocation, the Supervisory Board places a stronger focus on achieving the long-term goals of the 2015 strategy and thus calls on the Executive Board to pursue sustainable management, particularly with regard to increasing the value of the Company.

The above factors in total translate into a 15% to 51% increase in the 2012 compensation for Executive Board members. The share-based long-term compensation amount actually paid out is influenced on the one hand by the number of vested Restricted Stock Units (RSUs) depending on the corresponding target achievement in 2012, and on the other hand by the average price of SAP stock at the end of January 2016 and thus further stock performance. The LTI amount will only be paid out after this period.

**MEMBERSHIP CHANGES ON THE SUPERVISORY BOARD AND EXECUTIVE BOARD**

In 2012, the regular elections of the members of the Supervisory Board took place: The employee representatives were elected according to the German Codetermination Act, and the shareholder representatives were elected at the Annual General Meeting of Shareholders on May 23. The new Supervisory Board now consists of shareholder representatives Hasso Plattner (chairperson), Pekka Ala-Pietilä, Anja Feldmann, Wilhelm Haarmann, Bernard Liautaud, Hartmut Mehdorn, Erhard Schipporeit, and Klaus Wucherer, and employee representatives Christiane Kuntz-Mayr (deputy chairperson), Panagiotis Bissiritsas, Margret Klein-Magar, Lars Lamadé, Kurt Rainer, Mario Rosa-Bian, Stefan Schulz, and Inga Wiele.

In addition, the Supervisory Board appointed Lars Dalgaard and Luisa Deplazes Delgado to the Executive Board with effect from April 12, 2012, and September 1, 2012, respectively.

The Supervisory Board thanks the Executive Board, the managers of the Group companies, and all of our employees for their commitment and hard work in 2012. We would also like to thank our customers and partners, who contributed significantly to SAP's success as well.

For the Supervisory Board

**Professor Hasso Plattner**
(Chairperson)

# Compensation Report[1)]

**COMPENSATION FOR EXECUTIVE AND SUPERVISORY BOARD MEMBERS**

This compensation report outlines the criteria that we applied for the year 2012 to determine compensation for Executive Board and Supervisory Board members, discloses the amount of compensation paid, and describes the compensation systems. It also contains information about Executive Board members' share-based payment plans, shares held by Executive Board and Supervisory Board members, and the directors' dealings required to be disclosed in accordance with the German Securities Trading Act.

**COMPENSATION FOR EXECUTIVE BOARD MEMBERS**

**Compensation System for 2012**

Executive Board members' compensation for 2012 is intended to reflect SAP's size and global presence as well as our economic and financial standing. The compensation level is internationally competitive to reward committed, successful work in a dynamic environment.

The Executive Board compensation package is performance-based. In 2012, it had three elements:

– A fixed annual salary
– A variable short-term incentive (STI) plan to reward performance in the plan year
– A Restricted Share Unit-based long-term incentive (LTI) plan tied to the price of SAP shares (RSU Milestone Plan 2015)

The Supervisory Board set a compensation target for the sum of the fixed and the variable elements. It reviews, and if appropriate revises, this compensation target every year. The review takes into account SAP's business performance and the compensation paid to board members at comparable companies on the international stage. The amount of variable compensation depends on SAP's performance against performance targets that the Supervisory Board sets for each plan year. The performance targets are key performance indicator (KPI) values aligned to the SAP budget for the plan year.

The following criteria apply to the elements of Executive Board compensation for 2012:

– The fixed element is paid as a monthly salary.
– The variable compensation under the STI 2012 plan depends on the SAP Group's performance against the KPI target values for constant currency software revenue growth and non-IFRS constant currency operating margin as well as non-IFRS constant currency cloud subscription and support revenue. In addition, the STI element has a discretionary component that allows the Supervisory Board, at the end of the period in question, to address not only an Executive Board member's individual performance, but also SAP's performance in terms of market position, innovative power, customer satisfaction, employee satisfaction, and attractiveness as an employer. Moreover, if there has been any extraordinary and unforeseeable event the Supervisory Board can, at its reasonable discretion, retroactively adjust payouts up or down in the interest of SAP. On February 14, 2013, the Supervisory Board assessed SAP's performance against the agreed targets and determined the amount of STI payable. The STI pays out after the Annual General Meeting of Shareholders in June 2013.
– The long-term incentive element is called the RSU Milestone Plan 2015. "RSU" stands for "restricted share unit." This four-year plan focuses on the SAP share price and on certain objectives derived from our Company strategy for the years through 2015. For each of the four years, the members of the Executive Board are allocated a certain number of SAP RSUs for the respective year based on a budget amount that was granted and paid out to each Executive Board member in 2012 already for the years 2012 through 2015. The number of RSUs allocated to each member for a given year is his or her target amount (an amount in euros) for that year divided by the SAP share price over a reference period (defined in the RSU Milestone Plan 2015 terms) at the beginning of the year in question. If the Executive Board member leaves before the end of a financial year, the RSUs for the respective year as well as the subsequent years are forfeited.

[1)] This Compensation report is part of the audited management report.

- The number of RSUs an Executive Board member actually earns in respect of a given year could be greater or smaller than the initial allocation. It depends on Company performance against the objectives for that year (a year is a "performance period" in the plan). The objectives derive from SAP's strategy for the period to 2015. The plan objectives relate to two key performance indicators (KPIs): Our non-IFRS total revenue and our non-IFRS operating profit. The KPI targets have already been set for the entire life of the RSU Milestone Plan 2015 for the years 2012 to 2015 and will merely be adjusted for the effects of key acquisitions.
- After the end of each fiscal year, the Supervisory Board assesses the Company's performance against the objectives set for that year and determines the number of RSUs to be finally allocated to (and which then vest in) each Executive Board member. There are objective-based performance hurdles to clear each year before any RSUs can vest. There is also a cap: Normally, the quantity of vested RSUs a member can attain in respect of a plan year is capped at 150% of his or her initial RSU allocation for that year.
- The Company strategy underlying the RSU Milestone Plan 2015 focuses on where SAP aims to be by 2015, so the plan gives greater weight to performance against the KPI targets for 2015 (the final year of the plan) than against the targets for 2012 through 2014. After the end of 2015, the number of vested RSUs a member of the Executive Board actually receives for that year is revised. In circumstances where the targets for the individual years are not achieved but the 2015 targets are achieved, the outcome of this revision would be that a member would receive as many vested RSUs for 2015 as would make up for any that he or she did not receive in the earlier years by reason of failure to achieve targets. On the other hand, if the Company underachieves against the 2015 objectives, Executive Board members may in the worst case lose all of the vested RSUs allocated to them for 2015.
- All vested RSUs are subject to a three-year holding period. The holding period commences at the end of the year for which the RSUs were allocated. The amount an RSU eventually pays out depends on the SAP share price at the end of the holding period. A member who leaves the Executive Board before the end of the plan retains his or her vested RSUs for completed plan years but does not retain any allocated but unvested RSUs for the year during which he or she leaves. If a member leaves the Executive Board before the beginning of the subsequent year, no RSUs are finally allocated.
- Each vested RSU entitles its holder to a (gross) payout corresponding to the price of one SAP share after the end of the three-year holding period. The applicable share price is measured over a reference period defined in the RSU Milestone Plan 2015 terms.
- Subject to the requirements in the German Stock Corporation Act, section 87 (1), the Supervisory Board is entitled to revise the STI and the LTI in extraordinary and unforeseeable circumstances.
- The LTI component consists of the issue of RSUs under the terms of the RSU Milestone Plan 2015. For the terms and details of the RSU Milestone Plan 2015, see the Notes to Consolidated Financial Statements section, Note (27). The number of RSUs to be issued to each member of the Executive Board in 2012 by way of long-term incentive was decided by the Supervisory Board on February 16, 2012.

The contracts of Executive Board members Bill McDermott, Lars Dalgaard, and Vishal Sikka include clauses that determine the exchange rates for the translation of euro-denominated compensation into U.S. dollars.

In prior years, the Executive Board members were granted a variable medium-term incentive (MTI) plan to reward performance in the plan year and the two subsequent years. The variable compensation under the MTI 2010 granted for the fiscal year 2010 depends on the SAP Group's performance over the three years 2010 to 2012 against the KPI target values for software and software-related service revenue growth and earnings per share (both of which are non-IFRS, constant currency values). In addition, the MTI element has a discretionary component that is assessed by the Supervisory Board at the end of the plan period. The close of the fiscal year 2012 represents the end of the plan period for the MTI 2010, and therefore the corresponding entitlement under the MTI 2010 is included in the compensation for the fiscal year 2012. The payment will be due after the Annual General Meeting of Shareholders in June 2013. MTI 2011 will pay out in 2014 respectively.

**Executive Board Members' Compensation for the Financial Year 2012**

€ thousands

| | Fixed Elements | | Performance-Related Element | | | Compensation for 2012 [1] |
|---|---|---|---|---|---|---|
| | | | Short-Term and Medium-Term Incentive Elements | | Long-Term Incentive Element | |
| | Salary | Other [2] | STI | MTI 2010 | Share-Based Payment (RSU Milestone Plan 2015) [1), 3] | |
| Bill McDermott (co-CEO) [4] | 1,203.3 | 415.9 | 1,581.5 | 1,259.6 | 4,318.4 | 8,778.7 |
| Jim Hagemann Snabe (co-CEO) | 1,150.0 | 163.8 | 1,545.7 | 1,067.6 | 4,318.4 | 8,245.5 |
| Dr. Werner Brandt | 700.0 | 26.7 | 935.5 | 645.1 | 1,549.1 | 3,856.4 |
| Lars Dalgaard (from April 12, 2012) [6] | 528.9 | 0 | 690.4 | 0 | 1,156.2 | 2,375.5 |
| Luisa Deplazes Delgado (from September 1, 2012) | 233.3 | 96.4 | 193.9 | 0 | 414.4 | 938.0 |
| Gerhard Oswald | 700.0 | 16.5 | 935.5 | 645.1 | 1,549.1 | 3,846.2 |
| Dr. Vishal Sikka [5] | 733.4 | 143.9 | 957.2 | 635.1 | 1,549.1 | 4,018.7 |
| **Total** | **5,248.9** | **863.2** | **6,839.7** | **4,252.5** | **14,854.7** | **32,059.0** |

1) Compensation attributable to Executive Board members for the financial year 2012 including the plan tranche 2012 of LTI 2015 based on the grant value at time of grant
2) Insurance contributions, benefits in kind, expenses for maintenance of two households, relocation costs, non-recurring payments, use of aircraft, tax
3) Fair value at the time of grant
4) Includes discrete payments arising through application of the fixed exchange-rate clause to the following items: Salary for 2012: €53,300; profit-sharing bonus for 2012: €35,800; MTI 2010: €192,000
4) Includes discrete payments arising through application of the fixed exchange-rate clause to the following items: Salary for 2012: €33,400; profit-sharing bonus for 2012: €21,700; MTI 2010: €57,200
6) Includes discrete payments arising through application of the fixed exchange-rate clause to the following items: Salary for 2012: €24,900; profit-sharing bonus for 2012: €15,600

In 2012, in addition to the LTI grant for 2012, Executive Board members have already received the LTI grants for the years 2013 to 2015, which are dependent on their uninterrupted tenure as Executive Board member in the years in question. Although these allocations are tied to the respective years and thus – from an economic perspective – represent compensation for the Executive Board members in the respective years, for the purpose of disclosure in the Compensation Report the grants must be included in the total compensation for Executive Board members for the year in which the grants were allocated pursuant to section 314 of the German Commercial Code.

Vesting of a plan tranche is dependent on the respective Executive Board member's continuous service for the Company in the respective fiscal year. The contracts of Werner Brandt and Gerhard Oswald are currently set to expire in mid-2014, while the contracts of Lars Dalgaard and Luisa Deplazes Delgado are set to expire in mid-2015. As a result, the LTI allocations for the years 2014 to 2015 (for Werner Brandt and Gerhard Oswald) and the LTI allocations for the year 2015 (for Lars Dalgaard and Luisa Deplazes Delgado) had not yet been allocated with legally binding force in 2012.

Assuming uninterrupted service on the Executive Board during the period in question, additional grants for Executive Board members for future years shall be €4,390,000 for each co-CEO and €1,574,800 for each regular Executive Board member, in each of 2013, 2014, and 2015 (except Luisa Deplazes Delgado, who shall receive €1,291,600 for the year 2013). The total compensation for 2012 pursuant to section 314 of the German Commercial Code, in other words, including this additional compensation as well as the long-term compensation tranches granted but not yet earned, amounts to €72,288,800, thereof: Bill McDermott: €21,948,700, Jim Hagemann Snabe €21,415,500, Werner Brandt €5,431,200, Lars Dalgaard €5,524,900, Luisa Deplazes Delgado €3,804,400, Gerhard Oswald €5,421,000, Vishal Sikka €8,743,100.

Assuming 100% target achievement, the amounts the MTI 2011 will pay out in 2014 are as follows:

**MTI Target Payouts**

€ thousands

| | MTI 2011 Target Payouts 2014 |
|---|---|
| Bill McDermott (co-CEO) | 820.0 |
| Jim Hagemann Snabe (co-CEO) | 820.0 |
| Dr. Werner Brandt | 495.5 |
| Gerhard Oswald | 495.5 |
| Dr. Vishal Sikka | 495.5 |
| **Total** | **3,126.5** |

The share-based payment amounts in 2012 result from the following RSUs under the RSU Milestone Plan 2015.

## Share-Based Payment Under RSU Milestone Plan 2015

| | Grants for 2012 | | |
|---|---|---|---|
| | Quantity | Grant Value per Unit at Time of Grant | Total Grant Value at Time of Grant |
| | | € | € thousands |
| Bill McDermott (co-CEO) | 95,414 | 45.26 | 4,318.4 |
| Jim Hagemann Snabe (co-CEO) | 95,414 | 45.26 | 4,318.4 |
| Dr. Werner Brandt | 34,226 | 45.26 | 1,549.1 |
| Lars Dalgaard (from April 12, 2012) | 24,594 | 47.01 | 1,156.2 |
| Luisa Deplazes Delgado (from September 1, 2012) | 8,332 | 49.73 | 414.4 |
| Gerhard Oswald | 34,226 | 45.26 | 1,549.1 |
| Dr. Vishal Sikka | 34,226 | 45.26 | 1,549.1 |
| **Total** | **326,432** | | **14,854.7** |

## Total Executive Board Compensation in 2011

€ thousands

| | **Fixed Elements** | | **Performance-Related Element** | **Long-Term Incentive Elements** | **Total** |
|---|---|---|---|---|---|
| | Salary | Other [1] | Short-Term Incentive (STI) | Share-Based Payment (SAP SOP 2010) [2] | |
| Bill McDermott (co-CEO) [3] | 1,279.9 | 408.0 | 3,935.5 | 950.0 | 6,573.4 |
| Jim Hagemann Snabe (co-CEO) | 1,150.0 | 107.6 | 3,271.2 | 950.0 | 5,478.8 |
| Dr. Werner Brandt | 700.0 | 29.7 | 1,979.6 | 577.0 | 3,286.3 |
| Gerhard Oswald | 700.0 | 34.5 | 1,979.6 | 577.0 | 3,291.1 |
| Dr. Vishal Sikka [4] | 700.0 | 120.5 | 2,103.7 | 577.0 | 3,501.2 |
| Dr. Angelika Dammann (member until July 8, 2011) [5] | 466.7 | 45.9 | 1,163.1 | 384.7 | 2,060.4 |
| **Total** | **4,996.6** | **746.2** | **14,432.7** | **4,015.7** | **24,191.2** |

[1] Insurance contributions, benefits in kind, expenses for maintenance of two households due to work abroad, reimbursement of legal and tax advice fees, non-recurring payments, use of aircraft, tax
[2] Fair value at the time of grant
[3] Includes discrete payments arising through application of the fixed exchange-rate clause to the following items: Salary for 2011: €129,900; profit-sharing bonus for 2011: €664,300
[4] Includes a discrete payment arising through application of the fixed exchange-rate clause to the following item: Profit-sharing bonus for 2011: €124,100
[5] Angelika Dammann's appointment as member of the Executive Board ended on July 8, 2011. Her contract with SAP AG ended on August 31, 2011. Due to the end of her contract on August 31, 2011, the number of virtual options issued to her in 2011 was reduced. The amount of the Short-Term Incentive includes pro rata temporis amounts of the STI 2011 (€585,000), the MTI 2011 (€330,300) and the MTI 2010 (€247,800).

**Share-Based Payment Under SAP SOP 2010 (2011 Grants)**

| | 2011 Grants | | |
|---|---|---|---|
| | Quantity | Fair Value per Right at Time of Grant | Total Fair Value at Time of Grant |
| | | € | € thousands |
| Bill McDermott (co-CEO) | 112,426 | 8.45 | 950.0 |
| Jim Hagemann Snabe (co-CEO) | 112,426 | 8.45 | 950.0 |
| Dr. Werner Brandt | 68,284 | 8.45 | 577.0 |
| Gerhard Oswald | 68,284 | 8.45 | 577.0 |
| Dr. Vishal Sikka | 68,284 | 8.45 | 577.0 |
| **Total** | **429,704** | | **3,631.0** |

## END-OF-SERVICE BENEFITS

### Regular End-of-Service Undertakings

***Retirement Pension Plan***
Members of the Executive Board receive a retirement pension when they reach the retirement age of 60 and vacate their Executive Board seat, or a disability pension if, before reaching the regular retirement age, they become subject to occupational disability or permanent incapacity. A surviving dependent's pension is paid on the death of a former member of the Executive Board. The disability pension is 100% of the vested retirement pension entitlement and is payable until the beneficiary's 60th birthday, after which it is replaced by a retirement pension. The surviving dependent's pension is 60% of the retirement pension or vested disability pension entitlement at death. Entitlements are enforceable against SAP AG. Current pension payments are reviewed annually for adjustments and, if applicable, increased according to the surplus in the pension liability insurance.

If service is ended before the retirement age of 60 is reached, pension entitlement is reduced in proportion as the actual length of service stands in relation to the maximum possible length of service.

The applied retirement pension plan is contributory. The contribution is 4% of applicable compensation up to the applicable income threshold plus 14% of applicable compensation above the applicable income threshold. For this purpose, applicable compensation is 180% of annual base salary. The applicable income threshold is the statutory annual income threshold for the state pension plan in Germany (West), as amended from time to time.

Exceptional retirement pension agreements apply to the following Executive Board members:

– Prior to May 18, 2012, Bill McDermott and Vishal Sikka had rights to future benefits under the pension plan of SAP America. The pension plan of SAP America was a cash balance plan that on retirement provided either monthly pension payments or a lump sum. The pension became available from the beneficiary's 65th birthday. Subject to certain conditions, the plan also provided earlier payment or invalidity benefits. The portion of the SAP America pension plan classified as "Qualified Retirement Plan" according to the U.S. Employee Retirement Income Security Act (ERISA) was terminated and all account balances were liquidated from the plan on May 18, 2012. Bill McDermott and Vishal Sikka transferred their account balance into their third-party pension accounts.
– Bill McDermott still has rights to future benefits under the portion of the SAP America pension plan classified as "Non-Qualified Retirement Plan" according to ERISA. The "Non-Qualified" pension plan of SAP America is a cash balance plan that on retirement provides either monthly pension payments or a lump sum. The pension becomes available from the beneficiary's 65th birthday. Subject to certain conditions, the plan also provides earlier payment or invalidity benefits. The "Non-Qualified" pension plan closed with effect from January 1, 2009. Interest continues to be paid on the earned rights to benefits within this plan.

– SAP also made contributions to a third-party pension plan for Bill McDermott and Vishal Sikka. SAP's contributions are based on Bill McDermott's and Vishal Sikka's payments into this pension plan. Additionally, in view of the close of the SAP America pension plan, SAP adjusted its payments to this non-SAP pension plan. In 2012, SAP paid contributions for Bill McDermott totaling €1,053,600 (2011: €470,800) and for Vishal Sikka totaling €215,300 (2011: €95,700).
– Instead of paying for entitlements under the pension plan for Executive Board members, SAP pays equivalent amounts to a non-SAP pension plan for Jim Hagemann Snabe. In 2012, SAP paid contributions totaling €283,400 (2011: €283,800).
– Gerhard Oswald's performance-based retirement plan was discontinued when SAP introduced a contributory retirement pension plan in 2000. His pension benefits are derived from any accrued entitlements on December 31, 1999, under performance-based pension agreements and a salary-linked contribution for the period commencing January 1, 2000. Gerhard Oswald's rights to retirement pension benefits will increase by further annual contributions because he will remain a member of the Executive Board after his 60th birthday until his retirement on June 30, 2014.
– Lars Dalgaard has no entitlements under the pension plan for Executive Board members. SAP made no retirement pension plan contributions to a third-party pension plan with respect to Lars Dalgaard in 2012.

**Total Projected Benefit Obligation (PBO) and the Total Accruals for Pension Obligations to Executive Board Members**

€ thousands

| | Bill McDermott (co-CEO)[1)] | Dr. Werner Brandt | Luisa Deplazes Delgado (from September 1, 2012) | Gerhard Oswald | Dr. Vishal Sikka[1)] | Total |
|---|---|---|---|---|---|---|
| PBO January 1, 2011 | 1,073.2 | 1,284.3 | n.a. | 4,127.4 | 46.7 | 6,531.6 |
| Less plan assets market value January 1, 2011 | 52.6 | 921.7 | n.a. | 3,374.9 | 45.0 | 4,394.2 |
| **Accrued January 1, 2011** | **1,020.6** | **362.6** | **n.a.** | **752.5** | **1.7** | **2,137.4** |
| PBO change in 2011 | 66.3 | 215.4 | n.a. | 358.1 | 6.4 | 646.2 |
| Plan assets change in 2011 | 4.0 | 209.3 | n.a. | 436.3 | 3.5 | 653.1 |
| PBO December 31, 2011 | 1,139.5 | 1,499.7 | n.a. | 4,485.5 | 53.1 | 7,177.8 |
| Less plan assets market value December 31, 2011 | 56.6 | 1,131.0 | n.a. | 3,811.2 | 48.5 | 5,047.3 |
| **Accrued December 31, 2011** | **1,082.9** | **368.7** | **n.a.** | **674.3** | **4.6** | **2,130.5** |
| PBO change in 2012 | –64.4 | 541.8 | 55.1 | 1,231.3 | –53.1 | 1,710.7 |
| Plan assets change in 2012 | –56.6 | 217.0 | 48.3 | 383.3 | –48.5 | 543.5 |
| PBO December 31, 2012 | 1,075.1 | 2,041.5 | 55.1 | 5,716.8 | 0 | 8,888.5 |
| Less plan assets market value December 31, 2012 | 0 | 1,348.0 | 48.3 | 4,194.5 | 0 | 5,590.8 |
| **Accrued December 31, 2012** | **1,075.1** | **693.5** | **6.8** | **1,522.3** | **0** | **3,297.7** |

[1)] Prior to May 18, 2012, the qualified portion of the SAP America pension plan was terminated and account balances transferred to third-party pension accounts.

The table below shows the annual pension entitlement of each member of the Executive Board on reaching age 60 based on entitlements from SAP under performance-based and salary-linked plans vested on December 31, 2012.

**Annual Pension Entitlement**

€ thousands

| | Vested on December 31, 2012 | Vested on December 31, 2011 |
|---|---|---|
| Bill McDermott (co-CEO) [1] | 78.1 | 98.3 |
| Dr. Werner Brandt | 88.2 | 80.6 |
| Luisa Deplazes Delgado (from September 1, 2012) [3] | 2.3 | n.a. |
| Gerhard Oswald [2] | 259.9 | 243.7 |
| Dr. Vishal Sikka [1] | n.a. | 6.5 |

[1] The rights shown here for Bill McDermott and Vishal Sikka refer solely to rights under the SAP America pension plan. Prior to May 18, 2012, the qualified portion of the SAP America, Inc., pension plan was terminated and accounts were transferred to third-party pension accounts.
[2] Due to the extension of Gerhard Oswald's contract beyond his 60th birthday, this value represents the retirement pension entitlement that he would receive after his current Executive Board contract expires on June 30, 2014, based on the entitlements vested on December 31, 2012.
[3] Due to changes in tax regulations in Germany, for commitments after January 1, 2012, the minimum age to receive pension payments increased to age 62. The value shown for Luisa Deplazes Delgado represents the retirement pension entitlement that she would receive at the age of 62 based on the entitlements vested on December 31, 2012.

These are vested entitlements. To the extent that members continue to serve on the Executive Board and that therefore more contributions are made for them in the future, pensions actually payable at the age of 60 will be higher than the amounts shown in the table.

***Postcontractual Non-Compete Provisions***

During the agreed 12-month postcontractual non-compete period, each Executive Board member receives abstention payments corresponding to 50% of his or her final average contractual compensation as agreed in the respective contract on an individual basis.

The following table presents the net present values of the postcontractual non-compete abstention payments. The net present values in the table reflect the discounted present value of the amounts that would be paid in the fictitious scenario in which the Executive Board members leave SAP at the end of their respective current contract terms and their final average contractual compensation prior to their departure equals the compensation in 2012. Actual postcontractual non-compete payments will likely differ from these amounts depending on the time of departure and the compensation levels and target achievements at the time of departure.

**Net Present Values of the Postcontractual Non-Compete Abstention Payments**

€ thousands

| | Contract Term Expires | Net Present Value of Post-contractual Non-Compete Abstention Payment |
|---|---|---|
| Bill McDermott (co-CEO) | June 30, 2017 | 4,165.9 |
| Jim Hagemann Snabe (co-CEO) | June 30, 2017 | 3,912.9 |
| Dr. Werner Brandt | June 30, 2014 | 1,898.2 |
| Lars Dalgaard (from April 12, 2012) | April 11, 2015 | 1,163.4 |
| Luisa Deplazes Delgado (from September 1, 2012) | August 31, 2015 | 464.6 |
| Gerhard Oswald | June 30, 2014 | 1,905.3 |
| Dr. Vishal Sikka | December 31, 2017 | 1,880.9 |
| **Total** | | **15,391.2** |

## Early End-of-Service Undertakings

***Severance Payments***

The standard contract for all Executive Board members provides that on termination before full term (for example, where the member's appointment is revoked, where the member becomes occupationally disabled, or in connection with a change of control), SAP AG will pay to the member the outstanding part of the compensation target for the entire remainder of the term, appropriately discounted for early payment. A member has no claim to that payment if he or she has not served SAP as a member of its Executive Board for at least one year or if he or she leaves SAP AG for reasons for which he or she is responsible.

If an Executive Board member's appointment to the Executive Board expires or ceases to exist because of, or as a consequence of, change or restructuring, or due to a change of control, SAP AG and each Executive Board member has the right to terminate the employment contract within eight weeks of the occurrence by giving six months' notice. A change of control is deemed to occur when a third party is required to make a mandatory takeover offer to the shareholders of SAP AG under the German Securities Acquisition and Takeover Act, when SAP AG merges with another company and becomes the subsumed entity, or when a control or profit transfer agreement is concluded with SAP AG as the dependent company. An Executive Board member's contract can also be terminated before full term if his or her appointment as an SAP AG Executive Board member is revoked in connection with a change of control.

***Postcontractual Non-Compete Provisions***

Abstention compensation for the postcontractual non-compete period as described above is also payable on early contract termination.

***Permanent Disability***

In case of permanent disability, the contract will end at the end of the quarter in which the permanent inability to work was determined. The Executive Board member receives the monthly basic salary for a further 12 months starting from the date the permanent disability is determined.

**Payments to Former Executive Board Members**

In 2012, we paid pension benefits of €1,360,000 to Executive Board members who had retired before January 1, 2012 (2011: €1,346,000). At the end of the year, the PBO for former Executive Board members was €30,551,000 (2011: €25,267,000). Plan assets of €26,054,000 are available to service these obligations (2011: €25,788,000).

## EXECUTIVE BOARD MEMBERS' LONG-TERM INCENTIVES

Members of the Executive Board hold or held throughout the year share-based payment rights under the RSU Milestone Plan 2015 (which was granted in 2012) as well as the SAP SOP 2010, SOP Performance Plan 2009, and SAP SOP 2007 programs (which were granted in previous years). For information about the terms and details of these programs, see the Notes to the Consolidated Financial Statements section, Note (27).

**RSU Milestone Plan 2015**

The table below shows Executive Board members' holdings, on December 31, 2012, of restricted share units issued to them under the RSU Milestone Plan 2015. The plan is a cash-settled long-term incentive scheme with a payout subsequent to a performance period of one year and an additional holding period of three years. The RSU Milestone Plan 2015 consists of four plan tranches to be issued with respect to the calendar years 2012 through 2015.

RSU Milestone Plan 2015

| | Year Granted | Holding on January 1, 2012 | Grants in 2012 | | Units Vested | Forfeited Units | Holding on December 31, 2012 | |
|---|---|---|---|---|---|---|---|---|
| | | Quantity | Quantity | Remaining Term in Years | Quantity of RSUs | Quantity of RSUs | Quantity of RSUs | Remaining Term in Years |
| Bill McDermott (co-CEO) | 2012 | – | 95,414 | 3.98 | 127,425 | – | 127,425 | 3.08 |
| Jim Hagemann Snabe (co-CEO) | 2012 | – | 95,414 | 3.98 | 127,425 | – | 127,425 | 3.08 |
| Dr. Werner Brandt | 2012 | – | 34,226 | 3.98 | 45,709 | – | 45,709 | 3.08 |
| Lars Dalgaard (from April 12, 2012) | 2012 | – | 24,594 | 3.81 | 32,845 | – | 32,845 | 3.08 |
| Luisa Deplazes Delgado (from September 1, 2012) | 2012 | – | 8,332 | 3.42 | 11,127 | – | 11,127 | 3.08 |
| Gerhard Oswald | 2012 | – | 34,226 | 3.98 | 45,709 | – | 45,709 | 3.08 |
| Dr. Vishal Sikka | 2012 | – | 34,226 | 3.98 | 45,709 | – | 45,709 | 3.08 |
| **Total** | | **–** | **326,432** | | **435,950** | **–** | **435,950** | |

The holding on December 31, 2012, reflects the number of RSUs issued in 2012 multiplied by the 133.55% target achievement.

### SAP SOP 2010

The table below shows Executive Board members' holdings, on December 31, 2012, of virtual share options issued to them under the SAP SOP 2010 since its inception. The strike price for an option is 115% of the base price. The issued options have a term of seven years and can only be exercised on specified dates after the vesting period. The options issued in 2010 are exercisable beginning in September 2014 and the options issued in 2011 are exercisable beginning in June 2015.

SAP SOP 2010 Virtual Share Options

| | Year Granted | Strike Price per Option | Holding on January 1, 2012 | | Rights Exercised in 2012 | Price on Exercise Date | Exercisable Rights of Retired Members of the Executive Board | Forfeited Rights | Holding on December 31, 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | € | Quantity of Options | Remaining Term in Years | Quantity of Options | € | Quantity of Options | Quantity of Options | Quantity of Options | Remaining Term in Years |
| Bill McDermott (co-CEO) | 2010 | 40.80 | 135,714 | 5.69 | – | – | – | – | 135,714 | 4.69 |
| | 2011 | 48.33 | 112,426 | 6.44 | – | – | – | – | 112,426 | 5.44 |
| Jim Hagemann Snabe (co-CEO) | 2010 | 40.80 | 135,714 | 5.69 | – | – | – | – | 135,714 | 4.69 |
| | 2011 | 48.33 | 112,426 | 6.44 | – | – | – | – | 112,426 | 5.44 |
| Dr. Werner Brandt | 2010 | 40.80 | 82,428 | 5.69 | – | – | – | – | 82,428 | 4.69 |
| | 2011 | 48.33 | 68,284 | 6.44 | – | – | – | – | 68,284 | 5.44 |
| Gerhard Oswald | 2010 | 40.80 | 82,428 | 5.69 | – | – | – | – | 82,428 | 4.69 |
| | 2011 | 48.33 | 68,284 | 6.44 | – | – | – | – | 68,284 | 5.44 |
| Dr. Vishal Sikka | 2010 | 40.80 | 82,428 | 5.69 | – | – | – | – | 82,428 | 4.69 |
| | 2011 | 48.33 | 68,284 | 6.44 | – | – | – | – | 68,284 | 5.44 |
| **Total** | | | **948,416** | | **–** | **–** | **–** | **–** | **948,416** | |

**SOP Performance Plan 2009**

The table below shows the current Executive Board members' holdings, on December 31, 2012, of virtual share options issued under the SOP Performance Plan 2009.

The strike price for an option varies with the performance of SAP shares over time against the TechPGI index. The gross profit per option is limited to €30.80, corresponding to 110% of the SAP share price on the date of issue.

The issued options have a term of five years and can only be exercised on specified dates after the two-year vesting period. In this case, the options have been exercisable since May 2011.

SOP Performance Plan 2009 Virtual Share Options

| | Year Granted | Strike Price per Option | Holding on January 1, 2012 | | Rights Exercised in 2012 | Price on Exercise Date | Exercisable Rights of Retired Members of the Executive Board | Forfeited Rights | Holding on December 31, 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | € | Quantity of Options | Remaining Term in Years | Quantity of Options | € | Quantity of Options | Quantity of Options | Quantity of Options | Remaining Term in Years |
| Bill McDermott (co-CEO) | 2009 | variable | 102,670 | 2.35 | 102,670 | 60.40 | – | – | – | – |
| Jim Hagemann Snabe (co-CEO) | 2009 | variable | 102,670 | 2.35 | 102,670 | 60.40 | – | – | – | – |
| Dr. Werner Brandt | 2009 | variable | 102,670 | 2.35 | 102,670 | 60.40 | – | – | – | – |
| Gerhard Oswald | 2009 | variable | 102,670 | 2.35 | 102,670 | 60.40 | – | – | – | – |
| Dr. Vishal Sikka [1] | 2009 | variable | 35,588 | 2.35 | 35,588 | 60.40 | – | – | – | – |
| **Total** | | | **446,268** | | **446,268** | | **–** | **–** | **–** | **–** |

[1] The holding was allocated before appointment to the Executive Board in 2010.

The share options had a value of €3.47 per option on their exercise date in 2012.

## SAP SOP 2007

The table below shows Executive Board members' holdings, on December 31, 2012, of virtual share options issued to them under the SAP SOP 2007 plan since its inception, including virtual share options issued to them both during and before their respective membership of the Executive Board.

The strike price for an option is 110% of the base price. The issued options have a term of five years and can only be exercised on specified dates after the two-year vesting period. The options issued in 2007 could be exercised with effect from June 2009, following expiration of the two-year vesting period. The options issued in 2008 have been exercisable since March 2010, following expiration of the two-year vesting period.

## SAP SOP 2007 Virtual Share Options

| | Year Granted | Strike Price per Option | Holding on January 1, 2012 | | Rights Exercised in 2012 | Price on Exercise Date | Exercisable Rights of Retired Members of the Executive Board | Forfeited Rights | Holding on December 31, 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | € | Quantity of Options | Remaining Term in Years | Quantity of Options | € | Quantity of Options | Quantity of Options | Quantity of Options | Remaining Term in Years |
| Dr. Vishal Sikka[1)] | 2008 | 35.96 | 17,571 | 1.18 | 17,571 | 48.43 | – | – | – | – |
| **Total** | | | **17,571** | | **17,571** | | **–** | **–** | **–** | **–** |

[1)] The holding was allocated before appointment to the Executive Board in 2010.

### Total Expense for Share-Based Payment

In the report year and the prior year, total expense for the share-based payment plans of Executive Board members was recorded as follows.

**Total Expense for Share-Based Payment**
€ thousands

| | **2012** | 2011 |
|---|---|---|
| Bill McDermott (co-CEO) | 16,239.0 | 1,053.5 |
| Jim Hagemann Snabe (co-CEO) | 16,239.0 | 1,052.9 |
| Dr. Werner Brandt | 4,998.1 | 621.9 |
| Lars Dalgaard (from April 12, 2012) | 4,239.6 | n.a. |
| Luisa Deplazes Delgado (from September 1, 2012) | 2,795.6 | n.a. |
| Gerhard Oswald | 6,417.0 | 621.9 |
| Dr. Vishal Sikka | 6,500.3 | 652.8 |
| **Total** | **57,428.6** | **4,003.0** |

The expense recognition follows the regulations as set under IFRS 2 "Share-Based Payments". Because the RSU Milestone Plan 2015 tranches for 2013 to 2015 were already allocated at the beginning of 2012, a portion of this expense is already included in the expenses for the financial year 2012, even though these future tranches depend on the achievement of specific financial targets in future periods.

### SHAREHOLDINGS AND TRANSACTIONS OF EXECUTIVE BOARD MEMBERS

No member of the Executive Board holds more than 1% of the ordinary shares of SAP AG. Members of the Executive Board held a total of 35,271 SAP shares on December 31, 2012 (2011: 20,569 shares).

The table below shows transactions by Executive Board members and persons closely associated with them notified to SAP pursuant to the German Securities Trading Act, section 15a, in 2012.

Transactions in SAP Shares

| | Transaction Date | Transaction | Quantity | Unit Price |
|---|---|---|---|---|
| Bill McDermott (co-CEO) | May 23, 2012 | Purchase of ADRs | 3,000 | US$58.0000 |
| | May 24, 2012 | Purchase of ADRs | 1,000 | US$57.5000 |
| Dr. Werner Brandt | May 24, 2012 | Share purchase | 2,300 | €46.3555 |
| Gerhard Oswald | May 24, 2012 | Share purchase | 2,112 | €46.8892 |
| Jim Hagemann Snabe (co-CEO) | May 24, 2012 | Share purchase | 4,290 | €46.7000 |
| Dr. Vishal Sikka | September 11, 2012 | Purchase of ADRs | 2,000 | US$69.3984 |

## EXECUTIVE BOARD: OTHER INFORMATION

We did not grant any compensation advance or credit to, or enter into any commitment for the benefit of, any member of our Executive Board in 2012 or the previous year.

As far as the law permits, SAP AG and its affiliated companies in Germany and elsewhere indemnify and hold harmless their respective directors and officers against and from the claims of third parties. To this end, we maintain directors' and officers' (D&O) group liability insurance. The policy is annual and is renewed from year to year. The insurance covers the personal liability of the insured group for financial loss caused by its managerial acts and omissions. The current D&O policy includes an individual deductible for Executive Board members of SAP AG as required by section 93 (2) of the German Stock Corporation Act.

## COMPENSATION FOR SUPERVISORY BOARD MEMBERS

### Compensation System

Supervisory Board members' compensation is governed by our Articles of Incorporation, section 16. Each member of the Supervisory Board receives, in addition to the reimbursement of his or her expenses, compensation composed of fixed elements and a variable element. The variable element depends on the dividend paid by SAP on its shares.

The fixed element is €100,000 for the chairperson, €70,000 for the deputy chairperson, and €50,000 for other members. For membership of the Audit Committee, Supervisory Board members receive additional fixed annual remuneration of €15,000, and for membership of any other Supervisory Board committee €10,000, provided that the committee concerned has met in the year. The chairperson of the audit committee receives €25,000, and the chairpersons of the other committees receive €20,000. The fixed remuneration is payable after the end of the year.

The variable compensation element is €10,000 for the chairperson, €8,000 for the deputy chairperson, and €6,000 for the other members of the Supervisory Board for each €0.01 by which the dividend distributed per share exceeds €0.40. The variable remuneration is payable after the end of the Annual General Meeting of Shareholders that resolves on the dividend for the relevant year.

However, the aggregate compensation excluding compensation for committee memberships must not exceed €250,000 for the chairperson, €200,000 for the deputy chairperson, and €150,000 for other members of the Supervisory Board.

Any members of the Supervisory Board having served for less than the entire year receive one-twelfth of the annual remuneration for each month of service commenced. This also applies to the increased compensation of the chairperson and the deputy chairperson and to the remuneration for the chairperson and the members of a committee.

### Amount of Compensation

Subject to the resolution on the appropriation of retained earnings by the Annual General Meeting of Shareholders on June 4, 2013, the compensation paid to Supervisory Board members in respect of 2012 will be as set out in the table below.

**Supervisory Board Members' Compensation in 2012**

€ thousands

| | 2012 | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fixed Compensation | Compensation for Committee Work | Variable Compensation | Total | Fixed Compensation | Compensation for Committee Work | Variable Compensation | Total |
| Prof. Dr. h.c. mult. Hasso Plattner (chairperson) | 100.0 | 60.0 | 150.0 | 310.0 | 100.0 | 100.0 | 150.0 | 350.0 |
| Christiane Kuntz-Mayr (deputy chairperson from May 23, 2012) | 67.5 | 10.0 | 128.3 | 205.8 | 50.0 | 10.0 | 100.0 | 160.0 |
| Pekka Ala-Pietilä | 50.0 | 20.0 | 100.0 | 170.0 | 50.0 | 30.0 | 100.0 | 180.0 |
| Thomas Bamberger (until May 23, 2012) | 20.8 | 6.3 | 41.7 | 68.8 | 50.0 | 15.0 | 100.0 | 165.0 |
| Panagiotis Bissiritsas | 50.0 | 24.2 | 100.0 | 174.2 | 50.0 | 20.0 | 100.0 | 170.0 |
| Prof. Anja Feldmann (from May 23, 2012) | 33.3 | 6.7 | 66.7 | 106.7 | n.a. | n.a. | n.a. | n.a. |
| Prof. Dr. Wilhelm Haarmann | 50.0 | 30.0 | 100.0 | 180.0 | 50.0 | 50.0 | 100.0 | 200.0 |
| Margret Klein-Magar (from May 23, 2012) | 33.3 | 6.7 | 66.7 | 106.7 | n.a. | n.a. | n.a. | n.a. |
| Peter Koop (until May 23, 2012) | 20.8 | 4.2 | 41.7 | 66.7 | 50.0 | 20.0 | 100.0 | 170.0 |
| Lars Lamadé (deputy chairperson until May 23, 2012) | 62.5 | 10.0 | 120.8 | 193.3 | 70.0 | 28.3 | 130.0 | 228.3 |
| Bernard Liautaud | 50.0 | 16.7 | 100.0 | 166.7 | 50.0 | 10.0 | 100.0 | 160.0 |
| Dr. Gerhard Maier (until May 23, 2012) | 20.8 | 10.4 | 41.7 | 72.9 | 50.0 | 25.0 | 100.0 | 175.0 |
| Dr. h. c. Hartmut Mehdorn | 50.0 | 10.0 | 100.0 | 160.0 | 50.0 | 10.0 | 100.0 | 160.0 |
| Dr. Hans-Bernd Meier (until May 23, 2012) | 20.8 | 0 | 41.7 | 62.5 | 20.8 | 0 | 41.7 | 62.5 |
| Prof. Dr.-Ing. Dr. h. c. Dr.-Ing. E. h. Joachim Milberg (until May 23, 2012) | 20.8 | 18.8 | 41.7 | 81.3 | 50.0 | 55.0 | 100.0 | 205.0 |
| Dr. Kurt Reiner (from May 23, 2012) | 33.3 | 13.3 | 66.7 | 113.3 | n.a. | n.a. | n.a. | n.a. |
| Mario Rosa-Bian (from May 23, 2012) | 33.3 | 6.7 | 66.7 | 106.7 | n.a. | n.a. | n.a. | n.a. |
| Dr. Erhard Schipporeit | 50.0 | 25.0 | 100.0 | 175.0 | 50.0 | 35.0 | 100.0 | 185.0 |
| Stefan Schulz | 50.0 | 24.2 | 100.0 | 174.2 | 50.0 | 30.0 | 100.0 | 180.0 |
| Inga Wiele (from May 23, 2012) | 33.3 | 16.7 | 66.7 | 116.7 | n.a. | n.a. | n.a. | n.a. |
| Prof. Dr.-Ing. Dr.-Ing. E. h. Klaus Wucherer | 50.0 | 20.0 | 100.0 | 170.0 | 50.0 | 10.0 | 100.0 | 160.0 |
| Compensation for former Supervisory Board Members | n.a. | n.a. | n.a. | n.a. | 33.3 | 16.7 | 66.7 | 116.7 |
| **Total** | **900.8** | **339.6** | **1,740.8** | **2,981.3** | **874.1** | **465.0** | **1,688.3** | **3,027.5** |

In addition, we reimburse to members of the Supervisory Board their expenses and the value-added tax payable on their compensation.

The total compensation of all Supervisory Board members in 2012 for work for SAP excluding compensation relating to the office of Supervisory Board member was € 1,083,500 (2011: €1,688,300). Those amounts are composed entirely of remuneration received by employee representatives on the Supervisory Board relating to their position as SAP employees in 2012 and 2011 respectively.

Supervisory Board member Wilhelm Haarmann is an attorney at the German bar and a partner at HAARMANN Partnerschaftsgesellschaft in Frankfurt am Main, Germany. Wilhelm Haarmann and HAARMANN Partnerschaftsgesellschaft occasionally advise SAP on particular projects, tax matters, and questions of law. In 2012, the fees for such services totaled €9,400 (2011: €358,800).

**LONG-TERM INCENTIVES FOR THE SUPERVISORY BOARD**

We do not offer members share options or other share-based payment for their Supervisory Board work. Any share options or other share-based payment received by employee-elected members relate to their position as SAP employees and not to their work on the Supervisory Board.

**SHAREHOLDINGS AND TRANSACTIONS OF SUPERVISORY BOARD MEMBERS**

Supervisory Board chairperson Hasso Plattner and the companies he controlled held 121,348,807 SAP shares on December 31, 2012 (December 31, 2011: 121,515,102 SAP shares), representing 9.878% (2011: 9.895%) of SAP's share capital. No other member of the Supervisory Board held more than 1% of the SAP AG share capital at the end of 2012 or of the previous year. Members of the Supervisory Board held a total of 121,363,858 SAP shares on December 31, 2012 (December 31, 2011: 121,524,139 SAP shares).

The table below shows transactions by Supervisory Board members and persons closely associated with them notified to SAP pursuant to the German Securities Trading Act, section 15a, in 2012:

**Transactions in SAP Shares**

| | Transaction Date | Transaction | Quantity | Unit Price in € |
|---|---|---|---|---|
| Christiane Kuntz-Mayr | February 15, 2012 | Share sale [1] | 7,700 | 48.6107 |
| Hasso Plattner | November 7, 2012 | Share purchase | 3,029,994 | 57.3400 |
| | November 8, 2012 | Share sale | 3,029,994 | 56.1600 |
| | November 8, 2012 | Share purchase | 3,029,994 | 56.1600 |
| | November 28, 2012 | Share sale | [2] | [2] |

[1] Sale of shares in line with the LTI Plan 2000

[2] The notifying party (Hasso Plattner GmbH & Co. Beteiligungs-KG) concluded a contract with a bank acting as commission agent for the monthly sale of SAP shares with a fair value of €10,000,000 per month. The sale will be carried out at the bank's own discretion in the stock market or over the counter, for the first time in November 2012 and then again in the months January through November 2013. Price: Targeted is the volume-weighted average (stock market) price of the SAP share on the relevant day of sale. No. of items: Total amount traded divided by the relevant sale price of the sold shares.

**SUPERVISORY BOARD: OTHER INFORMATION**

We did not grant any compensation advance or credit to, or enter into any commitment for the benefit of, any member of our Supervisory Board in 2012 or the previous year.

Hasso Plattner, the chairperson of the Supervisory Board, entered into a consulting contract with SAP after he joined the Supervisory Board in May 2003. The contract does not provide for any compensation. The only cost we incurred under the contract was the reimbursement of expenses.

As far as the law permits, we indemnify Supervisory Board members against, and hold them harmless from, claims brought by third parties. To this end, we maintain directors' and officers' group liability insurance. The current D&O policy does not include an individual deductible for Supervisory Board members as envisaged in the German Corporate Governance Code.

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, finances, and operating results of the Group, and the management report of the Group and SAP AG includes a fair review of the development and performance of the business and the position of the Group and SAP AG, together with a description of the principal opportunities and risks associated with the expected development of the Group and SAP AG.

Walldorf, February 21, 2013

SAP AG
Walldorf, Baden
The Executive Board

**Bill McDermott**

**Jim Hagemann Snabe**

**Werner Brandt**

**Lars Dalgaard**

**Luisa Deplazes Delgado**

**Gerhard Oswald**

**Vishal Sikka**

# Independent Auditor’s Report

**TO SAP AG**

**Report on the Consolidated Financial Statements**
We have audited the accompanying consolidated financial statements of SAP AG, Walldorf and its subsidiaries (“SAP” or “the Company”), which comprise the consolidated statement of financial position as of December 31, 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and the notes to the consolidated financial statements for the year then ended.

***Management’s Responsibility for the Consolidated Financial Statements***
Management is responsible for the preparation of consolidated financial statements. This includes the responsibility that the consolidated financial statements give a true and fair view of the Company’s net assets, financial position, and results of operations in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (“EU”), the supplementary provisions of German law to be applied in accordance with the German Commercial Code (Handelsgesetzbuch, “HGB”), section 315a (1), and IFRSs as issued by the International Accounting Standards Board. Management’s responsibility includes maintaining such internal control as management determines necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor’s Responsibility***
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with HGB, section 317, and German generally accepted standards for the audit of consolidated financial statements, promulgated by the Institut der Wirtschaftsprüfer (“IDW”), and in supplementary compliance with International Standards on Auditing and standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement in the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***
In accordance with HGB, section 322 (3) sentence 1, we declare that our audit of the consolidated financial statements has not led to any reservations.

In our opinion, based on our audit, the consolidated financial statements give a true and fair view of the Company’s net assets and financial position as of December 31, 2012; and of its results of operations for the year then ended, in accordance with IFRSs as adopted by the EU, the supplementary provisions of German law to be applied in accordance with HGB, section 315a (1), and IFRSs as issued by the International Accounting Standards Board.

**Report on the Management Report**
We have audited the accompanying combined management report for SAP Group and SAP AG ("management report") for the business year ended December 31, 2012.

***Management's Responsibility for the Management Report***
Management is responsible for the preparation of the management report in accordance with the provisions of German law to be applied in accordance with HGB, section 315a (1), the German Accounting Standards Nos. 17 and 20 (GAS 17, GAS 20) and the provisions of the IFRS Practice Statement Management Commentary.

***Auditor's Responsibility***
Our responsibility is to express an opinion on this management report based on our audit. We conducted our audit of the management report in accordance with HGB, section 317 (2), and German generally accepted standards for the audit of management reports promulgated by the IDW. Those standards require that we plan and perform the audit of the management report in such a way that we obtain reasonable assurance about whether the management report is consistent with the consolidated financial statements and the findings from our audit of the consolidated financial statements and as a whole provides a suitable understanding of the Company's position and suitably presents the opportunities and risks of future development.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***
In accordance with HGB, section 322 (3) sentence 1, we declare that our audit has not led to any reservations.

In our opinion, based on our audit of the consolidated financial statements and the management report, the management report is consistent with the consolidated financial statements and as a whole, provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

**Report on the Effectiveness of Internal Control over Financial Reporting in the Consolidated Financial Statements in accordance with the standards of the Public Company Accounting Oversight Board (United States)**
We have audited SAP's internal control over financial reporting in the consolidated financial statements as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

***Management's Responsibility for Internal Control***
Management is responsible for maintaining effective internal control over financial reporting in the consolidated financial statements, and for the assessment of its effectiveness, as included in the accompanying Management's Annual Report on Internal Control over Financial Reporting in the Consolidated Financial Statements.

A company's internal control over financial reporting in the consolidated financial statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting in the consolidated financial statements includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting in the consolidated financial statements may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

***Auditor's Responsibility***

Our responsibility is to express an opinion on SAP's internal control over financial reporting in the consolidated financial statements based on our audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting in the consolidated financial statements was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting in the consolidated financial statements, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, SAP maintained, in all material respects, effective internal control over financial reporting in the consolidated financial statements as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by COSO.

Mannheim, February 21, 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| **Dr. Gutsche** | **Meurer** |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

# $5 TRILLION

SAP SOLUTIONS FOR PRODUCT SAFETY TOUCH $5 TRILLION OF ALL MANUFACTURED GOODS

# 55 Combined Management Report

# General Information About This Management Report

**FORWARD-LOOKING STATEMENTS**

This management 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, many of which are beyond our control. 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. We describe these risks and uncertainties in the Risk Factors section.

The words "aim," "anticipate," "assume," "believe," "continue," "could," "counting on," "is confident," "estimate," "expect," "forecast," "guidance," "intend," "may," "might," "outlook," "plan," "project," "predict," "seek," "should," "strategy," "want," "will," "would," and similar expressions as they relate to us are intended to identify such forward-looking statements. Such statements include, for example, those made in the Operating Results section, our quantitative and qualitative disclosures about market risk pursuant to the International Financial Reporting Standards (IFRS), namely IFRS 7 and related statements in our Notes to the Consolidated Financial Statements, the Risk Report, our outlook guidance, and other forward-looking information appearing in other parts of this report. To fully consider the factors that could affect our future financial results, both this report and our Annual Report on Form 20-F 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.

**BASIS OF PRESENTATION**

This management report by SAP AG and its subsidiaries (collectively, "we," "us," "our," "SAP," "Group," or "Company") has been prepared in accordance with sections 315 and 315a of the German Commercial Code and German Accounting Standards No. 17 and 20. The management report is also a management commentary complying with the International Financial Reporting Standards (IFRS) Practice Statement Management Commentary.

All of the information in this report relates to the situation on December 31, 2012, or the fiscal year ended on that date, unless otherwise stated.

The report contains references to additional information in other parts of the SAP Integrated Report that is available online. This additional information is not part of the management report.

# Vision, Mission, and Strategy

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

**HELPING THE WORLD RUN BETTER**

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

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

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

**OUR VISION AND MISSION**

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

**OUR GOAL: SUSTAINED BUSINESS SUCCESS**

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

**OUR STRATEGY: INNOVATIVE SOLUTIONS FOR REAL-TIME BUSINESS**

SAP seeks to secure the growth of the company primarily through organic innovation of our portfolio product and solutions, focusing on market-leading innovation in five market categories – Applications, Analytics, Cloud, Mobile, and Database and Technology – powered by SAP HANA®. We intend to increase SAP's market leadership in the existing market categories of applications, analytics, and mobile, and to position SAP as a market leader in the new categories of cloud and database and technology. Our SAP HANA platform allows our customers to take advantage of real-time in-memory technology across all five market categories. Expanding our partner network offers additional opportunities to develop innovative products and solutions and significantly increases our potential sales channels. Our growth strategy is also supported by mergers and acquisitions to accelerate our innovation strategy.

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

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

# Business Activity and Organization

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

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

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

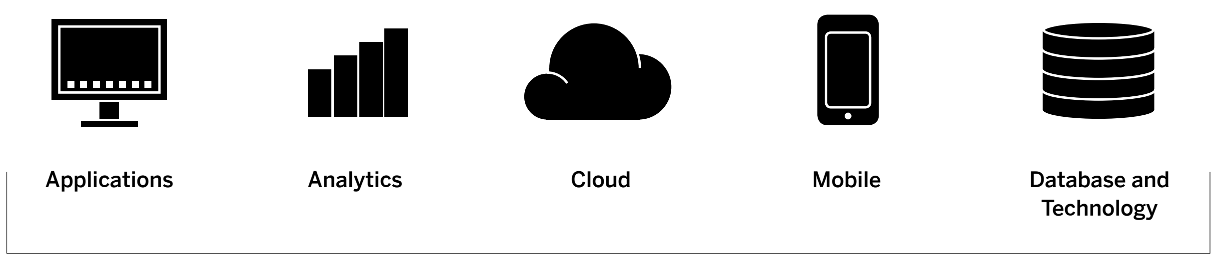
As of December 31, 2012, SAP AG controlled directly or indirectly 267 subsidiaries. Our subsidiaries perform various tasks on a local basis such as providing sales and marketing, consulting, research and development, customer support, training, and administration.

For a complete list of subsidiaries, associates, and other equity investments, see the Notes to the Consolidated Financial Statements section, Note (34).

# Portfolio of Products, Solutions, and Services

**INNOVATIVE SOLUTIONS FOR REAL-TIME BUSINESS**
SAP's products and services are packaged into end-to-end solutions that include innovations from five market categories. These solutions aim to help customers run better by addressing complex business problems or opportunities and helping customers gain a competitive advantage in an ever changing world.

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




## Powered by SAP HANA

**Deliver the highest customer value through innovation without disruption**

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

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

The core software applications of SAP Business Suite are described below:
- The **SAP ERP** application supports critical business processes, such as finance and human capital management.
- The **SAP Customer Relationship Management (SAP CRM)** application improves streamlined interaction with customers with integrated social media and mobile device support.
- The **SAP Product Lifecycle Management (SAP PLM)** application manages the product and asset lifecycle across the extended supply chain, freeing the product innovation process from organizational constraints.
- The **SAP Supplier Relationship Management (SAP SRM)** application supports key procurement activities.
- The **SAP Supply Chain Management (SAP SCM)** application helps adapt company-specific supply chain processes to the rapidly changing competitive environment.

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

**Analytics**
Analytics solutions from SAP enable decision makers at all levels of the business to have a more profound impact on their organizations, and include the following categories:
– **SAP BusinessObjects™ business intelligence (BI) solutions** enable users to interact with business information and obtain answers to ad hoc questions without advanced knowledge of the underlying data sources.
– **SAP solutions for enterprise performance management (EPM)** help companies improve performance, organizational agility, and decision making.
– **SAP solutions for governance, risk, and compliance (GRC)** provide organizations with a real-time approach to managing governance, risk, and compliance across heterogeneous environments.
– **Applied analytics solutions** address challenges in specific industries and lines of business.
– **Edge solutions for small and midsize enterprises** are editions of business intelligence and enterprise performance management solutions for growing midsize companies.
– **SAP Crystal solutions** are business intelligence solutions designed for small businesses, addressing essential BI requirements.

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

Our mobile solutions include:
– **SAP Mobile Platform (includes Sybase® Unwired Platform):** Provides the tools needed to support mobile initiatives across an enterprise. It provides a development platform (SDK) that is consistent, but adaptable, enabling customers to develop apps for various mobile devices deployed.
– **SAP Afaria:** Enables companies to better manage and secure all critical data on, and transmitted by, mobile devices.
– **Sybase 365:** Interoperability services that simplify the deployment and delivery of interoperator messaging over incompatible networks, protocol stacks, and handsets among mobile operators worldwide.
– Additionally, SAP is innovating **consumer-facing applications** that help improve people's lives. These innovations include the Care Circles mobile app to improve how patients, health-care providers, and family members optimize treatment strategies; the Recalls Plus mobile app to help parents monitor recalls on children's items via social media; the Charitable Transformation (ChariTra) online network to match volunteers with people and organizations in need for their time, skills, or resources; and the TwoGo by SAP service that connects people so they can share rides and carpool together.

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

**Our cloud applications** and suites are delivered as software-as-a-service (SaaS), in which customers pay a subscription fee to use our software. Our cloud offerings are designed to optimize a company's most critical assets:
– **People:** The SuccessFactors Business Execution (BizX) suite enables companies to align employee performance with overall corporate objectives.

– **Money:** SAP Financials OnDemand and SAP Travel OnDemand solutions manage key financial processes.
– **Customers:** A suite of applications that manages all aspects of customer interaction – sales, service, marketing – while employing next-generation social capabilities.
– **Suppliers:** The offering includes solutions for end-to-end strategic sourcing and procurement processes to enable efficient purchasing decisions.
– **Suites: SAP Business ByDesign®** and the **SAP Business One OnDemand** solution provide a full cloud suite for subsidiaries and small business, respectively.

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

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

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

The portfolio includes:
– **SAP HANA:** Deployable on-premise or in the cloud, SAP HANA combines an in-memory database with an in-memory application server running on in-memory optimized hardware appliances. At the foundation of this product portfolio is SAP HANA, an in-memory computing technology that simplifies and streamlines complex and expensive IT architectures. SAP HANA helps customers process massive amounts of data, and delivers information at unprecedented speeds. SAP HANA is an open platform, adaptable and extensible, enabling customers to create previously unimaginable applications and to rethink and envision new ways to run their businesses. Furthermore, SAP HANA is a platform for applications developed by SAP ecosystem and partners.
– **SAP NetWeaver®:** Technology platform that integrates information and business processes across technologies and organizations. SAP NetWeaver facilitates the easy integration of SAP software with heterogeneous system environments, third-party solutions, and external business partners.
– **SAP NetWeaver Business Warehouse:** Data warehouse that provides a complete view of a company and the tools needed to make the right decisions, optimize processes, and measure strategic success
– **SAP Sybase IQ:** Analytics server designed specifically for advanced analytics, data warehousing, and BI environments
– **SAP Sybase Event Stream Processor (SAP Sybase ESP):** High-performance, complex event processing engine designed to analyze streams of business event information in real time and used to create strategic advantage in low-latency applications for financial trading, smart grids, and telecommunications
– **SAP Sybase Adaptive Server® Enterprise (SAP Sybase ASE):** High-performance relational database management system for mission-critical, data-intensive transactional environments. It is optimized for use with SAP Business Suite.

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

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

## SOLUTIONS

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

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

### Solutions for Lines of Business

Our line-of-business solutions are relevant across all industries, and include the following 11 lines of business:
– Marketing
– Sales
– Customer service
– Procurement
– Supply chain management
– Manufacturing
– R & D and engineering
– Information technology
– Finance and controlling
– Human resources
– Corporate strategy and sustainability

### Solutions for Industries

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

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

### SAP Rapid Deployment Solutions

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

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

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

For more information about SAP's portfolio of products, visit www.sap.com/solutions.

For more information related specifically to our solutions for sustainability, see the Solutions for Energy and Sustainable Operations section in the SAP Integrated Report online.

**SAP SERVICES**
SAP Services helps our customers maximize the value of their SAP investments by offering higher value realization, faster adoption of innovation, and higher efficiency in the implementation of our solutions. SAP Services covers the entire end-to-end application lifecycle, from a tight integration with our development organization, to accelerating innovation and continuous improvement of our software solutions, to complete risk and quality management of a customer's current installations.

**Software-Related Services**

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

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

- **SAP Enterprise Support:** Our premier maintenance and support offering. Extending far beyond everyday technical support, this offering is designed as a strategic, long-term partnership with our customers – one that focuses on helping them succeed today and in the future.
- **SAP Standard Support:** Our basic support offering, delivering knowledge, tools, and functions that help customers implement, maintain, and enhance their SAP solutions

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

– **SAP MaxAttention™:** Highest level of engagement offered by our support organization, and a strategic engagement for continuous business and co-innovation with customers. SAP MaxAttention also provides support with custom solutions, specialized solution architectures, and engineering expertise.
– **SAP ActiveEmbedded:** Enhanced engagement services for optimizing solutions and accelerating adoption of technologies (including SAP HANA and mobile solutions) without disrupting customer businesses

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

**Professional Services**

***Consulting Services***

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

– **Business transformation services**, such as executive advisory services, value partnerships, and business process and platform services
– **IT transformation services** that seek to reduce customer TCO with tangible business value accompanied by reduced effort and costs
– **Next-generation services** that provide specific expertise on the implementation and use of SAP HANA, mobile, analytics, and database and technology solutions. In total, we have more than 1,500 SAP HANA-trained consultants.
– **Performance and insight optimization services** that provide analysis and modeling of business challenges to introduce innovative business processes
– **Business applications services** that provide highly engineered solutions to our customers' application and analytics needs
– **Project and program management and risk management**, as well as **quality assurance services** across the solution landscape, which include optimizing solutions following merger and acquisition activities or divestiture of business units
– **Rapid-deployment solutions and engineered services** provide predefined outcomes services that speed the time to value for our customers.

***Education Services***

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

For more information about SAP Services, visit www.sap.com/services-and-support.

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

# Sales, Marketing, and Distribution

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

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

We establish partnerships with hardware and software suppliers, systems integrators, and third-party consultants with the goal of providing customers with a wide selection of third-party competencies. The role of the partner ranges from presales consulting for business solutions to the implementation of our software products to project management and end user training for customers and, in the case of certain hardware and software suppliers, to technology support. Beyond these partnerships, a significant amount of consulting and training regarding SAP solutions is handled by third-party organizations that have no formal relationship or partnership with SAP.

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

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

# Customers

Our mission at SAP is to help every customer become a best-run business. With this objective, SAP constantly engages customers not only in the implementation of our products and solutions but in best-practice sharing and co-innovation initiatives. Moreover, we regularly measure customer satisfaction and loyalty through a variety of surveys and measurements.

The Customer Engagement Initiative provides early insight into SAP product plans, allowing our customers to influence and collaborate throughout the SAP product development cycle. The program also facilitates customer networking on specific topics of interest and focus. SAP regularly sponsors a variety of global events to support industry and best-practice sharing including SAPPHIRE® NOW and SAP TechEd conferences and virtual events.

To help SAP improve insight into our customers' view of SAP, in 2012, we began measuring our Net Promoter Score (NPS), a metric that gives a more complete picture of customer loyalty as it answers the question of how likely our customers would be to recommend SAP. In 2012, we achieved a score of 8.9%. We aim to increase this score by eight percentage points in 2013. For more information about how we measure customer loyalty, see the Customer Success section of the SAP Integrated Report online.

Our strategy focuses on offering products and solutions to help solve customers' problems today and tomorrow. In many cases, that means solutions that are lean, focused, quick to implement, and highly mobile. In 2012, our offerings met with strong demand: We saw customers embrace this strategy by licensing the full range of SAP applications – from large enterprise solutions to the latest mobile apps.

Some examples by region include the following:

**EUROPE, MIDDLE EAST, AND AFRICA (EMEA) REGION**

– Hilti, a Liechtenstein-based leader in the global construction industry, chose SAP Business ByDesign to drive greater transparency at its smaller subsidiaries in more than 30 countries.
– Portugal Telecom, a leading European information communications and technology provider that is leading a cloud transformation in the markets in which it operates, wants to leverage SAP HANA to drive its innovation strategy in the enterprise segment. Portugal Telecom is a long-standing SAP customer and a strategic partner and expects to leverage SAP HANA both internally to drive real-time decision making and externally by offering cloud SAP HANA services to its enterprise customers.
– KAESER KOMPRESSOREN AG, a leading supplier of compressed air system technology and related equipment in Europe, selected SAP NetWeaver Business Warehouse powered by SAP HANA to dramatically improve the speed of their operational analytics. With SAP NetWeaver BW running on SAP HANA, Kaeser wants to analyze large amounts of data quickly to optimize customer service, production planning, and operational reporting across its organization.
– Fressnapf, one of Europe's largest pet food company, selected SAP as its strategic partner for retail solutions. SAP solutions have retail functionality that offers multi-channel retailing and optimizes end-to-end business processes. Additionally with SAP, Fressnapf expects to streamline its IT portfolio and harmonize its IT landscape.
– VELUX, one of the world's largest manufacturers of roof windows, expects to realize the power of SAP HANA and the SAP Business Planning and Consolidation application by embarking on a new global planning project, Business Performance. VELUX wants to abandon budgets and move towards a rolling target-setting process. SAP HANA will also form the new basis for the global SAP BusinessObjects Business Intelligence platform, helping VELUX respond to changes much faster and with more agility. This project is using SAP Predictive Analysis software to optimize the VELUX window guarantee and the associated provisions and cash flow.

**AMERICAS REGION**

– Sysco, a US$40 billion food distributor in the United States, turned to SAP to help solve two major challenges, and to improve productivity and customer service. Sysco plans to utilize SAP HANA for real-time reporting across mass volumes of data, providing marketing associates and executives insight into the customer's daily orders prior to delivery. Sysco will also leverage SAP Mobile Platform to deliver mobile apps to internal employees and external customers.
– The Great Atlantic & Pacific Tea Company (A&P), a large grocery store company in the United States, chose SAP Forecasting and Replenishment for Retail package as the foundation for its retail automation and computer-generated autoreplenishment.
– TransCanada, a leading energy infrastructure company, licensed SAP ERP, analytics, SAP HANA, Sybase, and Syclo applications to foster growth while promoting safe and reliable operations.
– Aqualectra, a water and electricity utility located in Curaçao, invested in SAP innovations such as SAP for Utilities, SAP HANA, SAP rapid-deployment solutions, and SAP mobile technologies. These solutions will provide the company with a single point of integrated, trusted information that will enable Aqualectra to actively manage its business via mobile devices.

**ASIA PACIFIC JAPAN (APJ) REGION**

– USHA, a consumer durable products company based in India, has implemented SAP NetWeaver BW powered by SAP HANA. The solution will help USHA dramatically reduce the load time for data, resulting in faster analysis of business-critical metrics.
– Mengniu Group, a leading dairy company located in China, selected SAP ERP, SAP CRM, and analytics solutions from SAP. The company plans to use the solutions to streamline operational processes and enhance its end-to-end quality control system.

**SAP FINANCING SERVICE FOR SAP SOFTWARE AND SOLUTIONS**

To help companies invest in SAP solutions and the associated services and hardware, SAP Financing service partners with leading global financiers specialized in IT financing to offer a financing solution for SAP customers. Since its inception, it has become a firmly established SAP Services offering for SAP customers in all customer segments – small businesses, midsize companies, and large enterprises. To give customers flexibility to choose among potential economic benefits, the plan offers all of the popular financing models with their different advantages: It can help conserve liquidity and it provides an alternative to credit from their existing banking relationships.

# Research and Development

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

## RESEARCH

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

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

Contributing to talent development at SAP, SAP Global Research runs its own doctoral program, which is attracting top candidates who wish to work on their dissertations in a real-world business context. Following graduation, individuals with PhDs have the opportunity to work in academia or within SAP. This program has resulted in a number of new patents for our company.

### Co-Innovation and Living Labs

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

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

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

### Initiatives and Results

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

– **SAP Precision Retailing:** This cloud-based solution enables companies to influence consumer shopping behavior at the moment of decision by delivering individually personalized offers in real-time across multiple channels.
– **SAP Screen Personas:** This solution offers a new approach to personalizing classic SAP screens to create a consumer-grade user experience. It allows IT professionals and business users to simplify business application screens quickly and easily. SAP Screen Personas enable customers without programming skills or ABAP® knowledge to improve the visual appeal, user productivity, and performance of SAP applications.
– **Smart Port Logistics:** Based on strong co-innovation with Hamburg Port Authority and Deutsche Telekom, this pilot project has resulted in a comprehensive IT platform designed to optimize both traffic and logistics in the Hamburg harbor. The Smart Port Logistics platform, based on cloud solutions, connects port-based companies, partners, and customers more closely. In addition, it incorporates mobile apps so that traffic information and port-related services may be accessed from mobile devices such as tablets and smartphones.

## DEVELOPMENT

### Global Development, Local Focus

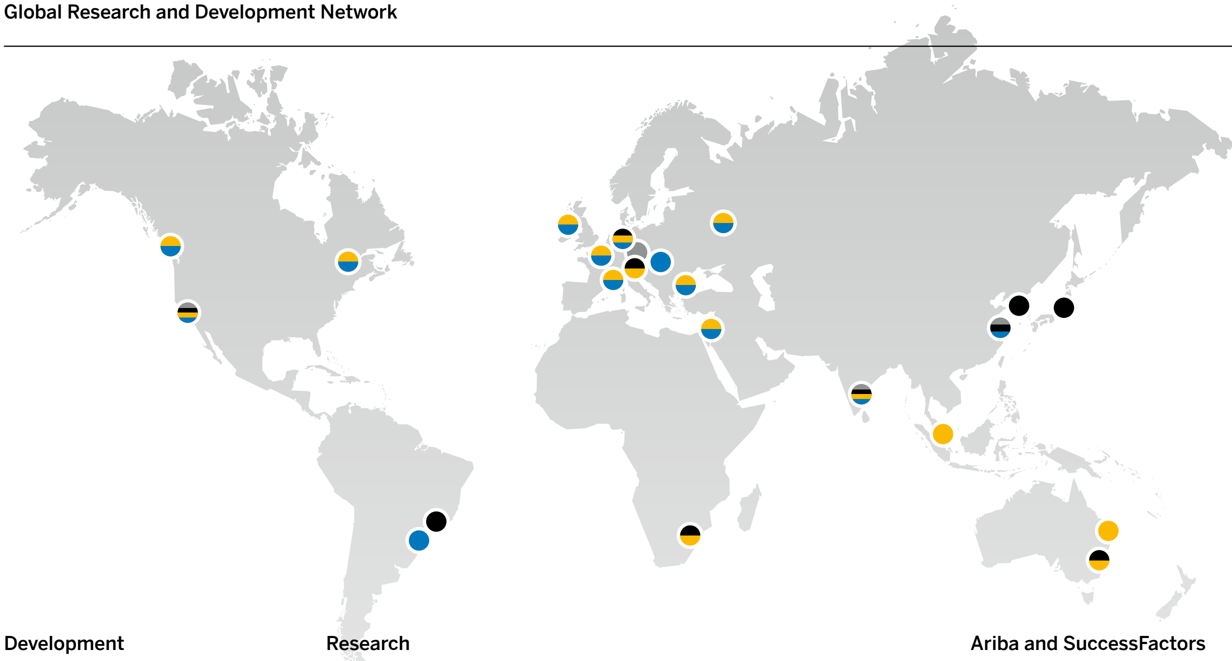
Most of SAP's development personnel are located in one of 14 SAP Labs located in 12 countries across the world. Each lab consists of main locations that coordinate the activities of the smaller locations within the region. SAP Labs are situated in the major technology hubs in the world, providing SAP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

In 2012, SAP focused on further using design thinking techniques as an iterative innovation approach that focuses on the customer and supports the project teams during the development process. Design thinking complements the lean methodology by offering frameworks for collaboration and innovation. As a result, SAP continues to reduce development complexity and improve the development-to-market time for new products (from 13.8 months in 2010 to 7.8 months in 2012). During the development cycles, teams are in constant contact with customers through programs and special events, as well as through customer interactions at our Executive Briefing Centers. Customers come to the centers to talk directly with SAP's technology leaders and experts, who, in turn, learn how to better serve the needs of our customers.

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

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

## Global Research and Development Network



### Development

SAP Labs Main Locations

- **Bangalore** INDIA
- **Budapest** HUNGARY
- **Dublin & Galway** IRELAND
- **Montréal & Vancouver** CANADA
- **Markdorf** GERMANY
- **Paris** FRANCE
- **Ra'anana** ISRAEL
- **São Leopoldo** BRAZIL
- **Shanghai** CHINA
- **Silicon Valley** USA
- **Skolkovo (Moscow)** RUSSIA
- **Sofia** BULGARIA
- **Sophia Antipolis** FRANCE
- **Walldorf & St. Leon-Rot** GERMANY

### Research

SAP Research Locations

- **Bangalore** INDIA
- **Belfast** UK
- **Brisbane** AUSTRALIA
- **Darmstadt** GERMANY
- **Dresden** GERMANY
- **Dublin** IRELAND
- **Karlsruhe** GERMANY
- **Montréal** CANADA
- **Palo Alto** USA
- **Paris** FRANCE
- **Pretoria** SOUTH AFRICA
- **Ra'anana** ISRAEL
- **Singapore** SINGAPORE
- **Skolkovo (Moscow)** RUSSIA
- **Sofia** BULGARIA
- **Sophia Antipolis** FRANCE
- **St. Gallen** SWITZERLAND
- **Sydney** AUSTRALIA
- **Vancouver** CANADA
- **Walldorf** GERMANY
- **Zurich** SWITZERLAND

Co-Innovation and Living Labs

- **Bangalore** INDIA
- **Darmstadt** GERMANY
- **Dresden** GERMANY
- **Karlsruhe** GERMANY
- **Palo Alto** USA
- **Pretoria** SOUTH AFRICA
- **São Paulo** BRAZIL
- **Seoul** SOUTH KOREA
- **Shanghai** CHINA
- **Sydney** AUSTRALIA
- **Tokyo** JAPAN
- **Walldorf** GERMANY
- **Zurich** SWITZERLAND

### Ariba and SuccessFactors

Ariba Locations

- **Bangalore** INDIA
- **Prague** CZECH REPUBLIC
- **Sunnyvale** USA

SuccessFactors Locations

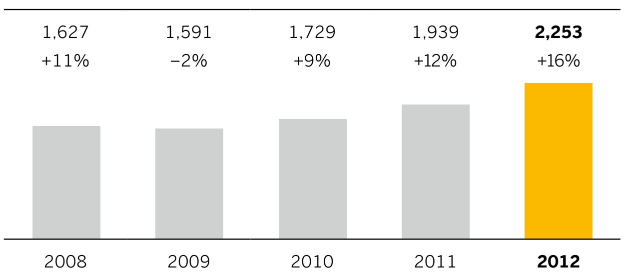
- **Bangalore** INDIA
- **Shanghai** CHINA
- **South San Francisco** USA

## RESEARCH AND DEVELOPMENT EXPENDITURE

SAP's strong commitment to research and development (R & D) is also reflected in our expenditures: In 2012, we increased our R & D expense (IFRS) by €314 million, or 16%, to €2,253 million (2011: €1,939 million). We spent 13.9% of total revenue on R & D in 2012 (2011: 13.6%). Our non-IFRS R & D expense as a portion of total operating expenses declined slightly from 19.9% to 19.2% year on year, which demonstrates an increase in our efficiency.

**Research and Development (IFRS)**

€ millions | change since previous year




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

## PATENTS

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

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

# Partner Ecosystem

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

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

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

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

– **Applications:** SAP is now reselling the SAP IT Process Automation application by Cisco, which helps keep IT system outages to a minimum. We also offer the SAP Convergent Mediation application by DigitalRoute, which supports key use cases for telecom, high-tech, banking, postal, and logistics companies around the globe.
– **Analytics:** The SAP PartnerEdge® authorized reseller program helps resellers accelerate profitability with select SAP BusinessObjects BI solutions, specifically designed for small and midsize enterprises. The program was introduced in the Asia-Pacific region, with ACA Pacific and China National Software & Service Co. Ltd. as the first distributors to join. The program is being made available to distributors and resellers on a global basis in a phased approach.
– **Cloud:** With the acquisition of SuccessFactors and Ariba, SAP broadened its cloud portfolio and now supports an additional 20 million users. Through the acquisition of Ariba, SAP expects to deliver comprehensive, end-to-end cloud procurement solution, becoming a leader in the fast-growing segment of interenterprise, cloud-based business networks. Additionally, SAP is teaming up with companies such as Amazon Web Services, CloudShare, Dell, HP, Korea Telecom, Microsoft, Portugal Telecom, and Verizon to deliver enterprise solutions in the cloud.
– **Mobile:** In 2012, SAP offered value-added resellers (VARs) the opportunity to sell mobile apps for development, device management, and security. Highlights include partnering with IT services providers Accenture, Capgemini, Fujitsu, and IBM GTS, and telecommunication providers Deutsche Telekom, Rogers Communications, and Verizon. In addition, SAP introduced a free mobile developer license and additional support for integrating SAP Mobile Platform with software development frameworks from Adobe, Appcelerator Titanium, and Sencha. SAP also announced plans to deliver mobile apps for Microsoft Windows 8, bringing new innovations to SAP customers.
– **Database and Technology:** SAP HANA continues to gain strong adoption within our partner ecosystem, across all partner types. For example, more than 4,000 partner consultants have been trained on SAP HANA and more than 100 independent software vendors (ISVs) and partners have started to develop and deliver their own solutions on SAP HANA. In addition, the SAP Startup Focus Program was launched in 2012 for start-ups to spur innovation on the SAP HANA platform. The world's leading technology vendors have certified their solutions to run SAP HANA. These include Dell, Cisco, EMC, Fujitsu, HP, Hitachi, Huawei, IBM, and NEC.

**COLLABORATION AND STRUCTURE**

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

– **SAP PartnerEdge:** In 2012, SAP launched www.sappartneredge.com, a partner-only Web site that consolidates all the resources partners need to build, sell, and implement all SAP solutions in one secure, dedicated site. Currently, more than 60,000 people use the site each month.
– **SAP Community Network:** With more than two million members in more than 230 countries, SAP Community Network is where customers, partners, employees, and experts go to collaborate and exchange news.
– **SAP Store:** SAP's online e-commerce channel offers nearly 2,000 solutions, of which 1,500 are from partners. SAP Store offers customers access to information and insights, as well as the option to try applications before purchasing them.

# Acquisitions

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

**CLOUD ACQUISITIONS**

- In February, we completed the acquisition of SuccessFactors Inc., which delivers innovative solutions, content and analytics, process expertise, and best-practices knowledge to drive business alignment, team execution, people performance, and learning management to organizations of all sizes across various industries.
- In October, we acquired Ariba, Inc., which combines industry-leading cloud-based applications with the world's largest Web-based trading community. Through this acquisition, SAP expects to deliver an industry-leading, end-to-end cloud procurement solution and become a leader in the fast-growing segment of interenterprise, cloud-based business networks. SAP customers can now connect to their trading partners anywhere, at any time, from any application or device – so they can buy, sell, and manage their cash more efficiently and effectively than ever before.

**OTHER ACQUISITIONS**

- In February, we acquired software and relevant assets from datango AG, a leading provider of workforce performance support software. This acquisition broadens the SAP software portfolio in the education market, providing customers with powerful, easy-to-use software tools to help address their end-to-end user training, knowledge management, and performance support challenges. Together, SAP and datango plan to capitalize on a trend in education software toward creating applications that contain tools for authors, such as e-collaboration, along with self-help scenarios and auto-teaching functions.
- In June, we acquired Syclo, L.L.C., a provider of enterprise mobile apps and technologies. The addition of Syclo's expertise in building and selling mobile solutions in industries such as utilities, oil and gas, life sciences, and manufacturing enhances SAP mobile solutions. It also accelerates the adoption and deployment of new mobile asset management and field service solutions on SAP Mobile Platform. Syclo offers mobile apps that help companies extend business systems to a wide range of mobile devices and users.

**VENTURE ACTIVITIES**

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

# Employees and Social Investment

Our vision to help the world run better and improve people's lives relies on the power of human thinking, inspiration, and creativity. For this reason, nothing is more critical to the long-term success of SAP and our customers than our people. They spark our innovation, deliver value to our customers, and drive our sustainable growth and profitability.

How we manage employees is even more critical now than in the past, as we have identified several trends that will significantly change the way organizations approach human resources. Demographic change will raise both short-term and long-term challenges related to an aging workforce and a potential shortage of skills, particularly in mature markets. We also see a change in the values and expectations of the labor market. Supported by technological innovation, the boundaries between private and business life are blurring, especially for knowledge workers. Younger generations have a stronger expectation of finding a purpose in their business life and seek to bring their work and private lives into balance.

The links between our financial performance and our ability to attract and retain top talent are so strong that we believe it is impossible to separate these two realms of our business. This belief guides a wide range of programs and initiatives throughout SAP. In 2012, we continued to make progress with our people strategy, which we introduced in 2010 to set us apart in vital areas such as leadership development, career advancement, workforce diversity, and human resources processes. These areas drive our employees to be at their very best. This high level of performance is essential if we are to realize our ambitious growth strategy and further enhance our ability to innovate.

**RECRUITING TALENT TO FULFILL OUR VISION**

We view the recruitment of top talent as an important competitive advantage. As our business evolves and changes, so must our workforce. That is why SAP continues to recruit a diverse group of employees who have both the professional skills and the cross-cultural competence to meet the needs of our global customer base and implement our business strategy. In 2012, our innovative recruitment campaigns helped us attract talented new employees in virtually every geographic region, with a particular focus on emerging markets such as Brazil and China. We continue to focus on being a globally recognized employer of choice by emphasizing our career development opportunities as well as SAP's purpose.

**NURTURING TALENT AND LEADERSHIP**

We strive to provide our employees and managers with a culture of continuous learning and development. SAP invests in and actively encourages talent development through challenging work assignments, coaching, collaboration with peers, e-learning courses, social media, and other offerings. We increasingly seek to tailor such offerings to each individual employee so that they can progress on their own unique career path. In 2012, we continued to provide a comprehensive suite of leadership programs to all levels of management including 360-degree reviews, a special assessment process for managers reporting directly to the Executive Board, peer and executive coaching, as well as specialized classroom instruction tailored to new or experienced leaders. Talent and leadership development also supports our ambitious employee engagement goals and fosters our culture of innovation.

**ENGAGING EMPLOYEES**

Employee engagement is directly linked to our ability to innovate and deliver customer value. Engaged employees are more inspired to develop new ideas and have the drive to bring them to fruition. In other words, they turn innovation from a buzzword into a reality. In addition, they feel a deeper connection to SAP's purpose and take greater ownership of meeting our strategic objectives. They are expressly supporting us in reaching our goals, whether related to customer success, our growth, our margin, the reduction of our carbon footprint, or successfully bringing a new product to market.

Research has found that organizations with engaged employees enjoy higher employee retention, greater customer loyalty, and stronger financial results. We view employee engagement as so linked to our success that we have made it one of our four company-wide strategic objectives, in addition to customer success, margin, and growth.

With the significant drop of our employee engagement score from 82% in 2006 to 69% in 2009 and 68% in 2010, we saw the immediate need to make improving a top business priority so that we could meet our ambitious growth goals. Our goal has been to return to an engagement score of 82% by 2015.

In our 2012 employee "pulse check" (which surveys 50% of our employees, compared to the 100% that we survey every second year), our overall employee engagement score increased to 79%. This was higher than our 2011 results (77%), as well as a "global norm" that is calculated as a general point of comparison by our survey provider. Eighty-nine percent of our employees said they are proud to work at SAP (88% in 2011), and 87% said they believe strongly in our strategy and goals (same level as in 2011). The survey results also indicate that sustainability is now viewed by 91% of employees as central to our purpose (88% in 2011).

**RETAINING TALENT**

The success of our people strategy is reflected in our retention rate, which has a direct and profound impact on our bottom line and overall success. In 2012, we conducted an analysis which showed that for each percentage point that our retention rate goes up or down, the impact on our operating profit is approximately €62 million. This finding underscores the degree to which our management of talent correlates with our financial performance.

In 2012, the employee retention rate at SAP worldwide was 94% (2011: 93%). We define "retention" as the ratio of the average headcount (expressed in full-time equivalents) minus employee-initiated terminations (turnover) divided by the average headcount. In 2012, the average length of service at SAP worldwide was approximately 6.8 years (2011: 6.7 years).

We do not believe that a general retention rate of 100% would be the right target for SAP, as some turnover of talent is beneficial for our ability to innovate. However, maintaining a high retention rate is a priority, and our efforts to do so overlap with our focus on employee engagement and career development. We will focus particular attention on highly competitive job markets such as Brazil and China.

**EXPANDING EMPLOYEE OWNERSHIP**

In 2012, SAP implemented new share-based payments which significantly increased the way in which our employees and management share in the company's success. As a result, our compensation mix more strongly rewards participants for their contributions to achieving our 2015 goals.

The new Employee Participation Plan (EPP) 2015 is a multiyear cash-based share plan that is offered to all SAP employees except members of the Executive Board and the senior leadership team. The plan creates a common financial incentive and reward for achieving the yearly milestones of our 2015 goals. Its formula is based on an individual's base salary, our target achievement, and SAP's share price prior to the day of payment.

The new EPP is offered to employees in addition to the existing Share Matching Plan (SMP) and Stock Option plan. Under the SMP 2012, eligible employees were invited to purchase SAP AG shares at a discount of 40%. After a holding period of three years, employees will receive five SAP shares free of charge for every three shares held, as compared to receiving one extra share in previous years. This special one-time enhancement was made in honor of our 40th anniversary.

The SAP Stock Option Plan 2010 (SOP 2010) targets top executives and top performers for an allocation of stock options, for the third year. Altogether, 9,253 employees were granted options in 2012.

As a result, we recorded an expense of €522 million from SAP's share-based payments in 2012, compared to €68 million in 2011. A large portion of this expense is a result of the new EPP. A detailed description of share-based payments is included in Note (27) of our Notes to the Consolidated Financial Statements.

SAP expects to grant rights to employees under this plan in the amount of €500 million through 2015. The final payout might differ from this budget. In March 2013, we expect to pay out €210 million based on a budgeted amount granted of €125 million.

**DRIVING INNOVATION THROUGH DIVERSITY**

To SAP, diversity is an inherent part of our business strategy. Having a diverse workforce enables us to better understand customer challenges, come up with innovative solutions, and stay competitive in a global economy. To attract and retain top talent, we must find diverse sources of employees throughout the world.

Our corporate culture reflects that of the world in which we operate, with diversity in nationality, culture, race, ethnicity, age, gender, sexual orientation, gender identity, as well as mental and physical ability.

At SAP, we value all types of diversity. In order to drive further development of our female employees, we set a tangible goal regarding women in leadership – a complex issue in the high-tech sector. SAP committed to increasing the number of women in management positions from 18% in 2010 to 25% by 2017. To achieve this goal, we continue to support women through mentoring programs, where we strive to hire more women and train them to enhance their employee and manager awareness. In 2012, our overall percentage of women in the workforce remained stable at 30%, and the percentage of women in management positions increased from 18.7% in 2011 to 19.4%. Going forward, we strive to continue to make progress with focused female leadership development and focused succession planning in the different Executive Board areas. We also plan to put a stronger focus on generational diversity to ensure that we have a strong mix of employees who bring different perspectives and skills to SAP.

**CREATING A HEALTHY CULTURE**

At SAP, we seek to support our employees in being their best, both professionally and personally. This means promoting their physical health and well-being, but it also means much more. We think about creating a healthy work environment that inspires people to continually develop, stretch their creativity, collaborate in new ways, embrace change, and achieve work-life balance. To us, a healthy work culture is a business priority, as it supports our innovation, productivity, and ability to serve our customers. Consequently, we have developed a global health strategy that we will be working to implement in coming years.

We seek to measure the success of our health program based on this broader, holistic approach. Our Business Health Culture Index (BHCI) asks employees both about their personal well-being and SAP's work environment. In 2012, we achieved a BHCI score of 66%, compared to 65% in 2011. Given the dynamics of our industry, the global nature of our business and the fast pace of change that our employees must manage, we believe that maintaining a score of 65% or higher would be a significant accomplishment in the future.

We also work toward our health goals by calling on our global team of leaders to inspire and motivate employees to reach their full potential. We recognize that to achieve outstanding results, we must constantly reexamine and refine our leadership practices to adapt to a fast-changing business environment.

**SOCIAL INVESTMENTS**

We make strategic social investments that leverage our expertise, lay the foundation for a healthy business environment, and help ensure a sustainable future for society, our customers, and our company. Our two major focus areas, education and entrepreneurship, build a pipeline of talent and create economic opportunity, spurring job creation and the demand for IT services. We call on our talent, technology, and capital to multiply our impact, and we work in all of our programs to foster change for the long term.

In 2012, SAP contributed €18.4 million in cash donations to non-governmental and nonprofit organizations. In addition, we donated software to almost 1,200 eligible nonprofit organizations, activated more than 130,000 employee volunteer hours, and thereby positively impacted about one million lives to enhance education for underserved youth and propel emerging entrepreneurs to foster economic growth in our communities. Through our University Alliances program, we donated licenses for business software to more than 1,300 schools and universities and improved career opportunities in business and information technology for more than 230,000 students worldwide.

For more information about employees and social engagement, related goals and programs, see the Attracting Talent, Talent Development, Employee Engagement, Retention, Diversity and Women in Leadership, Business Health Culture, Social Investment, and Human Rights sections of the SAP Integrated Report online.

**HEADCOUNT**

On December 31, 2012, we had 64,422 full-time equivalent (FTE) employees worldwide (December 31, 2011: 55,765). This represents an increase in headcount of 8,657 FTEs in comparison to 2012. Of the overall headcount increase in 2012, 4,816 resulted from acquisitions. The average number of employees in 2012 was 61,134 (2011: 54,346).

We define the FTE headcount as the number of people we would employ if we only employed people on full-time employment contracts. Students employed part-time and certain individuals who are employed by SAP but who for various reasons are not currently working are excluded from our figures. Also, temporary employees are not included in the above figures. The number of such temporary employees is not material.

On December 31, 2012, the largest number of SAP employees (46%) were employed in the EMEA region (including 26% in Germany and 20% in other countries in the region), while 30% were employed in the Americas region (including 21% in the United States and 9% in other countries in the region) and 24% in the Asia Pacific Japan (APJ) region.

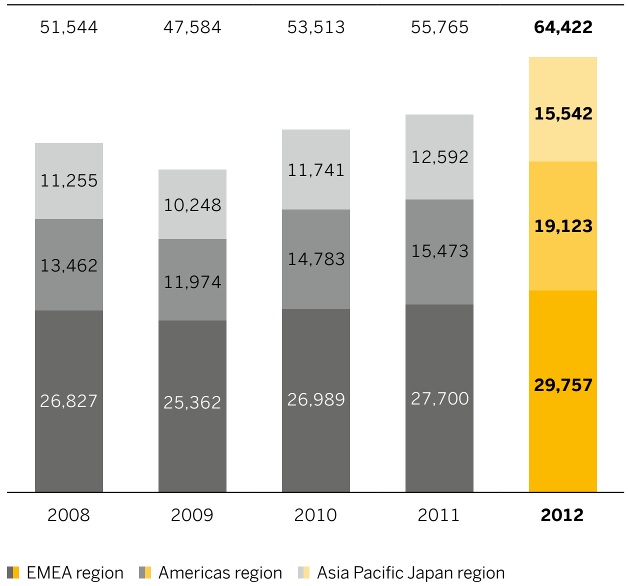
Because we invested in support and cloud computing in 2012, our support headcount increased in all regions. Our worldwide headcount in the field of software and software-related services grew 18% to 10,551 (2011: 8,963). Professional services and other services counted 14,259 employees at the end of 2012 – an increase of 7% (2011: 13,268). Our R & D headcount saw a relatively strong year-over-year increase of 14% to 18,012 FTEs (2011: 15,861). This growth stemmed from our acquisitions and greater investment in the APJ region. Sales and marketing headcount grew significantly by 26% to 14,899 at the end of the year (2011: 11,780), because we invested very heavily in the sales and marketing of our products and services in 2012 and employed more sales staff in all regions with a strong focus on the emerging markets. Our general and administration headcount rose 15% to 4,286 FTEs at the end of the year (2011: 3,735). Our acquisitions were the main reason for this increase. Our infrastructure employees, who provide IT and facility management services, numbered 2,415 – an increase of 12% (2011: 2,158) that mainly resulted from our acquisitions and investments in our company IT.

In the Americas region, headcount increased by 3,650, or 24%; in the EMEA region, the increase was 2,057, or 7%; and in the APJ region, it was 2,950, or 23%.

Our personnel expense per employee was approximately €119,000 in 2012 (2011: approximately €108,000). This rise in expense is primarily attributable to an increase in salaries and share-based payments prompted by the new plans and significant rise in the share price in 2012. The personnel expense per employee is defined as the personnel expense divided by the average number of employees. For more information about employee compensation and a detailed overview of the number of people we employed, see the Notes to the Consolidated Financial Statements section, Note (7).

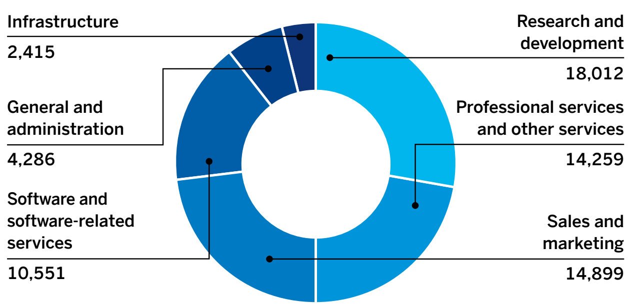
**Number of Employees**

Full-time equivalents




**Employees by Functional Area**

Full-time equivalents



# Energy and Emissions

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

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

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

**GREENHOUSE GAS EMISSIONS**

SAP's goal is to reduce its total greenhouse gas emissions to levels of the year 2000 by 2020. This target includes direct emissions from our operations (scopes 1 and 2), as well as limited indirect (scope 3) emissions, such as those stemming from business travel. In addition to this long-term goal, SAP has set annual targets. In 2012, our total emissions decreased slightly to 485 kilotons (2011: 490 kilotons) despite significant growth in our business (revenue from software and software-related services increased 17%). Nonetheless, we narrowly missed our target to reduce our emissions to 480 kilotons. In addition to measuring our total emissions, we also track emissions per employee and emissions per euro revenue. We continued to increase our efficiency based on the emissions per euro revenue for the sixth year in a row. Specifically, our greenhouse gas emissions decreased from 34.4 grams per euro in 2011 to 30.0 grams per euro in 2012. We also reduced our carbon emissions per employee by more than 10% in 2012.

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

**TOTAL ENERGY CONSUMED**

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

**DATA CENTER ENERGY**

We focus on making data centers more energy efficient even as demand for IT services rises. SAP has a comprehensive sustainable IT strategy that includes working with customers and hardware providers. We measure and manage data center energy consumption per employee. (The energy we consume in our data centers is part of our total energy consumed.) While the development of SAP HANA led to an increase in our servers and energy consumption in our data centers, the growth in the number of employees at SAP resulted in increased efficiency. Our data center energy intensity decreased from 2,824 kilowatt hours per FTE (2011) to 2,598 kilowatt hours per FTE in 2012. Over the past year, we have improved our global data center management system to better track our efficiency, which is also influenced by increasing the number of virtual servers (in 2012, 67% of our servers were virtual). In addition, we are working with our customers to devise solutions that would simplify their data centers, lower their costs, and reduce their energy consumption.

**RENEWABLE ENERGY**

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

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

# Measures Cited in This Report

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

## MEASURES WE USE TO MANAGE OUR FINANCIAL PERFORMANCE

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

As a result of placing greater focus on cloud computing, we revised the presentation of our software and software-related service (SSRS) revenue as of January 1, 2012, and we adjusted our comparative figures accordingly. As a result of these adjustments, the subscription and other software-related service revenue item has been deleted. We believe this creates more transparency regarding SSRS revenue, particularly with respect to revenue from cloud subscriptions and support. These revenues are no longer recorded under the subscription and other software-related service revenue item, but instead shown as a separate item within the SSRS revenue. Revenue from long-term license agreements and all other revenue previously shown under SSRS revenue has been broken down into its software and support components and recorded under the software revenue and support revenue items. Thus, we present higher revenue for software and for support for 2011. This change is merely a reclassification that only affects items within SSRS revenue. The overall sum of SSRS revenue and thus the total revenue are not affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

## MEASURES WE USE TO MANAGE OUR NON-FINANCIAL PERFORMANCE

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

**Employee Engagement Index:** With this index, we measure the level of employee commitment, pride, and loyalty, as well as the level of employee advocacy for SAP. The index is derived from surveys conducted among our employees. With this measure, we recognize that we can achieve our growth strategy with engaged employees only.

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

## VALUE-BASED MANAGEMENT

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

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

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

## NON-IFRS FINANCIAL MEASURES CITED IN THIS REPORT

As in previous years, we provided our 2012 financial outlook on the basis of certain non-IFRS measures. Therefore, this report contains a non-IFRS based comparison of our actual performance in 2012 against our outlook in the chapter Assets, Finances and Operating Results.

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

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

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

€ millions, unless otherwise stated

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

**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 2012, we used these non-IFRS measures consistently in our internal planning and forecasting, reporting and compensation, as well as in our external communications as follows:
– Our management primarily uses these non-IFRS measures rather than IFRS measures as the basis for making financial, strategic and operating decisions.
– The variable remuneration components of our Executive Board members and employees are based on non-IFRS revenue and non-IFRS operating profit measures rather than the respective IFRS measures.
– The annual budgeting process for all management units is based on non-IFRS revenue and non-IFRS operating profit numbers rather than the respective IFRS financial measures.
– All forecast and performance reviews with all senior managers globally are based on these non-IFRS measures, rather than the respective IFRS financial measures.
– Both our internal performance targets and the guidance we provided to the capital markets are based on non-IFRS revenues and non-IFRS profit measures rather than the respective IFRS financial measures.

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

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

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

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

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

– Acquisition-related charges
  - Amortization expense/impairment charges of intangibles acquired in business combinations and certain stand-alone acquisitions of intellectual property (including purchased in-process research and development)
  - Settlements of pre-existing business relationships in connection with a business combination
  - Acquisition-related third-party expenses
– Discontinued activities: Results of discontinued operations that qualify as such under IFRS in all respects except that they do not represent a major line of business
– Expenses from our share-based payments
– Restructuring expenses

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

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

***Usefulness of Non-IFRS Measures***
We believe that our non-IFRS measures are useful to investors for the following reasons:

– The non-IFRS measures provide investors with insight into management's decision making because management uses these non-IFRS measures to run our business and make financial, strategic, and operating decisions.
– The non-IFRS measures provide investors with additional information that enables a comparison of year-over-year operating performance by eliminating certain direct effects of acquisitions and discontinued activities.
– Non-IFRS and non-GAAP measures are widely used in the software industry. In many cases, inclusion of our non-IFRS measures may facilitate comparison with our competitors' corresponding non-IFRS and non-GAAP measures.

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

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

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

We believe that our non-IFRS financial measures described above have limitations, including but not limited to, the following:
– The eliminated amounts could be material to us.
– Without being analyzed in conjunction with the corresponding IFRS measures, the non-IFRS measures are not indicative of our present and future performance, foremost for the following reasons:
  - While our non-IFRS profit numbers reflect the elimination of certain acquisition-related expenses, no eliminations are made for the additional revenue and other revenue that result from the acquisitions.
  - While we adjust for the fair value accounting of the acquired entities' recurring revenue contracts, we do not adjust for the fair value accounting of deferred compensation items that result from commissions paid to the acquired company's sales force and third parties for closing the respective customer contracts.
  - The acquisition-related charges that we eliminate in deriving our non-IFRS profit numbers are likely to recur should SAP enter into material business combinations in the future.
  - The acquisition-related amortization expense that we eliminate in deriving our non-IFRS profit numbers is a recurring expense that will impact our financial performance in future years.
  - The revenue adjustment for the fair value accounting of the acquired entities' contracts and the expense adjustment for acquisition-related charges do not arise from a common conceptual basis. This is because the revenue adjustment aims to improve the comparability of the initial post-acquisition period with future post-acquisition periods, while the expense adjustment aims to improve the comparability between post-acquisition periods and pre-acquisition periods. This should particularly be considered when evaluating our non-IFRS operating profit and non-IFRS operating margin numbers as these combine our non-IFRS revenue and non-IFRS expenses despite the absence of a common conceptual basis.
  - Our discontinued activities and restructuring charges could result in significant cash outflows. The same applies to our share-based payment expense because most of our share-based payments are to be settled in cash rather than shares.
  - The valuation of our cash-settled, share-based payments could vary significantly from period to period due to the fluctuation of our share price and other parameters used in the valuation of these plans.
  - We have in the past issued share-based payment awards to our employees every year and we intend to continue doing so in the future. Thus, our share-based payment expenses are recurring although the amounts usually change from period to period.

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

***Constant Currency Information***

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

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

### 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

| | **2012** | 2011 | Change in % |
|---|---|---|---|
| Net cash flows from operating activities | 3,822 | 3,775 | 1 |
| Purchase of intangible assets and property, plant, and equipment (without acquisitions) | –541 | –445 | 22 |
| **Free Cash Flow** | **3,281** | **3,330** | **–1** |

# Economic Conditions

**GLOBAL ECONOMIC TRENDS**

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

In the EMEA region, gross domestic product in the euro area saw a slight decline in 2012, but managed to stabilize at a low level toward the end of the year, boosting consumer and investor confidence in the financial markets. Given the positive developments in the labor market, Germany's economy – according to the International Monetary Fund (IMF) – grew faster than the euro area average. Yet here too, economic growth failed to reach the previous year's level. The European Union (EU) countries outside the euro area experienced relatively weak economic growth. By contrast, expansionary fiscal and monetary policies in Africa and the Middle East, as well as the private sector's high confidence in economic growth, strengthened the resilience of most economies.

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

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

**THE IT MARKET**

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

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

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

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

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

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

**IMPACT ON SAP**

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

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

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

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

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

# Assets, Finances, and Operating Results

## PERFORMANCE AGAINST OUTLOOK FOR 2012 (NON-IFRS)

Our 2012 operating profit-related internal management goals and published outlook were based on our non-IFRS financial measures. For this reason, in this section we discuss performance against our outlook referring solely to these non-IFRS financial measures. All discussion in the Operating Results (IFRS) section, however, is in terms of measures in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and the numbers in that section are not explicitly identified as IFRS measures.

### Outlook for 2012 (Non-IFRS)

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

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

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

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

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

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

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

**Target-Performance Comparison for 2012**

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

[1] Updated forecast as at October 2012. This includes a combined contribution of approximately 2.5 percentage points from SuccessFactors and Ariba.
[2] Forecast increased in the course of the fiscal year.

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

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

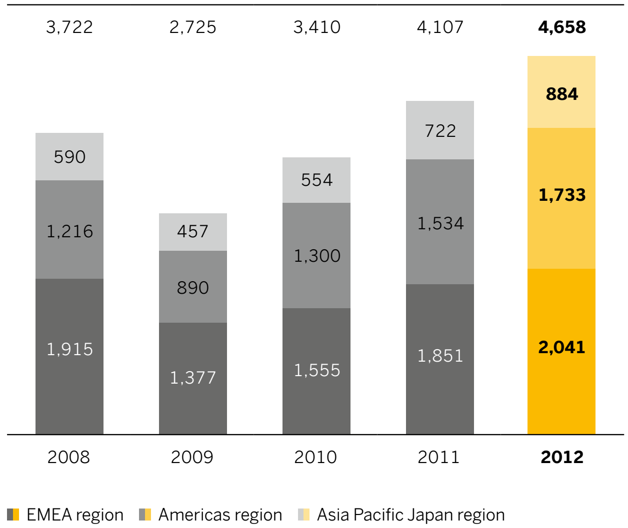
In 2012, we achieved an operating profit (non-IFRS) of €5,023 million on a constant currency basis. Thus, operating profit (non-IFRS) at constant currencies for 2012 was slightly lower than the range of €5.05 billion to €5.25 billion that SAP had projected. This reduction in operating profit is mainly due to the continued investment in key innovations, as well as the expansion of SAP's sales activities worldwide.

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

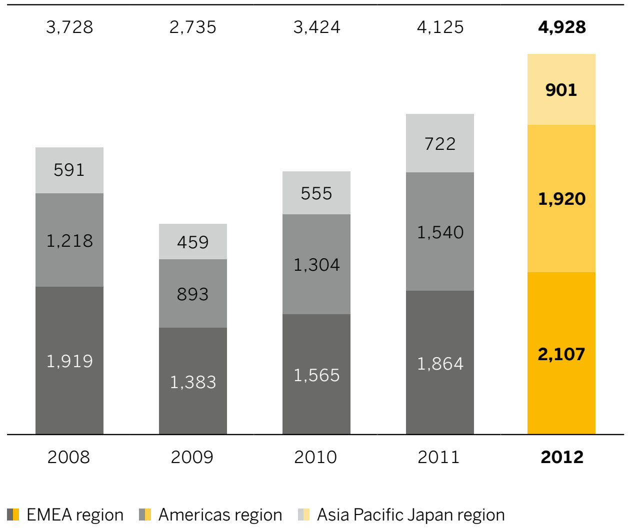
**OPERATING RESULTS (IFRS)**
This Operating Results (IFRS) section discusses results exclusively in terms of IFRS measures, so the IFRS financial measures are not expressly identified as such.

We acquired SuccessFactors in February 2012. Therefore, the SuccessFactors results are incorporated in our results only for the months February to December 2012. Further, we acquired Ariba in October 2012. Therefore, the Ariba results are incorporated in our results only for the months October to December 2012.

**Software Revenue by Region (based on customer location)**
€ millions

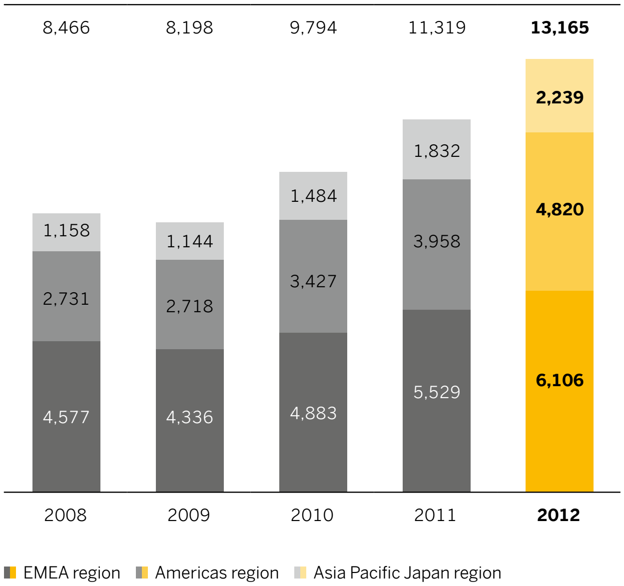



**Software and Cloud Subscription Revenue by Region (based on customer location)**
€ millions



**Software and Software-Related Service Revenue by Region (based on customer location)**

€ millions




## Revenue

### *Total Revenue*

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

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

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

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

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

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

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

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

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

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

***Professional Services and Other Service Revenue***

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

Professional services and other service revenue increased from €2,914 million in 2011 to €3,058 million in 2012, representing an increase of €144 million or 5%. This growth reflects a 1% increase from changes in volumes and prices and a 4% increase from currency effects.

Consulting revenue increased from €2,341 million in 2011 to €2,442 million in 2012, representing an increase of €101 million or 4%. The growth resulted entirely from currency effects. Consulting revenue contributed 80% of professional services and other service revenue (2011: 80%). Consulting revenue contributed 15% of total revenue in 2012 (2011: 16%).

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

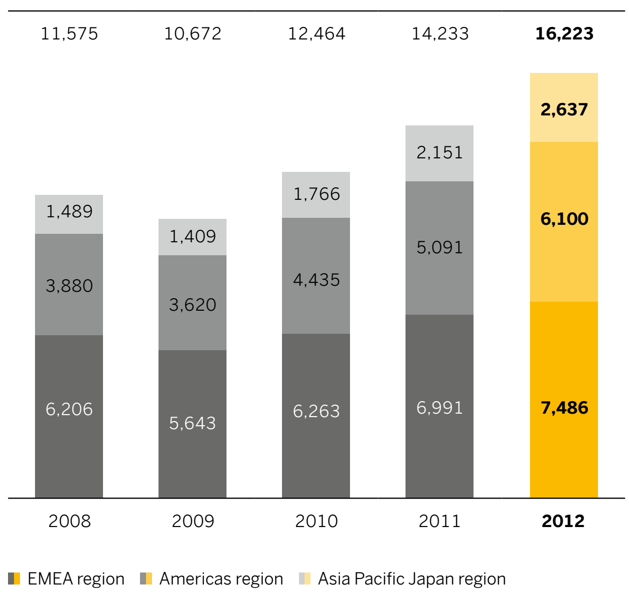
**Revenue by Region and Industry**

***Revenue by Region***

We break our operations down into three regions: the Europe, Middle East, and Africa (EMEA) region, the Americas region, and the Asia Pacific Japan (APJ) region. We allocate revenue amounts to each region based on where the customer is located. For more information about revenue by geographic region, see the Notes to the Consolidated Financial Statements section, Note (28).

**Total Revenue by Region (based on customer location)**

€ millions



### The EMEA Region

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

### The Americas Region

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

### The APJ Region

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

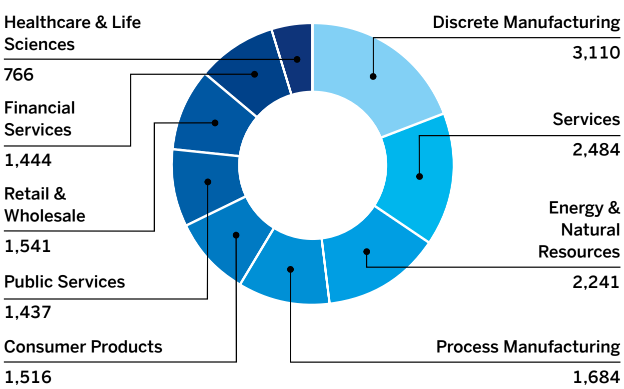
### *Revenue by Industry*

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

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

**Revenue by Industry**

€ millions




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

## Operating Profit and Margin

### *Operating Profit and Operating Margin*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

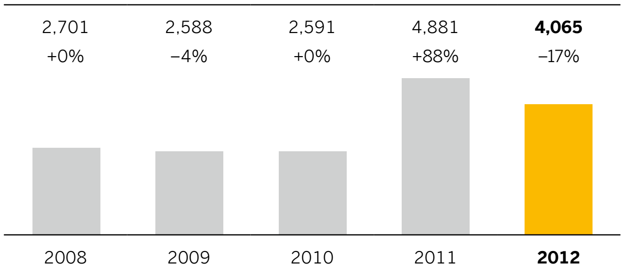
Sales and marketing costs rose 27% from €3,081 million in 2011 to €3,907 million in 2012. The increase was due primarily to the increased personnel costs of our expanded sales teams in new growth markets, among others, and to increased employee headcount as a result of acquisitions. Travel and marketing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

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

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

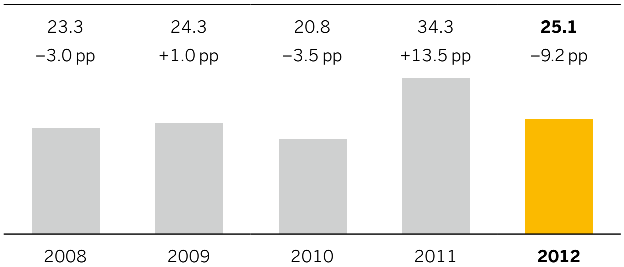
**Operating Profit**

€ millions | change since previous year




**Operating Margin**

Percent | change since previous year




## Segment Results

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

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

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

### *On-Premise Division*

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

#### On-Premise Products Segment

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

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

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

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

#### On-Premise Services Segment

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

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

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

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

### *Cloud Division*

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

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

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

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

#### Cloud Applications Segment

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

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

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

The operating segment loss of the Cloud Applications segment increased by 23% to €–53 million (2011: €–69 million), representing segment profitability of –16% (2011: –238%).

### Ariba Segment

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

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

In 2012, cost of revenue increased to €75 million (2011: €9 million) and sales and marketing costs increased by 2,150% to €43 million (2011: €2 million). The increased expenses in the Ariba segment are largely driven by the acquisition of Ariba at the end of 2012.

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

## Financial Income

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

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

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

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

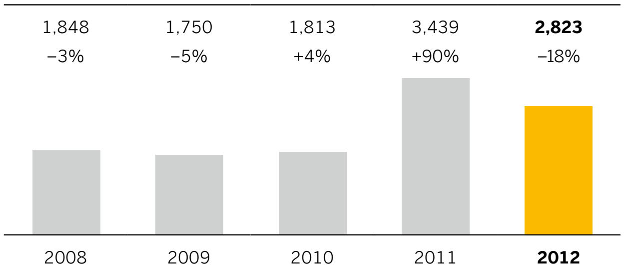
## Income Tax

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

## Profit After Tax and Earnings per Share

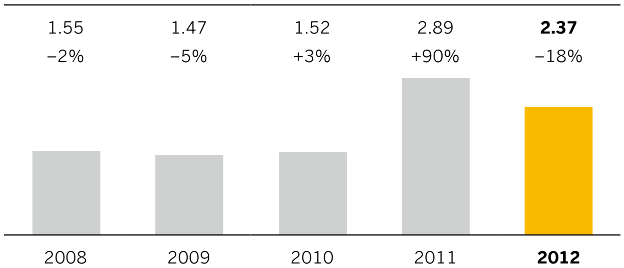
Profit after tax decreased 18% to €2,823 million in 2012 (2011: €3,439 million). It should be noted that the profit after tax in 2011 increased by €444 million as a result of a reduction in the provision we had recorded for the TomorrowNow litigation. Other primary causes of the decline in profit after tax in 2012 were our continued investment in key innovations, the expansion of SAP's sales activities worldwide, and an increase in amortization expense of intangible assets acquired through acquisitions in 2012. Moreover, expenses for share-based payments were substantially higher than in the same period of the previous year, at €522 million (2011: €68 million).

**Profit After Tax**
€ millions | change since previous year




Earnings per share decreased to €2.37 (2011: €2.89). The reduction reflects the decrease in profit after tax compared to 2011. The number of shares outstanding remained almost constant year over year to 1,192 million (2011: 1,189 million).

**Earnings per Share**
€ | change since previous year




## Dividend

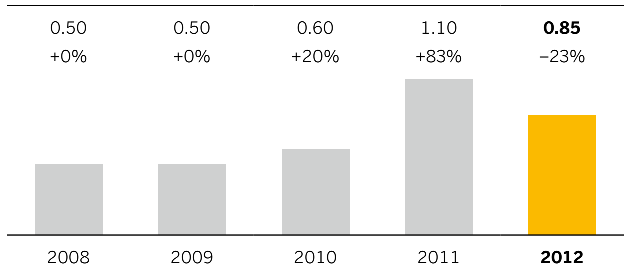
We believe our shareholders should benefit appropriately from the profit the Company made in 2012. We wish to continue our dividend policy, which is that the payout ratio should be more than 30% of the profit after tax of the Group.

In 2011, in addition to the regular dividend of €0.75 per share, we rewarded our shareholders with a special dividend of €0.35 per share to celebrate our 40th anniversary.

The Executive Board and the Supervisory Board will therefore recommend to the Annual General Meeting of Shareholders that the total dividend be decreased 23% to €0.85 per share (2011: €1.10). Without the consideration of the special dividend in 2011, this corresponds to a year-on-year dividend increase of €0.10, or 13%, in 2012. Based on this recommendation, the overall dividend payout ratio (which here means total distributed dividend as a percentage of profit) would be 36% (2011: 38%).

If the shareholders approve this recommendation and if treasury stock remains at the 2012 closing level, the total amount distributed in dividends would be €1,013 million. The actual amount distributed may be different from that total because the number of shares held in treasury may change before the Annual General Meeting of Shareholders. Transactions related to share-based payments could also change the amount of common stock. We distributed €1,310 million in dividends from our 2011 profit. Aside from the distributed dividend, in 2012 we also returned €53 million to the shareholders by repurchasing SAP shares for treasury (2011: €246 million).

**Dividend per Share**
€ | change since previous year



## FINANCES (IFRS)

### Overview

#### *Global Financial Management*

We use global centralized financial management to control liquid assets and monitor exposure to interest rates and currencies. The primary aim of our financial management is to maintain liquidity in the Group at a level that is adequate to meet our obligations. Most SAP companies have their liquidity managed by the Group, so that liquid assets across the Group can be consolidated, monitored, and invested in accordance with Group policy. High levels of liquid assets help keep SAP flexible, sound, and independent. In addition, various credit facilities are currently available for additional liquidity, if required. For more information about these facilities, see the Credit Facilities section.

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

#### *Liquidity Management*

Our primary source of cash, cash equivalents, and current investments is funds generated from our business operations. Over the past several years, our principal use of cash has been to support operations and our capital expenditure requirements resulting from our growth, to acquire businesses, to pay dividends on our shares, and to buy back SAP shares on the open market. On December 31, 2012, our cash, cash equivalents, and current investments were primarily held in euros and U.S. dollars.

We generally invest only in the financial assets of issuers or funds with a minimum credit rating of BBB, and pursue a policy of cautious investment characterized by wide portfolio diversification with a variety of counterparties, predominantly short-term investments, and standard investment instruments. We rarely invest in the financial assets of issuers with a credit rating lower than BBB, and such investments were not material in 2012.

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

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

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

### *Capital Structure Management*

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

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

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

**Capital Structure**

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

In 2012, we took out short-term bank loans to finance the acquisitions of SuccessFactors and Ariba. Additionally, we issued a two-tranche Eurobond and a U.S. private placement consisting of several tranches with maturities of three to 15 years which further optimized and extended our existing maturity profile. We used inflows from the newly issued bonds and private placement to repay the short-term bank loans.

These financing activities changed our debt ratio (defined as the ratio of total liabilities to equity and liabilities) to 47% at the end of 2012 (as compared to 45% at the end of 2011). These financing activities were partially offset by the operating cash flow in 2012. As far as financing activities in 2013 are concerned, a €600 million bond that will mature in August 2013 is intended to be repaid. We currently do not plan to refinance this bond maturity.

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

### Cash Flows and Liquidity

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

**Analysis of Net Liquidity**

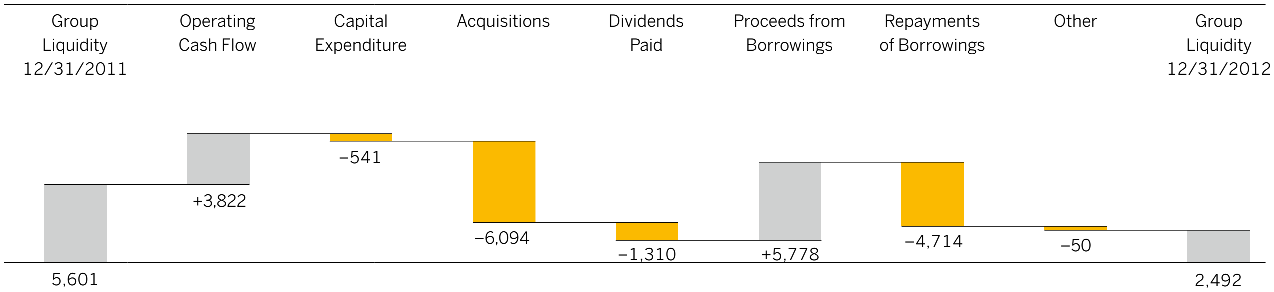
€ millions

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

Group liquidity consists of cash and cash equivalents (for example, cash at banks, money market funds, and time deposits with original maturity of three months or less) and current investments (for example, investments with original maturities of greater than three months and remaining maturities of less than one year) as reported in our IFRS Consolidated Financial Statements.

**Group Liquidity Development**

€ millions




Total financial debt consists of current financial liabilities (for example, overdrafts, current bank loans, bonds or private placements) and non-current financial liabilities (for example, bonds, or private placements) as reported in our IFRS Consolidated Financial Statements. For more information about our financial debt, see the Notes to the Consolidated Financial Statements section, Note (17).

Net liquidity is Group liquidity less total financial debt as defined above. Net liquidity should be considered in addition to, and not as a substitute for, cash and cash equivalents, other financial assets, and financial liabilities included in our IFRS Consolidated Financial Statements.

The decrease in Group liquidity from 2011 was mainly due to cash outflows for the acquisition of SuccessFactors and Ariba, as well as dividend payments, which were partly offset by positive cash inflows from our operations.

For information about the impact of cash, cash equivalents, current investments, and our financial liabilities on our income statements, see the analysis of our finance income, net, in the Operating Results (IFRS) section.

## Analysis of Consolidated Statements of Cash Flow

**Analysis of Consolidated Statements of Cash Flow**

€ millions

| | **2012** | 2011 | Change in % |
|---|---|---|---|
| Net cash flows from operating activities | 3,822 | 3,775 | 1 |
| Net cash flows from investing activities | –5,964 | –1,226 | >100 |
| Net cash flows from financing activities | –194 | –1,176 | –84 |

Net cash provided by operating activities increased slightly by €47 million or 1% to €3,822 million in 2012 (2011: €3,775 million). In 2012, days' sales outstanding (DSO) for receivables, defined as average number of days from the raised invoice to cash receipt from the customer, was 59 days, a one-day decrease compared to 2011 (60 days).

Cash outflows from investment activities totaled €5,964 million in 2012, much increased from the 2011 figure of €1,226 million. In 2012, cash outflows were mainly driven by acquisitions of consolidated companies such as SuccessFactors and Ariba, for which we paid €6,094 million in total. For more information about current and planned capital expenditures, see the Assets and Investment Goals sections. In contrast, the 2011 figure was mainly driven by investments in time deposits and German government bonds.

Cash outflows from financing activities totaled €194 million in 2012, compared to €1,176 million in 2011. In 2012, cash inflows were mainly driven by a successfully placed two-tranche Eurobond transaction totaling €1.3 billion and a U.S. private placement transaction of US$1.4 billion consisting of several tranches. This was partly offset by repayments of a Eurobond tranche (€600 million) and several tranches (€611 million) of the promissory notes we issued in 2009. In the previous year, cash outflows were driven mainly by repayments of a credit facility we drew on in connection with our acquisition of Sybase.

The increase in total dividend to €1,310 million was due to an increase in the dividend paid from €0.60 per share in the previous year to €1.10 per share, of which €0.35 per share was an extraordinary payout to celebrate our 40th anniversary in the reporting year (total dividend payout in 2011: €713 million). In 2012, we repurchased shares in the amount of €53 million (2011: €246 million) in connection with our share-based payments.

### Credit Facilities

Other sources of capital are available to us through various credit facilities, if required.

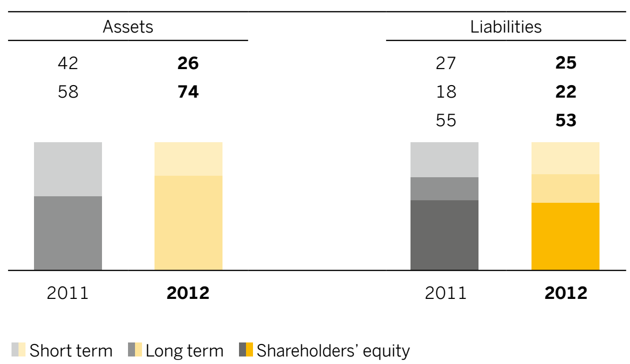
We are party to a revolving €1.5 billion syndicated credit facility agreement with an initial term of five years ending in December 2015. The use of the facility is not restricted by any financial covenants. Potential proceeds are for general corporate purposes. Borrowings under the facility bear interest at the euro interbank offered rate (EURIBOR) or London interbank offered rate (LIBOR) for the respective currency plus a margin ranging from 0.45% to 0.75% that depends on the amount drawn. We pay a commitment fee of 0.1575% per annum on unused amounts of the available credit facility. So far, we have not used and do not currently foresee any need to use this credit facility.

As at December 31, 2012, SAP AG had additional available credit facilities totaling approximately €489 million. As at December 31, 2012, there were no borrowings outstanding under these credit facilities. Several of our foreign subsidiaries have credit facilities available that allow them to borrow funds in their local currencies at prevailing interest rates, generally to the extent SAP AG has guaranteed such amounts. As at December 31, 2012, approximately €48 million was available through such arrangements. There were no borrowings outstanding under these credit facilities from any of our foreign subsidiaries as at December 31, 2012.

## ASSETS (IFRS)

**Analysis of Consolidated Statements of Financial Position**
Total assets increased 16% year over year to €26,835 million.

**Breakdown of Consolidated Statements of Financial Position**
Percent

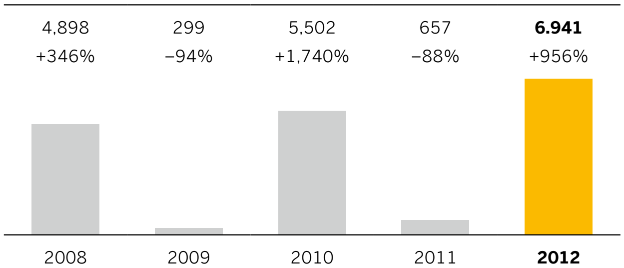



Total current assets decreased 28% in 2012 from €9,669 million to €6,998 million. This was mainly due to a 50% drop in cash and cash equivalents to €2,477 million (2011: €4,965 million) stemming from the acquisitions of SuccessFactors and Ariba which were partly offset by cash flows from operating activities. Trade receivables increased €424 million to €3,917 million due in large part to the strength of our final-quarter revenue.

Total non-current assets increased significantly in 2012 to €19,836 million compared to the previous year's figure of €13,558 million. This 46% increase was mainly due to additions of €4,563 million to goodwill and €1,210 million to intangible assets, resulting mainly from the acquisitions of SuccessFactors and Ariba.

**Investment in Intangible Assets or Property, Plant, and Equipment (incl. Capitalizations Due to Acquisitions)**

€ millions | change since previous year



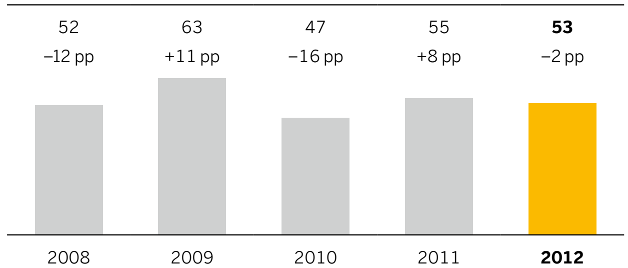

Current liabilities increased slightly to €6,641 million in 2012 as compared to the prior year (€6,266 million).

The increase in total non-current liabilities from €4,254 million in 2011 to €6,023 million in 2012 was due mainly to financing activities: In 2012, we successfully placed a two-tranche Euro bond and completed a U.S. private placement, leading to cash inflows of €1.3 billion (Eurobond) and US$1.4 billion (U.S. private placement) with a corresponding increase in non-current liabilities. Both transactions were used for general corporate purposes, including the refinancing of acquisitions. For more information about financing activities in 2012, see the Finances (IFRS) section.

The equity ratio (that is, the ratio of shareholders' equity to total assets) is 53%, slightly below the prior year's ratio (2011: 55%).

**Equity Ratio**

Percent | change since previous year




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

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

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

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

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

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

There were no material divestitures within the reporting period.

**Competitive Intangibles**

The assets that are the basis for our current as well as future success do not appear on the Consolidated Statements of Financial Position. This is apparent from a comparison of the market capitalization of SAP AG (based on all outstanding shares), which was €74.7 billion at the end of 2012 (2011: €50.2 billion), with the equity on the Consolidated Statements of Financial Position, which was €14.2 billion (2011: €12.7 billion). In effect, our market capitalization is 425% greater than our book value. The difference is mainly due to certain intangible assets that the applicable accounting standards do not allow to be recorded (at all or at fair value) on the Consolidated Statements of Financial Position. They include customer capital (our customer base and customer relations), employees and their knowledge and skills, our ecosystem of partners, software we developed ourselves, our ability to innovate, the brands we own – in particular, the SAP brand itself – and our organization.
On December 31, 2012, SAP ranked first of the most valuable companies in Germany in terms of market capitalization based on all outstanding shares. According to the Interbrand "Best Global Brands" annual survey, SAP is ranked the 25th most valued brand in the world (2011: 24th). Against other German brands, the SAP brand ranks third behind Mercedes-Benz and BMW, and 10th globally against other IT brands. Interbrand determined our value as US$15.6 billion, an increase of 8% compared to the previous year (2011: US$14.5 billion).

The results of our investment in research and development, including R & D investment made in the past, are also a significant element in our competitive intangibles.

Our customer capital continued to grow in 2012. We gained approximately 49,000 new customers in various market segments and strengthened our existing customer relationships. To help us improve insight into our customers' view of SAP, in 2012 we began measuring our Net Promoter Score (NPS), a metric that gives a more complete picture of customer loyalty as it answers the question of how likely our customers would be to recommend SAP. For more information about our new customers and customer loyalty, see the Customers section. Employee-related and R & D activities increased the value of our employee base and our own software. For more information, see the Employees and Social Engagement section and the Research and Development section. We also increased the value of our partner ecosystem by continuing to develop sales and development partnerships.

# Assets, Finances, and Operating Results of SAP AG

SAP AG is headquartered in Walldorf, Germany, and is the parent company of the SAP Group, which comprises 267 companies. SAP AG is the Group holding company and employs most of the Group's Germany-based development and service and support personnel.

As the owner of the intellectual property in most SAP software, SAP AG derives its revenue chiefly from software license fees paid by its subsidiaries for the right to market SAP solutions.

The SAP AG annual financial statements are prepared in accordance with the reporting standards in the German Commercial Code (as amended by the German Accounting Law Modernization Act) and the German Stock Corporation Act. The full SAP AG annual financial report and unqualified audit report are submitted to the operator of the Elektronischer Bundesanzeiger (Online German Federal Gazette) for publication and inclusion in the Unternehmensregister (German Business Register). It is available from SAP AG on request.

## INCOME

The income statement uses the nature of expense method and presents amounts in millions of euros.

**SAP AG Income Statement – German Commercial Code Short Version**

€ millions

| | **2012** | 2011 |
|---|---|---|
| Total revenue | 7,812 | 6,520 |
| Other operating income | 796 | 671 |
| Cost of services and materials | –2,610 | –2,236 |
| Personnel expenses | –1,417 | –1,213 |
| Depreciation and amortization | –278 | –246 |
| Other operating expenses | –2,215 | –1,966 |
| **Operating profit** | **2,088** | **1,530** |
| **Finance income** | **1,144** | **998** |
| Income from ordinary activities | 3,232 | 2,528 |
| Income taxes | –721 | –625 |
| **Net income** | **2,511** | **1,903** |

The total revenue of SAP AG in 2012 was €7,812 million (2011: €6,520 million), an increase of 20%. Product revenue increased 18% to €6,295 million (2011: €5,323 million). As in previous years, product revenue was primarily generated from license fees paid by subsidiaries of SAP AG. The increase in SAP AG revenue in 2012 was therefore principally the result of the increase in software and software-related service revenue achieved by the SAP Group and the increase in license fees payable during 2011 by the subsidiaries to SAP AG.

SAP AG operating profit increased 36% to €2,088 million (2011: €1,530 million) owing to the growth in revenue. Other operating income increased €125 million to €796 million (2011: €671 million). The year-over-year increase is due primarily to a €131 million rise in gains from currency effects caused by the higher business volume.

SAP AG cost of services and materials increased 17% to €2,610 million (2011: €2,236 million). SAP AG cost of services and materials comprises third-party services, including those provided by SAP subsidiaries. SAP AG personnel expenses, mainly the labor cost of the developers, service and support employees, and administration staff employed by SAP AG, increased 17% to €1,417 million (2011: €1,213 million), primarily because of significantly more share-based payment-related expenses and because headcount increased over the year. Other operating expenses increased 13% to €2,215 million. As with currency gains, currency losses also increased, due chiefly to the larger business volume. The increase in losses from currency effects was €106 million, and expenses for licenses/provisions increased €72 million.

Finance income was €1,144 million (2011: €998 million), an increase of €146 million compared with the previous year. Increases of €31 million in investment income, €35 million in income from profit transfer agreements, and €9 million in net interest income, as well as a jouissance right advance payment on the 2012 results, led to a €146 million increase in income from securities classified as financial assets. This increase in finance income was offset by €76 million in writedowns of financial assets.

SAP AG income from ordinary activities, which is the sum of operating profit and finance income, increased 28% to €3,232 million (2011: €2,528 million). After deducting taxes, the resultant net income increased €608 million year over year to €2,511 million (2011: €1,903 million).

## ASSETS AND FINANCIAL POSITION

In 2012, SAP AG total assets closed at €21,037 million (2011: €19,041 million).

**SAP AG Balance Sheet – German Commercial Code Short Version**

€ millions

| | **12/31/2012** | 12/31/2011 |
|---|---|---|
| **Assets** | | |
| Intangible assets | 406 | 424 |
| Property, plant, and equipment | 917 | 858 |
| Financial assets | 16,664 | 11,814 |
| **Fixed assets** | **17,987** | **13,096** |
| Inventories | 4 | 3 |
| Accounts receivable | 2,541 | 2,386 |
| Marketable securities | 0 | 400 |
| Liquid assets | 307 | 3,042 |
| **Short-term assets** | **2,852** | **5,831** |
| **Prepaid expenses and deferred charges** | **115** | **55** |
| **Deferred taxes** | **74** | **47** |
| **Surplus arising from offsetting** | **9** | **12** |
| **Total assets** | **21,037** | **19,041** |
| | | |
| **Equity and Liabilities** | | |
| Shareholders' equity | 9,717 | 8,433 |
| Provisions | 1,251 | 780 |
| Other liabilities | 10,063 | 9,824 |
| Deferred Income | 6 | 4 |
| **Total shareholders' equity and liabilities** | **21,037** | **19,041** |

Financial assets increased 41% compared with the previous year to €16,664 million. The significant increase in financial assets was primarily caused by the increase in contributions to subsidiaries' capital totaling €4,830 million in connection with the acquisitions of SuccessFactors and Ariba in 2012.

Short-term assets stood at €2,852 million (2011: €5,831 million), a year-over-year decrease of €2,979 million. Included in these numbers are the accounts receivable, which increased by €155 million, liquid assets, which declined €2,735 million, and marketable securities, which declined €400 million. The main reason for the reduction is the investments outlined above.

SAP AG shareholders' equity rose 15% to €9,717 million (2011: €8,433 million). Against outflows of €1,310 million associated with the payment of the 2011 dividend and a further €53 million for the repurchase of shares for treasury in the context of share-based payments in 2012, there was a €2,511 million increase in net income and an inflow of €136 million from the issuance of shares to service the share-based payments of employees and Executive Board members. The equity ratio (that is, the ratio of shareholders' equity to total assets) increased from 44% in 2011 to 46% in 2012.

Provisions increased €471 million to €1,251 million, primarily as a result of additions to provisions for share-based payments and higher reserves for tax.

Other liabilities increased €239 million to €10,063 million (2011: €9,824 million). This increase is attributable to contrasting effects: On the one hand, SAP AG issued new debt in the amount of €1,300 million and liabilities to affiliated companies increased €311 million; on the other, SAP AG repaid €711 million in liabilities to banks and made a scheduled repayment of a bond in the amount of €600 million.

**SAP AG Cash Flow Statement – German Commercial Code Short Version**

€ millions

| | **2012** | 2011 |
|---|---|---|
| Net cash flows from operating activities | 2,334 | 2,922 |
| Net cash flows from investing activities | −4,598 | −22 |
| Net cash flows from financing activities | −271 | −1,673 |
| Net decrease/increase in cash and cash equivalents | −2,535 | 1,227 |
| **Cash and cash equivalents at the beginning of the year** | **2,842** | **1,615** |
| **Cash and cash equivalents at the end of the year** | **307** | **2,842** |

Despite positive business performance, the cash flow from operating activities decreased €588 million to €2,334 million in 2012 (2011: €2,922 million), chiefly due to increased cash drawings by subsidiaries through SAP AG's centralized management of finance and liquidity.

SAP AG used net cash flows from investing activities of €4,598 million in 2012 (2011: €22 million), a year-over-year increase of €4,576 million. The main reason for the increase in outflows was the contributions to subsidiaries' capital mentioned earlier in connection with the acquisitions of SuccessFactors and Ariba. A further €338 million was spent on long-term assets. These outflows were offset by inflows of €600 million from the sale of longer-term deposits and securities, and €92 million from the sale of property, plant, and equipment.

Net cash flows from financing activities were €271 million in 2012 compared to €1,673 million in 2011. In 2012, SAP AG outflows included repaid financial liabilities totaling €1,311 million, as well as the dividend distribution in 2012 of €1,310 million, an increase of 84% compared with the previous year (2011: €713 million). In addition, SAP AG repurchased shares for treasury in the value of €53 million (2011: €246 million). Inflows included €1,300 million from the issuance of new bonds in 2012 and €997 million from loans taken from subsidiaries. SAP AG generated further inflows of €106 million from the reissuance of treasury shares and the issuance of new shares for share-based payments.

At the close of the year, SAP AG held €307 million in short-term liquid assets (2011: €2,842 million), a year-over-year decrease of €2,535 million.

## OPPORTUNITIES AND RISKS

SAP AG is subject to materially the same risks and opportunities as the SAP Group. For more information, see the Opportunity Report and the Risk Report sections.

# Overall Financial Position

**EXECUTIVE BOARD'S ASSESSMENT**

SAP delivered record revenues in 2012. Non-IFRS total revenue grew 14% year on year and exceeded €16 billion. Non-IFRS software and software-related service revenue grew 17% year over year to €13.2 billion. Non-IFRS software and cloud subscriptions revenue grew 21% year over year to €5.00 billion. In 2012, we achieved an operating profit (non-IFRS) of €5.02 billion on a constant currency basis. Thus, operating profit (non-IFRS) at constant currencies for 2012 was slightly lower than the range of €5.05 billion to €5.25 billion that SAP had projected. This reduction in operating profit is mainly due to the continued investment in key innovations, as well as the expansion of SAP's sales activities worldwide. The profitability of our business remains high. We are well on our way to exceeding our €20 billion revenue target and reaching a 35% (non-IFRS) operating margin by 2015. Our financial position remains healthy.

SAP delivered exceptional growth in its key innovation areas SAP HANA, mobile, and the cloud: SAP HANA had an outstanding year, reaching nearly €200 million in software revenue in the fourth quarter and almost €400 million for the full year, thereby exceeding our own expectations of at least €320 million. SAP's mobile business contributed more than €220 million to software revenue, thus achieving its full-year revenue target.

In 2012, SAP empowered best-run businesses to meet real-time consumer demands. We invested in our flagship innovation SAP HANA and strengthened the industry's best cloud portfolio from our point of view. We delivered new, industry-specific solutions, accessible anywhere on a mobile device. Our momentum has never been stronger. We are very well positioned to achieve our 2015 goals, thanks to very strong revenue contribution from our key innovations SAP HANA and SAP Cloud.

In 2012, we advanced our strategy of extending the functional reach of our portfolio by making targeted acquisitions. We have a sound financial footing, allowing us flexibility of action even in times of crisis.

**INFLUENCE OF ACCOUNTING POLICIES ON OUR FINANCIAL POSITION**

For information about our accounting policies, see the Notes to the Consolidated Financial Statements section, Note (3).

There are no off-balance sheet financial instruments, such as sale-and-lease-back transactions, asset-backed securities, and liabilities related to special-purpose entities, that are not disclosed in our Consolidated Financial Statements. Any factoring contracts are not material in volume.

# Corporate Governance

**CORPORATE GOVERNANCE STATEMENT**

The German Commercial Code, section 289a, requires listed stock corporations to publish a corporate governance statement either as part of their management report or on their Web site. The Executive Board filed SAP's corporate governance statement on February 20, 2013, and published it on our public Web site at www.sap.com/corporate-en/investors/governance/policies-statutes.

For more information about the corporate governance of SAP, see the Corporate Governance Report section.

**CHANGES IN MANAGEMENT**

In April 2012, the Supervisory Board appointed Lars Dalgaard to the Executive Board. Lars Dalgaard leads our Cloud business unit, which combines all cloud assets of SAP and SuccessFactors, to drive market leadership in the cloud for businesses.

In May 2012, SAP created a Global Managing Board in addition to the Executive Board, which retains ultimate responsibility for overseeing and deciding on the activities of the Company. The Global Managing Board allows SAP to appoint a broader range of global leaders to help steer the organization. It has advisory and decision-supporting functions for the Executive Board and comprises all Executive Board members as well as Robert Enslin and Bob Calderoni.

In July 2012, the Supervisory Board appointed Luisa Deplazes Delgado to the Executive Board. She began work as our chief human resources officer and labor relations director in September. Luisa Deplazes Delgado is driving and enhancing our strategic people agenda, focusing on leadership development, talent development, recruitment, employee engagement, and organizational design and change.

# Information Concerning Takeovers

Information required under the German Commercial Code, sections 289 (4) and 315 (4), with explanatory report.

- **Composition of share capital:** For information about the composition of SAP AG share capital as of December 31, 2012, see the Notes to the Consolidated Financial Statements section, Note (20). Each share entitles the bearer to one vote. American depositary receipts (ADRs) representing our shares are listed on the NYSE in the United States. ADRs are certificates representing non-U.S. shares and are traded on U.S. stock exchanges instead of the underlying shares. One SAP ADR corresponds to one SAP share.
- **Restrictions applying to share voting rights or transfers:** SAP shares are not subject to transfer restrictions except the lock-in period under the SAP Share Matching Plan (SMP), described below. SAP held 36,334,516 treasury shares on December 31, 2012. Treasury shares did not entitle us to any rights, and hence to any voting rights or dividend. Shares issued in 2012 under the employee SMP are subject to contractual transfer restrictions for a three-year lock-in period unless the plan member's employment with SAP is ended during that period. Until that lock-in period has expired, the participating employees are not ordinarily allowed to dispose of the shares they have acquired under the plan. We are not aware of any other restrictions applying to share voting rights or to share transfers.
- **Shareholdings that exceed 10% of the voting rights:** We are not aware of any direct or indirect SAP AG shareholdings that exceed 10% of the voting rights.
- **Shares with special rights conferring powers of control:** No SAP shareholder has special rights conferring powers of control.
- **Type of control over voting rights applying to employee shareholders who do not directly exercise their control rights:** As with other shareholders, employee holders of SAP shares exercise their control rights in accordance with the law and the Articles of Incorporation. In votes on the formal approval of their acts at the Annual General Meeting of Shareholders, employee representatives on the Supervisory Board – as all other members of the Supervisory Board – are prohibited from exercising the voting rights associated with their shares.
- **Legal requirements and provisions in the Articles of Incorporation concerning the appointment and dismissal of members of the Executive Board and amendment of the Articles of Incorporation:** Conditions for the appointment and dismissal of members of the Executive Board and amendment of the Articles of Incorporation reflect the relevant provisions in the German Stock Corporation Act. Under the Articles of Incorporation, the Executive Board consists of at least two members who are appointed for a period of not more than five years by the Supervisory Board in accordance with the German Stock Corporation Act, section 84. The number of members of the Executive Board is decided by the Supervisory Board. Executive Board members may be reappointed for, or their term of office extended by, a maximum of five years. The German Codetermination Act, section 31, provides that a two-thirds majority of the Supervisory Board membership is required for Executive Board appointments. If the Supervisory Board fails to make an appointment with a majority that meets this requirement, the Mediation Committee must propose an appointee within one month. Appointments to the Executive Board can then be made by a simple majority of the Supervisory Board membership. If the Supervisory Board also fails to make an appointment with a majority that meets this requirement, the chairperson of the Supervisory Board has two votes in the subsequent ballot. The Supervisory Board can appoint a chairperson of the Executive Board and one or more deputy chairpersons from among the members of the Executive Board. The Supervisory Board can revoke appointments to the Executive Board in accordance with the German Stock Corporation Act, section 84, if compelling reasons exist, such as gross negligence on the part of the Executive Board member. If the Executive Board is short of a required member, one may be appointed in urgent cases by a court in accordance with the German Stock Corporation Act, section 85. In accordance with the German Stock Corporation Act, sections 179 and 133, an amendment of the Articles of Incorporation requires a resolution of the General Meeting of Shareholders with a majority of at least three-quarters of the share capital represented in the vote and the simple majority of the votes cast. Section 11 (2) of the Articles of Incorporation authorizes the Supervisory Board to amend the Articles of Incorporation where such amendments only concern the wording.

– **Powers of the Executive Board to issue and repurchase shares:** The Annual General Meeting of Shareholders on May 25, 2011, granted powers to the Executive Board, subject to the consent of the Supervisory Board, to issue convertible and warrant-linked bonds and to grant conversion and option rights in respect of SAP AG shares representing a total attributable portion of the share capital of not more than €100 million secured by a corresponding amount of contingent capital. These powers will expire on May 24, 2016. The Executive Board is also authorized until June 7, 2015, to increase the share capital by not more than €250 million by issuing new shares against contributions in cash and to increase the share capital by not more than €250 million by issuing new shares against contributions in cash or in kind. For more details about the different tranches of authorized capital and the aforementioned contingent capital, see the Articles of Incorporation, section 4. The Annual General Meeting of Shareholders on June 8, 2010, granted a power to the Executive Board in accordance with the German Stock Corporation Act, section 71 (1)(8), to buy back for treasury on or before June 30, 2013, SAP AG shares attributable in total to not more than €120 million of the share capital. The power is subject to the proviso that the shares repurchased, together with any shares that were previously acquired and are still held by SAP in treasury and any other shares controlled by SAP, must not in total exceed 10% of SAP's share capital. Executive Board powers, such as those described to issue and repurchase stock and to grant rights of conversion and subscription to shares of SAP, are widely followed common practice among German companies like SAP. They give the Executive Board the flexibility it needs, in particular the options to use SAP shares as consideration in equity investments, raise funds on the financial markets at short notice on favorable terms, or return value to shareholders during the course of the year. To service the SMP, which is an employee stock plan we established in 2010, the Executive Board is authorized, subject to Supervisory Board consent, to issue to participants of the plan new shares until June, 7, 2015. This authorized capital has been used for plan tranches in 2010, 2011, and 2012, and on December 31, 2012, it empowered the Company to issue new shares representing a total attributable portion of the share capital of not more than €29,609,256.

– **Material agreements with provisions that take effect in the event of a change of control following a takeover bid:** SAP AG has concluded the following material agreements with provisions that take effect in the event of a change of control, whether following a takeover bid or otherwise:
  - The terms of SAP's syndicated €1.5 billion credit facility include a change-of-control clause. For more information about this syndicated credit facility, see the Notes to the Consolidated Financial Statements section, Note (25). This clause obliges SAP AG to notify the banks in case of a change of control. If, on receiving the notification, banks that represent at least two-thirds of the credit volume so require, the banks have the right to cancel the credit facility and demand complete repayment of the outstanding debt. If no continuation agreement is reached, the credit facility would end and the obligation to repay would become effective at an ascertainable time.
  - The terms of the German promissory notes totaling €697 million include a change-of-control clause. For more information about these German promissory notes, see the Notes to the Consolidated Financial Statements section, Note (17b). The clause gives the lenders special termination rights in case of a change of control. If no continuation agreement is reached within 30 days after a change of control, the lenders would be entitled to declare the loan due and demand repayment of the outstanding debt without delay.
  - In agreements between SAP AG and various banks for bilateral credit facilities that totaled €489 million on December 31, 2012, we have agreed on customary material adverse change clauses permitting the banks to terminate if events occur that are materially adverse to the economic standing of SAP AG which may possibly also include a change of control. These clauses are standard practice. In the past, we have drawn on these bilateral credit facilities only infrequently and only for a few days. We believe that in view of our current liquidity situation, termination of these credit facilities would not have a materially adverse effect, at least in the near term.

- SAP entered into a €200 million fixed-interest forward-start loan agreement on December 15, 2011. The interest rate will be 35 basis points above EURIBOR on the day the loan is drawn. In the event of a change of control, the lenders are entitled to terminate the loan agreement and demand repayment of the outstanding debt unless at SAP's request the parties enter within 30 days into an agreement to continue the loan.
- SAP issued two bonds in 2010, each in two tranches of different tenures, totaling €2.2 billion. In 2012, SAP set up a Debt Issuance Program under which a first tranche of Eurobonds in the amount of €1.3 billion was issued. For more information about these bonds, see the Notes to the Consolidated Financial Statements section, Note (17b). Under the terms agreed with the buyers, we are required to notify the buyers of any change of control without delay. If there is a change of control and SAP is consequently assigned a lower credit rating within a defined period, buyers are entitled to demand repayment. We currently do not have a credit rating with any agency. In case that condition persists in a change of control event, an early redemption would only be triggered if no rating agency assigns a credit rating during the change of control period.
- Under the terms of our U.S. private placements totaling US$2.65 billion, we are required to offer lenders repayment of outstanding debt if there is a change of control and SAP is consequently assigned a lower credit rating within a defined period. For more information about these private placements, see the Notes to the Consolidated Financial Statements section, Note (17b). Lenders would have at least 30 days to accept the offer. We currently do not have a credit rating with any agency. In case that condition persists in a change of control event, an early redemption would only be triggered if no rating agency assigns a credit rating during the change of control period.
- We have entered into relationships with other companies to jointly develop and market new software products. These relationships are governed by development and marketing agreements with the respective companies. Some of the agreements include provisions that, in the event of a change of control over one of the parties, give the other party a right to consent to the assignment of the agreement or to terminate it.

– **Agreements to compensate members of the Executive Board or the employees in the event of a takeover bid:** Agreements have been concluded with the members of the Executive Board concerning compensation in the event of a change of control. These agreements, which are customary in Germany and elsewhere, are described in the Compensation Report section. We have no analogous compensation agreements with other employees.

# Opportunity Report

## OPPORTUNITY MANAGEMENT

SAP operates in a dynamic market full of opportunities. To deliver consistent growth, we must not only avoid unnecessary risk but also systematically recognize and exploit new opportunities. Where the size and types of opportunities exceed agreed risk tolerances, we mitigate the risk by closely allying opportunity management with risk management. Opportunities may be within SAP or external. Our approach to opportunity management is strongly influenced by our strategy for customer-oriented innovation and sustained growth.

We establish a framework for opportunity management by evaluating and analyzing markets, competitors, and external scenarios. We also consider how our products are targeted and review the cost drivers and critical success factors in our industry. From these insights, we derive defined market opportunities that the Executive Board considers for inclusion in business plans and management targets.

At SAP, we are always looking for a balance between risks and opportunities in order to create shareholder value by analyzing new market opportunities. We have strong governance in place to ensure that the decision taken is based on the opportunity size, investment required, and the risk profile. Our decision also depends on the people and talent within SAP and our partner ecosystem. Without them, it would not be possible to successfully market our innovative products. All described opportunities are applicable to different extent to all of our segments (On-Premise Products, On-Premise Services, Cloud Applications, and Ariba) unless otherwise noted.

As far as opportunities are likely to occur, we have incorporated them into our business plans, our outlook for 2013, and our medium-term prospects outlined later in this report. The following section therefore focuses on future trends or events that might result in a departure from our outlook and medium-term prospects that are positive for SAP.

### Opportunities

#### *Opportunities from Positive Development of Economic Conditions*

Economic conditions have an influence on our business, financial position, profit, and cash flows. Our outlook for 2013 and medium-term prospects are based on the expectation that the future economic conditions are in line with what we have outlined in the Outlook section of this report. Should the global economy experience a more sustained recovery than is reflected in this forecast, our revenues and profits may exceed our current outlook and medium-term prospects.

We expect above-trend growth in the emerging markets (such as Brazil, China, the Middle East, and Turkey), which are ripe for our solutions – both traditional applications and our new innovations such as SAP HANA and mobile solutions. Should these economies progress faster than currently expected, this may positively impact our revenues, profits, and cash flows and result in exceeding our stated outlook and medium-term prospects.

For more information about future trends in the global economy, the IT market outlook, and their potential influence on SAP, see the Outlook section of this Management Report.

#### *Opportunities from Our Research and Development Activities*

Our continued growth depends on our ability to deliver innovative solutions to market and to drive ongoing value for our customers. We continue to improve our research and development effectiveness, applying lean methodology to accelerate innovation cycles and engage more closely with our customers.

Should our research and development activities progress better than currently expected, this may result in more innovative new and improved products being released or in new products being available earlier than currently planned. This could positively impact our revenues, profit, and cash flows and result in exceeding our stated outlook and medium-term prospects.

For more information about future opportunities in research and development for SAP, see the Research and Development and Outlook sections of this Management Report.

***Opportunities from Our Strategy for Profitable Growth***
Our strategy has an influence on our business, financial position, profit, and cash flows.

Our strategy is to deliver profitable growth across our portfolio of products, solutions, and services. Our goal is to double our addressable market to US$230 billion and increase the number of people who use and benefit from SAP solutions to one billion by 2015.

We see opportunities in new product or market categories, such as mobile, social media, Big Data, and the cloud, which we enter through a mix of organic developments and mergers and acquisitions. We also look to establish new business models and leverage our expanding ecosystem of partners to maximize these opportunities.

Our successful performance is very much based on our pace of innovation. SAP is now taking market share in our targeted market categories and creating new opportunities to increase the business value for our customers. This should allow SAP to increase the share of our customers' IT wallet as it adds additional business value.

Should the evolution of our five market categories progress faster than currently expected, this may positively impact our revenues, profit, and cash flows and result in our exceeding our stated outlook and medium-term prospects. That outcome could arise particularly if SAP HANA and our cloud offerings create even more demand than is reflected in our stated outlook and medium-term prospects.

For more information about future opportunities for SAP, see the Vision, Mission, and Strategy and Outlook sections of this Management Report.

***Opportunities from Our Partner Ecosystem***
SAP continues to develop an expanding partner ecosystem to increase market coverage, enhance our solutions portfolio, and spur innovation with the specified objective of increasing the partner revenue contribution to SAP's overall revenue target.

Should the business of our partners develop better than currently expected, our indirect sales (partner revenue) could grow stronger than reflected in our outlook and medium-term prospects and contribute more than the 40% of software revenue we expect by 2015. This may positively impact our revenues, profits, and cash flows and result in our exceeding our stated medium-term prospects.

For more information about opportunities arising from our partner ecosystem, see the Partner Ecosystem and Outlook sections of this Management Report.

***Opportunities from Our Employees***
Our employees spark our innovation, deliver value to our customers, and drive our sustainable growth and profitability. In 2012, we added approximately 1,800 full-time employees in sales to capture growth opportunities. We anticipate improvements in employee productivity by utilizing lean and design-thinking principles. As described in the Employees section, we also run programs that aim to increase engagement among our employees.

Should these measures and methods progress better than currently expected, this may positively impact our revenues, profits, and cash flows and result in our exceeding our stated outlook and medium-term prospects.

For more information about future opportunities from our employees, see the Employees section of this Management Report.

***Opportunities from Our Customer Engagement***

SAP goes to market by region, customer segment, and industry. In each region, we concentrate our sales efforts on the fastest-growing markets that have the most business and revenue potential. We evolve and invest in our go-to-market coverage model to effectively sell industry-specific solutions while increasing our engagement with customers.

To support customer value, we offer unique services that significantly drive business value. In the past, we have offered services such as SAP MaxAttention and SAP Safeguarding to our customers to help them capture the full value of our solutions. We will continue to actively look at new opportunities to drive customer value better than currently expected. Should these possibilities progress faster than currently expected, this may positively impact our revenues, profits, and cash flows and result in our exceeding our stated outlook and medium-term prospects.

# Risk Report

**INTERNAL CONTROL AND RISK MANAGEMENT ORGANIZATION**

As a global company, we are exposed to a wide variety of risks across our range of business operations. As a consequence, we have put comprehensive risk management structures into place that enable us to identify and analyze risks early on and take appropriate action. Our risk management system is designed to identify potential events that could negatively impact the Company and to provide reasonable assurance regarding the achievement of our Company objectives, specifically our ability to achieve our financial, operational, or strategic goals as planned. This system comprises multiple control mechanisms and constitutes an important element of the corporate decision-making process and is therefore implemented as an integral part of our business processes across the entire SAP Group. Seeking to ensure that our global risk management efforts are effective and enable us to aggregate risks and report on them transparently, we have adopted an integrated approach.

Being a stock corporation domiciled in Germany and issuing securities listed on the U.S. stock exchange, we are subject to German and U.S. regulatory requirements that relate to risk management, such as provisions in the German Stock Corporation Act, section 91 (2), and the U.S. Sarbanes-Oxley Act, section 404. Our Executive Board has established an early warning system (risk management system) to ensure compliance with applicable regulations and for the effective management of risks. Our Executive Board is also responsible for the effectiveness of our internal control system.

To ensure the effectiveness of our internal control system, designated champions of the Sarbanes-Oxley Act (SOX) assess and test the design and operating effectiveness of internal controls over financial reporting on a yearly basis. Our internal control system and our risk management system for the SAP Group are monitored by the Audit Committee of our Supervisory Board. For SuccessFactors, an external local audit and consulting firm has been engaged in the assessment and tested the design and the operating effectiveness of internal controls over financial reporting.

Our risk management organization consists of five major elements covering the functions of risk management governance, strategic, operational, financial, and compliance risk management with regard to our targets.

A Group-wide risk management governance function (Global Governance, Risk & Compliance Operations) is responsible for regular maintenance and implementation of SAP's risk management policy. Furthermore, a uniform process model has been defined involving the essential elements of risk management from risk planning, risk identification, risk analysis, and response to monitoring. To support this risk management process entirely we have implemented and rolled out our own risk management software. This function is also responsible for standardized risk reporting to risk committees at different levels of the Company including the Executive Board, the chairperson of the Supervisory Board, and the chairperson of the Audit Committee.

The strategic risk management function as part of the Global Governance, Risk & Compliance organization is responsible for enabling early identification and mitigation of risks related to the execution of our strategic targets. They support the successful execution of SAP's corporate strategy by creating transparency regarding risks that could threaten commercial interests or intangible assets such as corporate or product reputation and brand image or the achievement of our strategic objectives.

Operational and financial risk management is uniformly implemented at SAP. Risk managers independent from the business are assigned to each of our important business units and business activities and to selected strategic initiatives. All risk managers, together with assigned risk contacts in the business units, continuously identify and assess risks associated with material business operations using a uniform approach and monitor the implementation and effectiveness of the measures chosen to mitigate risks. Our risk managers are responsible for ensuring that a risk management is implemented across the SAP Group that is both effective and compliant with regulatory requirements and our global risk management policy. All risk managers (with the exception of SuccessFactors and Ariba) report to the Global Governance, Risk & Compliance organization. At SuccessFactors, the risk management responsibility lies with the general counsel that reports to the executive board member responsible for our Cloud applications business. Further financial risk management activities are performed by our Global Treasury function. At Ariba, risk management and the effective internal control system is ensured by the CFO's organization.

The head of Global Governance, Risk & Compliance, together with the corresponding functions within SAP's acquired companies (SuccessFactors, Ariba), is responsible for SAP's internal control and risk management program and provides regular updates to our Audit Committee. The overall risk profile of the SAP Group is consolidated by the head of Global Governance, Risk & Compliance, who reports directly to the Executive Board member and Chief Financial Officer of SAP.

**Risk Management System**

The risk management policy issued by our Executive Board governs how we handle risk and defines a methodology that applies uniformly across all parts of the SAP Group. The policy stipulates who is responsible for conducting risk management activities and defines reporting and monitoring structures. We routinely review and update the policy as necessary but at least once a year. The SAP global corporate audit function conducts regular audits to assess the effectiveness of our risk management system. Every year, our external auditor audits whether our early risk identification system is adequate to identify early enough risks that may endanger the SAP as a going concern. SAP's enterprise risk management follows COSO II (integrated framework for enterprise risk management) and covers risks in the areas of strategy, operational business, financial reporting, and compliance. Using the COSO framework, SAP defines and covers internal controls all along the value chain on a process and subprocess level to assure that sound business objectives are set in line with the organization's strategic, operational, financial, and compliance goals. The following sections describe the key content elements of our risk management process as part of our policy: Our risk planning, identification, analysis, response, and monitoring.

Risk planning and risk identification for both internal and external risks are conducted in cooperation between the risk managers and the business units or subsidiaries. We apply both qualitative and quantitative risk analysis across the entire Company as well as other risk analysis methods such as sensitivity analyses and simulation techniques. Depending on the estimated probability of occurrence and potential impact (such as amount of potential loss or damage), we classify a risk as "high," "medium," or "low." We use various techniques to identify risks. For example, we have identified risk indicators and developed a comprehensive risk catalog that includes risk mitigation strategies for known products and project risks. Risk identification takes place at various levels of the Company to ensure that common risk trends are identified and end-to-end risk management across organizational borders is enabled.

Risk analysis is followed by risk response and risk monitoring. The risk managers work in close cooperation with the business owners, seeking to ensure that effective strategies are implemented to minimize risks. Risks may be reduced by taking active steps to counteract them, or in some cases risks are accepted. The business owners are responsible for continuously monitoring the risks and the effectiveness of our mitigation strategies, with support from the respective risk managers. To provide greater risk transparency and enable appropriate decision making for our business owners, we established risk delegation of authority (RDOA) in our software development organizations, our field organization, and SuccessFactors. RDOA is a risk management decision-making hierarchy that helps respective business owners gain timely insight into our riskiest projects and processes, so they are better able to review the pertinent information, understand the risk profile and associated mitigation strategies, and determine if their approval is warranted. Depending on the exposure, approval is required at different levels of the Company, up to and including the Executive Board. For Ariba, risk management activities are performed throughout the organization by the Chief Privacy/Security Officer and the Chief Financial Officer based on their particular area.

We insure against risks only where the economic benefit appears worthwhile to us. Furthermore, our risk committees, which comprise senior managers from different lines of business, also monitor risks.

All identified and relevant risks are reported at the local, regional, and global levels in accordance with our risk management policy. At local, regional, and global levels, we have executive risk councils that regularly discuss risks and countermeasures and that monitor the success of risk mitigation. Risks are reported to the Executive Board on a regular basis. In addition, the full Executive Board is informed once every quarter about individual risks that have been classified as "high" following the risk analysis or that have exceeded defined limits. This reporting is done in the form of a qualitative description. Newly identified or existing significant risks that are above a defined threshold or with a potential significant impact are also reported to the chairperson of the Supervisory Board and to the chairperson of the Audit Committee of the Supervisory Board.

We also have a process in place that quantifies individual risks as far as possible and, from a given threshold, analyzes the risks with respect to their potential effect as regards illiquidity und excessive indebtedness and insolvency, and thus possible threat to the Group's ability to continue as a going concern.

The status of the risk management system and its implementation in the different Executive Board areas is reported regularly to the Audit Committee. In parallel, our global corporate audit function, which audits various aspects of the risk management system, also reports regularly to the Audit Committee.

Our risk managers use our own risk management software solution to create transparency across all known risks that exist within the SAP Group as well as to facilitate risk management and the associated risk reporting. We record and address identified risks in our software solution. Risk management information held in the solution is available to managers through a table application, and consolidated and aggregated for the quarterly report. The solution also supports the risk-based approach of our internal control and risk management system for financial reporting (ICRMSFR).

The risk management system analyzes risks only. It does not assess or analyze opportunities.

**Internal Control and Risk Management System for Financial Reporting by the SAP Group**

Our internal control and risk management system for financial reporting (ICRMSFR) is based on our Group-wide risk management methodology. The ICRMSFR includes organizational, control, and monitoring structures designed to ensure that data and information concerning our business are collected, compiled, and analyzed in accordance with applicable laws and properly reflected in the IFRS Consolidated Financial Statements as well as in the stand-alone Financial Statements of SAP AG according to German GAAP.

Our ICRMSFR includes policies, procedures, and measures designed to ensure compliance of our financial reports with applicable law and standards. We analyze new statutes, standards, and other pronouncements, as failure to implement them would present a substantial risk to the compliance of our financial reporting. Our corporate financial reporting department codifies all accounting policies in our Group Accounting Guideline and Global Revenue Recognition Guidelines. These policies and our corporate closing schedule together define the closing process under which all affiliates prepare their financial statements for consolidation by our corporate financial reporting office. The corporate financial reporting department and other corporate departments assist our local subsidiaries' efforts to comply with Group accounting policies and monitors their work. Our corporate audit function and corporate financial reporting department conduct audits of our affiliates' financial reporting. The corporate financial reporting department conducts all of our financial consolidation. We outsource some work, such as valuing projected benefit obligations and share-based payment obligations, and in the context of asset acquisitions and business combinations, the respective purchase price allocations. The employees who work on our financial reporting receive training in our policies and processes. Our ICRMSFR has both preventive and detective controls, including, for example, automated and non-automated reconciliations, segregated duties with two-person responsibility, authorization concepts in the SAP software system, and monitoring.

Based on the results of the analysis regarding design and operating effectiveness of internal controls over financial reporting, our management assesses the effectiveness of the ICRMSFR on December 31 each year. A committee chaired by our Chief Financial Officer meets regularly to set the annual scope for our test of ICRMSFR effectiveness, to evaluate any possible weaknesses in the controls, and to determine measures to adequately address them. At its meetings, the Audit Committee of the Supervisory Board regularly scrutinizes management's assessments of the effectiveness of our ICRMSFR with regard to our Consolidated Financial Statements.

The purpose of a company's internal control over financial reporting is to ensure with sufficient certainty that its financial reporting is reliable and in compliance with applicable generally accepted accounting principles. Because of the inherent limitations of internal control over financial reporting, it may not prevent or bring to light all potential misstatements in our financial statements.

The assessment of the effectiveness of our internal controls over financial reporting, including SuccessFactors' internal controls over financial reporting, was that on December 31, 2012, the SAP Group has an effective internal control system over financial reporting.

**Risk Assessment**
To determine which risks pose the highest threat to the viability of the SAP Group, we classify our risks as "high," "medium," or "low" based on the likelihood that a risk will occur within the assessment horizon as well as the impact the risk would have on our business objectives if the risk were to occur. The scales for measuring these two indicators are given in the following tables.

| Probability/Likelihood of Occurrence | Description |
|---|---|
| 1–19% | Remote |
| 20–39% | Unlikely |
| 40–59% | Likely |
| 60–79% | Highly likely |
| 80–99% | Near certainty |

Under this framework, we define a remote risk as one that will occur only under exceptional circumstances and a near-certain risk as one that can be expected to occur within the specified time horizon.

| Impact Level | Impact Definition |
|---|---|
| Insignificant | Negligible negative impact on business, financial position, profit, and cash flows |
| Minor | Limited negative impact on business, financial position, profit, and cash flows |
| Moderate | Some potential negative impact on business, financial position, profit, and cash flows |
| Major | Considerable negative impact on business, financial position, profit, and cash flows |
| Business-critical | Detrimental negative impact on business, financial position, profit, and cash flows |

Based on the likelihood that a risk will occur as well as the impact the risk would have on our reputation, business, financial position, profit, and cash flow leads us to classify the risks as "high," "medium," or "low."

| Probability | | | | | |
|---|---|---|---|---|---|
| 80–99% | L | M | H | H | H |
| 60–79% | L | M | M | H | H |
| 40–59% | L | L | M | M | H |
| 20–39% | L | L | L | M | M |
| 1–19% | L | L | L | L | M |
| | Insignificant | Minor | Moderate | Major | Business-critical |
| | | | Impact | | |

**H** = High risk
**M** = Medium risk
**L** = Low risk

## RISK FACTORS

The following sections outline risk factors that we identify and track using SAP's risk management solution. They are presented below at a more aggregated level as compared to their use in internal controlling, but are broken down by the same risk categories we also use in our internal risk management system reporting structure. All described risks are applicable to different extent to all of our segments (On-Premise Products, On-Premise Services, Cloud Applications, and Ariba) unless otherwise noted.

SAP AG is the parent company of the SAP Group consisting of SAP, SuccessFactors, and Ariba. Consequently, the risks described below also apply – directly or indirectly – to SAP AG.

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

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

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

– Increased number of bankruptcies among customers, business partners, and key suppliers
– Increased default risk, which may lead to significant impairment charges in the future
– Market disruption from aggressive competitive behavior, acquisitions, or business practices
– Increased price competition and demand for cheaper products and services

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

SAP has established measures and dedicated task forces to address and mitigate the described risks and possible negative impacts to the extent possible. We offer our customers standard software and product packages that are fast and easy to install, as well as attractive financing models. Furthermore, we continue to apply cost discipline internally and have a conservative financial planning policy. Additionally, SAP is continuously reshaping its organizational structure and processes to increase efficiency.

In view of the measures that are in place, we estimate the probability of occurrence of this risk to be likely. Therefore, we cannot completely exclude the possibility of it having a business-critical impact on our business, financial position, profit, and cash flows, exacerbating the other risks we describe in this report, or causing a negative deviation from our revenue and operating profit target. We classify this risk as a high risk.

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

We currently market our products and services in more than 130 countries in the APJ, EMEA, Latin America, and North America regions. Sales in these countries are subject to numerous risks inherent in international business operations. Among others, these risks include:
– Conflict and overlap among tax regimes
– Possible tax constraints impeding business operations in certain countries
– Expenses associated with the localization of our products and compliance with local regulatory requirements
– Operational difficulties in countries with a high corruption perception index
– Protectionist trade policies
– Regulations for import and export
– Works councils, labor unions, and immigration laws in different countries
– Data protection and privacy in regard to access by foreign authorities to customer, partner, or employee data
– Country-specific software certification requirements

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

We address these risks with various measures depending on the circumstances, including, for example, making local organizational changes, establishing a Data Protection and Privacy Office and associated policy, receiving guidance from external economics consultants, law firms, tax advisors, and authorities in the concerned countries, and taking legal actions. Although we estimate the probability of occurrence of this risk to be unlikely, we cannot completely exclude the possibility that this risk could have a major negative impact on our business, financial position, profit, and cash flows, or cause a negative deviation from our revenue targets. We classify this risk as a medium risk.

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

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

Our mitigation measures have been designed and implemented to minimize such negative impacts. Our corporate headquarters, which include certain critical business functions, are located in the German state of Baden-Württemberg. This area has historically been free of natural disasters. To protect our key IT infrastructure and critical business systems and processes from material negative impact in crisis situations, disaster recovery and business continuity plans have been developed and include implementation of data redundancies and daily information backup strategies. To verify and improve our approach, the Global IT organization is regularly certified to the internationally recognized British standard BS 25999-2 (Business Continuity Management). In addition, SAP is one of the first international companies and the first German company to be certified to the new ISO 22301:2012 standard. To ensure continuous operations of all critical business processes, we have been implementing and operating a worldwide business continuity management system. To enable effective response and minimize possible losses in case of crisis situations, we have installed local crisis management teams at our main locations, supplemented by regional crisis management teams for the APJ, EMEA, Latin America, and North America regions and our global crisis management team. We believe that the likelihood of this risk materializing is remote; however, we cannot exclude the possibility of such a risk occurring and having a business-critical impact on our reputation, business, financial position, profit, and cash flows, or causing a negative deviation from our revenue targets. We classify this risk as a medium risk.

**Market Risks**

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

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

Working closely with SAP user groups, we continuously monitor the performance of our support organization and the satisfaction of our customers. We implement mitigating steps where required. In view of these measures and due to the value of support perceived by customers, we estimate the probability of this risk materializing to be remote, but we cannot completely exclude the possibility that it could have a business-critical impact on our business, financial position, profit, and cash flows, or cause a negative deviation from our revenue and operating profit target. We classify this risk as medium risk. This risk factor relates only to our On-Premise Products segment.

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

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

- Perceived security capabilities and reliability
- Perceived concerns about the ability to scale operations for large enterprise customers
- Concerns with entrusting a third party to store and manage critical employee or company-confidential data
- The level of configurability or customizability of the software

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

Although we estimate the probability of occurrence of this risk to be remote, we cannot completely exclude the possibility that this risk could have a business-critical impact on our reputation, business, financial position, profit, and cash flows, or cause a negative deviation from our revenue and operating profit target. We classify the risk as a medium risk. This risk factor relates only to our Cloud division combining the Cloud Applications and Ariba segments.

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

The software industry continues to evolve rapidly and currently is undergoing a significant shift due to innovations in the areas of mobile, Big Data, cloud computing, and social media. While smaller innovative companies tend to create new markets continuously, large traditional IT vendors tend to enter such markets mostly through acquisitions. In 2012, most merger and acquisition (M&A) activities within the software industry were in cloud computing, social media, database and technology, and analytics. Therefore, SAP is facing increased competition in its business environment from traditional as well as new competitors. This could result in increased price pressure, cost increases, and loss of market share and could negatively impact the achievement of our future operating profit target.

We believe we will be able to protect our leadership in the market if we continue to execute successfully on our innovation strategy, which is driven by a mix of organic growth and targeted acquisitions. Although we estimate the probability of occurrence of this risk to be unlikely, we cannot completely exclude the possibility that this risk could have a moderate negative impact on our business, financial position, profit, and cash flows, or cause a negative deviation from our operating profit target. We classify this risk as a low risk.

**Business Strategy Risks**

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

Our customers are looking to take advantage of technological breakthroughs from SAP without compromising their previous IT investments. Thus, our customers might not realize the expected benefits from these previous investments. Additionally, the introduction of new SAP solutions, technologies, and business models are subject to uncertainties. Therefore, customers might wait for reference customers first, which might lead to a lower level of adoption of our new solutions and business models or no adoption at all.

To mitigate this risk, SAP is balancing the distribution of its strategic investments by evolving and protecting its core businesses (solutions and analytics) and simultaneously developing new solutions and business models for markets, such as mobile, cloud, and database and technology (including SAP HANA). We estimate the probability of occurrence of this risk to be remote, but cannot completely exclude the possibility that this risk could have a major negative impact on our business, financial position, profit, and cash flows, or cause a negative deviation from our revenue and operating profit target. We classify this risk as a low risk.

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

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

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

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

Although we estimate the probability of occurrence of this risk to be unlikely, we cannot completely exclude the possibility that this risk could have a moderate negative impact on our business, financial position, profit, and cash flows, or cause a negative deviation from our revenue and operating profit target. We classify this risk as a low risk. This risk factor relates only to our Cloud division combining the Cloud Applications and Ariba segments.

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

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

These partners might not do the following:
– Enable enough resources to promote, sell, and support to scale into targeted markets
– Develop a sufficient number of new solutions and content on our platforms
– Sufficiently embed our solutions to profitably drive "SAP everywhere" (OEM model)
– Provide high-quality products and services to our customers
– Comply with applicable laws and regulations, resulting in delayed, disrupted, or terminated sales and services
– Renew their agreements with us on terms acceptable to us or at all

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

SAP continues to invest in long-term, mutually beneficial relationships and agreements with its partners. We continue to develop and enhance a wide range of partner programs in order to retain existing and attract new partners of all types. Furthermore, we offer training opportunities to a wide range of resources for our partners. A thorough certification process for third-party solutions has been designed and established to ensure consistent high quality and seamless integration. Although we consider this risk to be unlikely in view of our partner strategy, we cannot exclude the possibility that this risk could have a major negative impact on our reputation, business, financial position, profit, and cash flows, or cause a negative deviation from our revenue and operating profit target if it were to materialize. We classify this risk as a medium risk.

**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. Changes in headcount and infrastructure needs could result in a mismatch between our expenses and revenue. Failure to do so could hinder our ability to run our business efficiently and successfully.

We are focusing on mitigating this risk through a range of activities including succession management, workforce planning (which aims to achieve diversity and the right mix of talent and to take account of demographic changes), outsourcing, external short-term staffing, employer branding, career management (such as offering opportunities for short-term assignments and opportunities to improve skills, competencies, and qualifications), and extended benefit programs – for example, a performance-oriented remuneration system, an employer-financed pension plan in certain countries, and long-term incentive plans. Given the measures that are in place, we estimate this risk to be a remote possibility, but we cannot underestimate its potential to have a major negative impact on our business, financial position, profit, and cash flows, or cause a negative deviation from our revenue and operating profit target. We classify this risk as a low risk.

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

Our highly qualified workforce provides the foundation for our continued success. Competition in our industry for highly-skilled and specialized personnel and leaders, both male and female, is intense. In certain regions and specific technology and solution areas, we have set ambitious growth targets in countries such as Brazil, China, and Russia. If we are unable to identify, attract, develop, motivate, and retain well-qualified personnel, both male and female, or if existing highly-skilled and specialized personnel leave SAP and ready successors or adequate replacements are not available, we may not be able to manage our operations effectively or develop, sell, or implement successful new solution and services as planned. This is particularly true as we continue to introduce new and innovative technology offerings and expand our business in emerging markets. In addition, SAP might not be able to achieve its internal gender diversity objectives by 2017. Finally, hiring such personnel could expose us to claims by other companies seeking to prevent their employees from working for a competitor.

These risks notwithstanding, we continue to believe our leading market position, employer brand, and extended benefit programs will enable us to hire top talent internationally with the potential to contribute to SAP's growing business success in the future. In addition, we address the risk of a negative impact on our business operations due to the failure to recruit the employees we need as well as the loss of leaders and employees, by seeking to build employee and leadership strengths through a range of targeted professional development, mentoring, and coaching programs, gender diversity program, and special high-potential employee programs that aim to develop talent as well as leadership talent in particular. A strong focus on succession planning for leadership and for key positions seeks for sustainable leadership and to safeguard the business from disruption caused by staff turnover. Although the risks related to attracting, developing, and retaining talent could materialize, we believe that this is unlikely and that the potential negative impact on our reputation, business, financial position, profit, and cash flows, or potential negative deviation from our revenue and operating profit target would be moderate. We classify this risk as a low risk.

### Organizational and Governance-Related Risks

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

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

It is difficult to assess the precise potential risk, because there are a wide variety of complex legal and regulatory requirements that apply, and therefore an equally wide variety of potential non-compliance scenarios exist.

However, we do continuously monitor new regulatory requirements, updated or new enforcement trends, and publicly available information on compliance issues that surface in the computer software industry or in the business environment in general. Based on this information and any other available sources, we continuously update and refresh our compliance program to achieve the most effective approach possible to ensure that our employees understand and comply with our Code of Business Conduct. This process is managed by our global compliance office, a team of dedicated resources who are tasked with managing our policy-related compliance measures. Our chief compliance officer coordinates policy implementation, training, and enforcement efforts throughout SAP. Those efforts are monitored and tracked to allow trending and risk analysis and to ensure consistent policy application throughout the Group. Despite our comprehensive compliance programs and established internal controls, intentional efforts of individuals to circumvent controls or engage in fraud for personal gains cannot always be prevented. Although we estimate the likelihood of this risk to be remote, we cannot completely exclude the possibility that this risk could have a major negative impact on our reputation, business, financial position, profit, and cash flows, or cause a negative deviation from our revenue and operating profit target. We classify this risk as a low risk.

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

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

To mitigate these risks, SAP actively monitors changes to laws and regulations to take adequate measures and certify our existing standards on an ongoing basis. SAP has implemented a wide range of measures to protect data controlled by SAP and its customers from unauthorized access and processing, as well as from accidental loss or destruction. SAP has implemented a certified Data Protection Management System in data protection-critical areas including support, HR, global services, marketing, and cloud operations, whose implementation is audited internally and externally by the British Standard Institutions on an annual basis. Furthermore, customers are provided with security certifications (such as ISO 27001), security white papers, and reports from our independent auditors and certification bodies. Given the measures for data protection and privacy that SAP has in place, we estimate this risk to be unlikely, but cannot rule out the possibility of it having a business-critical impact on our business, financial position, profit, and cash flows, causing damage to our reputation, or causing a negative deviation from our revenue and operating profit target. We classify this risk as a medium risk.

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

Energy and emissions management as well as our social investments are an integral component of our holistic management of social, environmental and economic risks and opportunities. We have identified related risks in these major areas:
– Our solutions and green IT
– SAP's own operations – energy management and other environmental issues such as carbon management, water use, and waste
– Social investments focusing on education and entrepreneurship

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

In the last few years, SAP has proven that it is possible to take a proactive position on social and environmental issues while delivering robust financial growth. As a result, we received great recognition for our sustainability efforts. As a proof point for SAP's sustainability performance, we continue to be listed in the most prominent and recognized sustainability indices, such as the Dow Jones Sustainability Index or the Sustainability Leadership Report by Brandlogic. We believe that the risk of failing to meet expectations regarding our energy and emission strategy as well as social investment strategy is unlikely to occur and that if the risk were to occur, it would have a moderate negative impact on our reputation, business, financial position, profit, and cash flows as well as on the achievement of our revenue targets. We classify this risk as a low risk.

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

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

We take a wide range of actions to prevent classified confidential information from unauthorized disclosure, including procedural and organizational measures. These measures include mandatory security awareness training for all employees, standards for safe internal and external communication, and technical security features for our IT hardware and communication channels including mandatory encryption of sensitive data. Although we estimate the likelihood of occurrence of this risk to be remote, we cannot completely exclude the possibility that this risk could have a business-critical impact on our reputation, business, financial position, profit, and cash flows, or cause a negative deviation from our operating profit target. We classify this risk as a medium risk.

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

Our revenue and operating results can vary and have varied in the past, sometimes substantially, from quarter to quarter. Our revenue in general, and in particular our software revenue, is difficult to forecast for a number of reasons, including:
– The relatively long sales cycles for our products
– The large size, complexity, and extended timing of individual license transactions

– The introduction of new licensing and deployment models such as cloud subscription models
– The timing of the introduction of new products or product enhancements by SAP or our competitors
– Changes in customer budgets
– Decreased software sales that could have a significant negative impact on related maintenance and services revenue
– Timing, size, and length of a customer's services projects
– Deployment models that require the recognition of revenue over an extended period of time
– Seasonality of a customer's technology purchases
– Limited visibility into the ability of acquired companies to accurately predict their sales pipelines and the likelihood that the projected pipeline will convert favorably into sales
– Other general economic, social, environmental, and market conditions, such as the global economic crisis and the current difficulties for countries with large debt

Since many of our customers make their IT purchasing decisions near the end of calendar quarters, and with a significant percentage of those decisions being made during our fourth quarter, even a small delay in purchasing decisions could have a significant negative impact on our revenue results for a given year. Our dependence on large transactions has decreased in recent years with a trend towards an increased number of transactions coupled with a decrease in deal size. However, the loss or delay of one or a few large opportunities, which are still characteristic of the large enterprise segment, could have a significant negative impact on our results in terms of failure to achieve our revenue targets.

We use a "pipeline" system to forecast sales and trends in our business. Pipeline analysis informs and guides our business planning, budgeting, and forecasting, but pipeline estimates do not necessarily consistently correlate to revenue in a particular quarter, potentially due to one or more of the reasons outlined above. The reliability of our plans, budgets, and forecasts may therefore be compromised. Because our operating expenses are based upon anticipated revenue levels and a high percentage of our expenses are relatively fixed in the near term, any shortfall in anticipated revenue or delay in revenue recognition could result in significant variations in our operating results from quarter to quarter or year to year. Continued deterioration in global economic conditions would make it increasingly difficult for us to accurately forecast demand for our products and services, and could cause our revenue, operating results, and cash flows to fall short of our expectations and public forecasts. That could have a significant negative impact on our stock price. To the extent any future expenditure fails to generate the anticipated increase in revenue, our quarterly or annual operating results may be subject to a significant negative impact and may vary significantly compared to preceding or subsequent periods.

Although we estimate the probability of occurrence of this risk to be unlikely, we cannot completely exclude the possibility that this risk could have a moderate negative impact on our business, financial position, profit, and cash flows, or cause a negative deviation from our revenue and operating profit target. We classify this risk as a low risk.

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

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

Although we estimate the probability of occurrence of this risk to be remote, there can be no assurance that the prescribed measures will be successful or that uncertainty in global economic conditions could not have a business-critical impact on our business, financial position, profit, cash flows or operating profit target. We classify this risk as a medium risk.

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

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

We have a number of control procedures in place to mitigate this risk. For example, we apply two-person verification to significant estimating. Although we estimate the probability of occurrence of this risk to be unlikely, we cannot completely exclude the possibility that this risk could have a major negative impact on our business, financial position, and profit, or cause a negative deviation from our revenue and profit targets. We classify this risk as a medium risk.

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

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

Although we estimate the probability of occurrence of this risk to be unlikely, we cannot completely exclude the possibility that this risk could have a major negative impact on our reputation, business, financial position, and profit, or cause a negative deviation from our revenue and operating profit target. We classify this risk as a medium risk.

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

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

We continuously monitor our exposure to currency fluctuation risks based on balance-sheet items and expected cash flows, and pursue a Group-wide foreign exchange risk management strategy using, for example, derivative financial instruments as appropriate. In 2012, we significantly reduced the amount and maturity of our variable interest rate positions. Therefore, we believe that the likelihood of this risk materializing is remote and that if the risk were to occur, its potential negative impact on our business, financial position, profit, cash flows, and operating profit target would be moderate. We classify this risk as a low risk. Consequently, there are currently no interest rate hedges in place. For more information about risks arising from financial instruments, including our currency and interest-rate risks and our related hedging activity, see the Notes to the Consolidated Financial Statements section, Notes (24) to (26).

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

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

Nonetheless, we believe that the likelihood of this risk materializing is remote and that if the risk were to occur, its potential negative impact on our business, financial position, profit, cash flows, and operating profit target would be minor. We classify this risk as a low risk.

**Project Risks**

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

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

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

Our customers continue to follow project approaches to optimize their IT solutions in a non-disruptive manner. Also, our projects include risk management processes that are integrated into SAP project management methods intended to safeguard implementations with coordinated risk and quality management programs. In our opinion, we make adequate financial planning provisions for the remaining individual risks. We estimate the probability of occurrence of this risk to be unlikely, but we cannot completely exclude the possibility that this risk could have a major negative impact on our reputation, business, financial position, profit, and cash flows, or cause a negative deviation from our revenue and operating profit target. We classify this risk as a medium risk.

**Product and Technology Risks**

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

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

SAP has implemented a software security development lifecycle as a mandatory and integral part of our software development process. SAP systematically uses methods to develop secure software in all development phases, starting early in the design phase. This includes industry best practices such as automated security source code scans, mandatory security training for all developers, and solid testing and validation of our products and services before shipment.

SAP has a software security response process in place with a dedicated team that monitors against vulnerabilities across several time zones around the globe. If a vulnerability is detected, the team reacts rapidly to provide fixes as quickly as possible. Despite all of these measures, we cannot completely exclude the possibility of a negative impact on both our customers' and our own operations globally or in one or more countries or regions. We estimate the probability of occurrence of the risk of severe customer damage to be unlikely. If such an occurrence happens, it could have a business-critical impact on our reputation, business, financial position, profit, and cash flows, or cause a negative deviation from our revenue and operating profit target. We classify this risk as a medium risk.

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

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

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

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

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

We counter these risks using a broad range of techniques, including project management, project monitoring, rigid and regular quality assurance measures certified to ISO 9001:2008, and program risk assessments during product development as well as market introduction phases. In addition, direct customer feedback is considered in the market release decision process. Delivering high-quality software products is a priority and part of our core business. Our strong investment and permanent efforts lead to a generally high level of quality of our products which is made transparent in the defined Quality Perception & Support Index and confirmed by our constantly high customer satisfaction ratings as measured by the Customer Quality Perception reporting. In view of these measures, we believe that the likelihood that this risk will materialize is remote but we cannot completely exclude the possibility that this risk, if it were to occur, could have a business-critical impact on our reputation, business, financial position, profit, and cash flows, or cause a negative deviation from our revenue and operating profit target. We classify this risk as a medium risk.

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

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

We strive to execute appropriate due diligence and contract management processes and to continuously monitor development projects through our product implementation lifecycle process. We believe that the probability of occurrence of this risk is unlikely; however, we cannot exclude the possibility of a major negative impact on our business, financial position, profit, and cash flows, or the possibility of a negative deviation from our revenue and operating profit target. We classify this risk as a medium risk.

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

Our future success continues to depend on our ability to keep pace with technological innovations and new business models, as well as the ability to enhance and expand our existing products and services. It also depends on our ability to introduce new solutions, technologies, and services that are broadly accepted in the market and that satisfy changing customer requirements.

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

We will continue to align our organization, processes, products, and services to changing markets and customer demands. Furthermore, we invent new technology or adopt latest technology if there is a clear business opportunity for SAP and if it provides value to our customers. In addition, we still conduct wide-ranging market and technology analyses and research projects, seeking to ensure that we remain competitive in the future. We strive for strategic acquisitions to drive innovation and to achieve our growth targets. In view of these measures, we believe that the likelihood of this risk materializing is remote; however, we cannot exclude the potential business-critical impact this risk would have on our reputation, business, financial position, profit, and cash flows, or the potential negative deviation from our revenue and operating profit target if it were to materialize. We classify this risk as a medium risk.

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

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

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

We believe that we will be able to deliver additional business value with minimum disruption to our customers if we can successfully drive the integration and convergence of our platform offerings, enable our current product portfolio for SAP HANA, and develop new solutions based on SAP HANA. In addition, we enable and encourage ISV partners to leverage SAP technology by providing guidance about business opportunities, architecture, and technology as well as a comprehensive certification program designed to ensure that third-party solutions are of consistently high quality. In view of these measures, we believe that the likelihood of this risk materializing is remote and that if this risk were to occur, its potential negative impact on our reputation, business, financial position, profit, cash flows, and revenue and operating profit target would potentially be business-critical. We classify this risk as a medium risk.

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

The software used in our cloud portfolio is inherently complex and any defects in product functionality or system stability that cause interruptions in the availability of our application suite could result in the following:
– Lost or delayed market acceptance and sales
– Breach of warranty or other contract breach or misrepresentation claims

– Sales credits or refunds to our customers
– Loss of customers
– Diversion of development and customer service resources
– Injury to our reputation

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

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

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

Our mitigation measures have been designed and implemented to minimize such negative impacts. We are consolidating and harmonizing our data centers to run a homogeneous landscape that supports the complex infrastructure and application requirements to deliver the required service level for Cloud solutions. Although we estimate the probability of occurrence of this risk to be unlikely, we cannot completely exclude the possibility that any disruption of our Cloud operations could result in a business-critical impact on our reputation, business, financial position, profit, cash flows, and revenue and operating profit target. We classify this risk as a medium risk. This risk factor relates only to our cloud division combining the Cloud Applications and Ariba segments.

**Operational Risks**

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

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

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

Software includes many components or modules that provide different features and perform different functions. Some of these features or functions may be subject to third-party intellectual property rights. The rights of another party could encompass technical aspects that are similar to one or more technologies in one or more of our products. Intellectual property rights of third parties could preclude us from using certain technologies in our products or require us to enter into royalty and licensing arrangements on unfavorable or expensive terms.

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

SAP continues to expand its participation in standards organizations and increase the use of such standards in its products. Participation in standards organizations might require the licensing of SAP's intellectual property to contributors to the standard and to all standards implementers, including competitors, on a non-discriminatory basis in accordance with licensing terms defined by standards organizations. Within the software-related standards field, there is a trend toward expanding the scope of licensing obligations and narrowing an intellectual property owner's right to revoke a license if sued by a licensee. In certain situations, limitations on SAP's rights to revoke a license could reduce SAP's ability to assert a patent infringement claim against a third party. Assertion of patents inadvertently licensed through standards could expose SAP to third-party claims.

Our global compliance office is responsible for constantly assessing and managing risks associated with third-party intellectual property. It works closely with our Global Governance, Risk & Compliance organization. The global compliance office investigates the way we handle intellectual property, sets internal policies, and monitors compliance with these policies. However, we consider the probability of this risk materializing to be likely, and that any claims concerning intellectual property rights of third parties, open source requirements, or certain standards could potentially have a business-critical impact on our business, financial position, profit, cash flows, and revenue and operating profit target and could also exacerbate the other risks we describe in this report. We classify this risk as a high risk.

For more information about infringements related to intellectual property, see the Notes to the Consolidated Financial Statements section, Notes (23).

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

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

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

We consider the probability of occurrence of this risk to be likely, and cannot exclude its potential business-critical impact on our reputation, business, financial position, profit, cash flows, and revenue and operating profit target if it were to materialize. We classify this risk as a high risk.

**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
- Negative impact on relationships with existing customers, partners, or third-party providers of technology or products
- Difficulties in integrating the acquired company's accounting, human resource, and other administrative systems and coordination of the acquired company's research and development (R & D), sales, and marketing functions
- Debt incurrence or significant cash expenditures

In addition, acquired businesses might not perform as anticipated, resulting in charges for the impairment of goodwill and other intangible assets on our statements of financial position. Such charges may have a significant negative impact on operating profit. We have entered into, and expect to continue to enter into, alliance arrangements for a variety of purposes, including the development of new products and services. There can be no assurance that any such products or services will be successfully developed or that we will not incur significant unanticipated liabilities in connection with such arrangements. We may not be successful in overcoming these risks and we may therefore not benefit as anticipated from acquisitions or alliances.

We counter these acquisition-related risks with many different methodological and organizational measures. These include technical, operational, financial, and legal due diligence on the company or assets to be acquired and a holistic evaluation of material transaction and integration risks. The methods we use depend on the integration scenario. Our integration planning is detailed and standardized, and carried out by a dedicated integration team. We therefore believe we have minimized this risk. Although we estimate this risk to be unlikely, we cannot completely exclude the possibility that this risk could have a major negative impact on our business, financial position, profit, cash flows, and revenue and operating profit target. We classify this risk as a medium risk.

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

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

We rely on a combination of the protections provided by applicable statutory and common law rights, including trade secret, copyright, patent, and trademark laws, license and non-disclosure agreements, and technical measures to establish and protect our proprietary rights in our products. We have established various internal programs, such as internal policies, processes, and monitoring, to assess and manage the risks associated with standards organizations, open source, and third party intellectual property.

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

We are party to certain patent cross-license agreements with certain third parties. In spite of our measures in place and intellectual property (IP) strategy, we estimate the probability of this risk occurring as likely, and that it could have a business-critical impact on our reputation, business, financial position, profit, cash flows, and revenue and operating profit target. We classify this risk as a high risk.

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

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

To address the increasing cyber-security threats, SAP is continuously adapting and modifying its security procedures. We have multiple security measures in place, such as technical IT security measures, identity and access management, and security awareness campaigns. In addition, SAP has implemented a security governance model to define clear security management accountabilities for product, corporate, cloud delivery, and data protection, which enables SAP to respond quickly to identify cyber-security risks. Although we consider the occurrence of this risk to be unlikely, in view of our security measures in place, we cannot completely exclude the possibility that this risk could have a business-critical impact on our business, financial position, profit, and cash flows. We classify this risk as a medium risk.

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

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

To minimize these risks, we have implemented several technical and organizational measures, which include, for example, physical access control systems at facilities, multilevel access controls, closed-circuit television surveillance, and security personnel in all critical areas. Access to information and information systems is controlled using authorization concepts. Managers and employees are regularly sensitized to the issues and given appropriate training. We keep these measures under continuous review to meet current threats. Although we estimate the probability of occurrence of this risk to be unlikely, we cannot completely exclude the possibility that any misuse, theft, or breach of security could have a moderate negative impact on our business, financial position, profit, and cash flows. We classify this risk as a low risk.

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

We maintain insurance coverage to protect us against a broad number of risks, at levels we believe are appropriate and consistent with current industry practice. Our objective is to exclude or minimize risk of financial loss at reasonable cost. However, we may incur losses that are beyond the limits, or outside the scope of coverage of such insurance and that may limit or prevent indemnification under our insurance policies. In addition, we might not be able to maintain adequate insurance coverage on commercially reasonable terms in the future. Further, certain categories of risks are currently not insurable at reasonable cost. Finally, there can be no assurance of the financial ability of the insurance companies to meet their claim payment obligations.

In view of the scope of our insurance coverage and our selection of insurers, and because we keep our insurance programs under constant review, we believe that the likelihood of this risk materializing is remote. However, we cannot exclude the possibility of a potential business-critical impact on our business, financial position, profit, cash flows, and operating profit target if the risk were to occur. We classify this risk as a medium risk.

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

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

Because of the limited scope of our venture capital activities, we believe that the likelihood of this risk materializing is remote and that if the risk were to occur, its potential negative impact on our business, financial position, profit, cash flows, and operating profit target would be minor. SAP Ventures helps us address this risk by diversifying its portfolio and actively managing our investments. We classify this risk as a low risk.

## Consolidated Risk Profile

### *Management Assessment of Overall Risks and Opportunities*

SAP consolidates and aggregates all risks reported by the different business units and functions following our risk management policy monitored by a Group-wide risk management governance function.

Compared to previous years, we recognized merely minor changes in 2012 for the percentages of all risks categorized as "high" or "medium" in our risk level matrix. At the end of the year, the number of risks categorized as "high" accounted for 9% (2011: 8%) of all identified risks, while the risks categorized as "medium" accounted for 34% (2011: 31%) of all identified risks.

In our view, considering their likelihood of occurrence and impact level, the risks described in our aggregated risk report do not individually or cumulatively threaten our ability to continue as a going concern. Management remains confident that the Group's earnings strength forms a solid basis for our future business development and provides the necessary resource to pursue the opportunities available to the Group. Because of our strong position in the market, our technological leadership, our highly motivated employees, and our structured processes for early risk identification, we are confident that we can continue to successfully counter the challenges arising from the risks in our risk profile in 2013.

# Supplementary Report

No events have occurred after December 31, 2012, which have a material significance for the Group's assets, finances, and operating results.

# Outlook

**FUTURE TRENDS IN THE GLOBAL ECONOMY**
Given the growing demand and the financial markets' increasing confidence in a positive future, the global economy is expected to recover gradually in 2013 according to the European Central Bank (ECB)[1]. Growth momentum will nevertheless be moderate, with emerging countries expected to grow more strongly than industrialized countries.

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

Looking at the Americas region, it is anticipated that the U.S. economy will continue its moderate recovery in 2013. Domestic demand is expected to bounce back and the situation in the labor market will brighten. Latin America is also expected to enjoy rapid growth again in 2013. It is likely to benefit from the gradual improvement in the global economic outlook as well as from the less stringent monetary policies applied by some governments.

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

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

## IT MARKET: THE OUTLOOK FOR 2013

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

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

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

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

## IMPACT ON SAP

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

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

## FORECAST FOR SAP

### Strategy for Profitable Growth

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

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

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

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

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

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

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

**Organic Growth and Targeted Acquisitions**

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

## OPERATIONAL TARGETS FOR 2013 (NON-IFRS)

**Revenue and Operating Profit Outlook**

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

- The Company expects full-year 2013 non-IFRS software and cloud subscription revenue to increase in a range of 14% to 20% at constant currencies (2012: €5.00 billion). The full year 2013 non-IFRS cloud subscription and support revenue contributing to this growth is expected to be around €750 million at constant currencies (2012: €343 million).
- The Company expects full-year 2013 non-IFRS software and software-related service revenue to increase in a range of 11% to 13% at constant currencies (2012: €13.25 billion).
- The Company expects full-year 2013 non-IFRS operating profit to be in a range of €5.85 billion to €5.95 billion at constant currencies (2012: €5.21 billion).
- The Company projects a full-year 2013 IFRS effective tax rate of 25.5% to 26.5% (2012: 26.2%) and a non-IFRS effective tax rate of 27.0% to 28.0% (2012: 27.5%).

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

We expect that total revenue (non-IFRS) will continue to depend largely on the revenues from the On-Premise Products segment. The expected growth in revenue from this segment, however, is below the outlook provided for software and cloud subscription revenue (non-IFRS). Keeping in line with the growth rate for professional services and other service revenue, we do not expect to see strong growth in the On-Premise Services segment.

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

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

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

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

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

€ millions, unless otherwise stated

| | IFRS Financial Measure | Support Revenue Not Recorded Under IFRS | Operating Expenses[1] | Discontinued Activities[3] | Non-IFRS Financial Measure |
|---|---|---|---|---|---|
| Software and cloud subscription revenue | 4,928 | 73 | n.a. | n.a. | 5,001 |
| Software and software-related service revenue | 13,165 | 81 | n.a. | n.a. | 13,246 |
| Total revenue[2] | 16,223 | 81 | n.a. | n.a. | 16,304 |
| Operating profit[2] | 4,065 | 81 | 1,067 | 0 | 5,214 |

[1] Included in operating expenses are acquisition-related charges, share-based payment expenses, and restructuring charges.
[2] These financial measures are the numerator or the denominator in the calculation of our IFRS and non-IFRS operating margin, and are included in this table for transparency.
[3] The discontinued activities include the results of our discontinued TomorrowNow business.

**Non-IFRS Measures**

€ millions

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

### Goals for Liquidity and Finance

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

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

### Investment Goals

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

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

### Proposed Dividend

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

**Premises on Which Our Outlook Is Based**
In preparing our outlook, we have taken into account all events known to us at the time we prepared this report that could influence SAP's business going forward.

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

**OUTLOOK FOR SAP AG**
The primary source of revenue for SAP AG is the license fees it charges subsidiaries for the right to market and maintain SAP software solutions. Consequently, the performance of SAP AG in operating terms is closely tied to the software and software-related service revenue of the SAP Group.

We expect SAP AG product revenue to increase generally in line with the rise in software and software-related service revenue anticipated for the SAP Group in 2013. Assuming there are no special effects relating to acquisitions or internal corporate restructuring measures in 2013, we also expect SAP AG operating profit to grow. Provided the SAP Group continues to hit its revenue and profit targets, we expect SAP AG to sustain revenue and operating profit growth into the medium term.

We believe SAP AG, the parent company of the SAP Group, will receive investment income in the form of profit transfers and dividends again in the future. The growth we expect from the SAP Group should have a positive effect on SAP AG investment income.

The outlook projections for the SAP Group in respect of liquidity, finance, investment, and dividend are equally applicable to SAP AG.

Among the assumptions underlying this outlook are those presented above concerning the economy and our expectations for the performance of the SAP Group.

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

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

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

– We want to extend our leadership in the applications segment.
– We want to extend our market share in analytics.
– We want to extend our leadership in mobile computing.
– We want to become a profitable market leader in cloud computing, generating around €2 billion total revenue in this segment by 2015.

Our plan is for indirect sales (partner revenue) to contribute up to 40% of software revenue by 2015.

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

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