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 Report 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 Opportunity Report, 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, 2013, 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.

Overview of the SAP Group

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

Our company's culture puts our customers' success at the center of everything we do, and is driven by our passions – which are:
- **Success** – We measure our success by our customers' success.
- **Accountability** – We embrace accountability and strive to always make good on our promises.
- **Professionalism** – We exhibit professionalism by consistently delivering quality work.
- **Integrity** – We are honest and fair and take responsibility for all our actions.
- **Teamwork** – We value teamwork because it enables us to exceed our individual limits and share greater success.
- **Trust** – We work for each other's success and take personal responsibility for all of our relationships.

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

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

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

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

As of December 31, 2013, SAP AG controlled directly or indirectly 272 subsidiaries. Our subsidiaries perform various tasks such as sales and marketing, consulting, research and development, customer support, training, or administration. For a complete list of subsidiaries, associates, and other equity investments, see the Notes to the Consolidated Financial Statements section, Note (34).

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

Vision, Mission, and Strategy

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

OUR VISION AND MISSION

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

OUR GOALS FOR SUSTAINED BUSINESS SUCCESS

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

Revenue

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

Margin

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

Customer Loyalty

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

Employee Engagement

We use the employee engagement index to measure motivation and loyalty of our employees, how proud they are of our company, and how strongly they identify with SAP. We are committed to achieving a score of 82% in 2015 (2013: 77%). Despite the slight drop in employee engagement in 2013 compared to 2012, we expect to see an incremental increase in our industry-leading score in 2014.

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

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

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

OUR STRATEGY: SIMPLIFY EVERYTHING WITH SAP CLOUD POWERED BY SAP HANA

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

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

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

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

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

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

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

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

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

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

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

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

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

- Drive the Big Data agenda for our customers with our real-time in-memory SAP HANA platform and predictive analytics solutions
- Establish SAP HANA as a standard enterprise business platform and monetize through partners and ecosystem
- Focus on the customer's customer by extending to business-to-business-to-consumer (B2B2C) through our portfolio of omnichannel and CRM solutions
- Drive accelerated growth in selected industries such as banking, insurance, retail, public sector, and healthcare
- Emerging markets will continue to be a growth driver, with high double-digit growth in software and cloud revenues expected through 2017. In addition to our investments in China, Russia, and the Middle East, we are expanding our investments in Africa.

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

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

Business Model

Creating economic, social, and environmental value over the long-term is central to our vision of helping the world run better and improving people's lives. To realize our vision, SAP provides software and services to customers throughout the world, all based on our deep expertise in business processes spanning 25 industries.

To provide software and related services to our customers, we rely on financial capital provided by investors. We leverage our intellectual capital to continually increase our knowledge base and expertise. Engaged, highly skilled, and agile employees are central to innovating with and building relationships with our customers and partners, and ultimately to our business success.

Our direct sales organizations drive most business development. Sales go-to-market strategies are established at the global level, and adapted and executed by the regional subsidiaries. Our customer-facing employees, in close collaboration with sales support and marketing, drive demand, build pipeline, and enhance relationships with customers within our target industries. Our marketing efforts cover large enterprises 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.

In addition, our extensive ecosystem provides scalability to meet the demand for SAP innovation and provide customers with a wide selection of third-party competencies. We have developed an independent sales and support force through independent value-added resellers. We have also established partnerships with hardware and software suppliers, system integrators, and third-party consultants. For more information, see the Partner Ecosystem section.

Our sales model has been focused on charging a one-time, upfront fee for a perpetual license to our software that is typically installed at the customer site. In addition, the customer usually concludes a maintenance contract that covers support and software updates. As we see customers' preferences evolve, we are expanding the delivery of our solutions in the cloud, which we believe is a simple and efficient software consumption model. Our cloud solutions are offered under a subscription-based licensing model. With this model, the customer periodically pays a fee to use software for a limited amount of time. This software is installed at an SAP or an SAP partner location, and the customer accesses the software through the Internet.

To help companies invest in SAP solutions and the associated services and hardware, the SAP Financing service offers customers payment plans optimized for maximum economic benefit. It can help preserve liquidity, provide an alternative to credit from their existing banking relationships, and balance their budgetary priorities – while giving customers the flexibility to choose the best possible solution.

We measure the outcome of our activities through four performance indicators: revenue, margin, customer loyalty, and employee engagement. Each of these directly correlates with our ability to deliver financial returns to our providers of capital. Ultimately, it is our highly engaged employees who build our customers' success and loyalty to SAP.

SAP contributes to the creation of long-term value for society in a number of ways. At SAP and within our ecosystem, we support job creation and economic prosperity through demand for highly qualified workers to sell, implement, and enhance our software for customers. Our solutions support the learning and talent development of our customers' employees. Other SAP solutions enhance health and safety, both on the manufacturing side and in the final consumer products, which impact millions of people worldwide.

Our greatest positive environmental impact stems from enabling improvements through the solutions we provide to customers. For example, our software plays a primary role in driving supply chain optimization, efficiency gains in production processes, and transparency regarding energy consumption and emissions.

We also leverage our expertise in business processes across industries to direct our innovations to the world's greatest challenges, such as the social and environmental strains posed by a rapidly expanding global middle class. Our goal is to create long-term value by providing solutions not just for the current challenges faced by our customers, but also those of the future. In this way, we see our role moving beyond the creation of new efficient solutions: We want to help fundamentally change how people live, conduct business, and use software. This framework underscores how SAP can create its greatest impact through the use of our solutions by more than 253,500 customers worldwide.

Portfolio of Products, Solutions, and Services

OUR FOCUS ON CUSTOMERS AND INNOVATION
SAP's portfolio of products, solutions, services, and support is designed with customer centricity in mind. Our solutions help customers address the major trends and issues of our time – such as the unprecedented power of people to connect, the ubiquity of mobile technology, the pressures of population growth and rapid urbanization, and the increasing demand on natural resources. Our software enables companies of all sizes to better connect to their customers and suppliers, and to measure, track, and manage their sustainable operations. Our solutions also address our customers' expectations for shorter innovation cycles, an attractive total cost of ownership (TCO), a superior user experience, and choice of consumption options – whether on premise or in the cloud.

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

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

Solutions for Lines of Business
Our line-of-business solutions are relevant across all industries, providing best-practice capabilities to key functional areas within an organization. As a result, they enable professionals to excel within their respective disciplines. Our portfolio of solutions currently covers 12 lines of business:
– Asset management
– Corporate strategy and sustainability
– Finance
– Human resources
– Information technology
– Manufacturing
– Marketing
– Procurement
– R&D and engineering
– Sales
– Service
– Supply chain management

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

Solutions for Industries

For decades, SAP has developed deep expertise within specific industry groups. Our product development teams include professionals from within those industries, and we continually engage with customers to develop solutions that represent industry best practices. With the 2013 addition of the SAP for Sports & Entertainment industry portfolio, SAP now supports enterprises in 25 industries.

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

Solutions for Small Businesses and Midsize Companies

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

SAP also offers affordable, scalable solutions in the cloud, such as SAP Business ByDesign and SuccessFactors HCM Suite. These solutions are relevant for companies of all sizes, including small and midsize enterprises. Additionally, we offer SAP

Business One Cloud to small businesses and midsize companies. SAP Business One Cloud is a comprehensive and easy-to-consume cloud offering with predictable costs.

PRODUCTS

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

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

In 2013, our product portfolio comprised the following:

Applications

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

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

The main applications in SAP Business Suite are:

– **SAP Customer Relationship Management (SAP CRM):** Provides a comprehensive set of functionality for marketing, sales, and service to engage with customers.
– **SAP ERP:** Supports critical business processes such as finance, HR, and other essential corporate functions.
– **SAP Product Lifecycle Management (SAP PLM):** Manages the product and asset lifecycle across the extended supply chain.
– **SAP Supplier Relationship Management (SAP SRM):** Supports key procurement activities.
– **SAP Supply Chain Management (SAP SCM):** Helps adapt supply chain processes to a rapidly changing competitive landscape.

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

Analytics

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

Analytic solutions from SAP include:
- **Business intelligence (BI):** Helps users to make fact-based decisions with enterprise business intelligence solutions that enable users to engage with all their data, on any device, across any platform. Our BI solutions include the SAP BusinessObjects BI platform, SAP Crystal Reports, SAP BusinessObjects Dashboards, and SAP Lumira.
- **Enterprise performance management (EPM):** Helps companies improve performance, organizational agility, and decision making. SAP solutions for EPM include SAP Business Planning and Consolidation, SAP Profitability and Cost Management, SAP Financial Consolidation, and SAP Disclosure Management applications.
- **Governance, risk, and compliance (GRC):** Provides organizations with a real-time approach to manage GRC across heterogeneous business environments. SAP solutions for GRC include the SAP Risk Management, SAP Access Control, and SAP Global Trade Services applications as well as the SAP Sustainability Performance Management analytic application.
- **Predictive analytics:** Brings advanced analytics capabilities to a broad spectrum of users – beyond data scientists to line-of-business users and analysts in the workplace – to help uncover new business opportunities, predict trends, and proactively respond to change. This is made possible by automating key modeling and analytical tasks and enabling faster deployment and adoption of predictive analytics tools.

Mobile

Today's businesses demand mobile access to critical business information. Mobile solutions from SAP offer the foundation for enterprise mobility and seamless integration with the core enterprise applications of our customers. SAP is recognized as a market leader in enterprise mobility.

Our portfolio of mobile solutions includes:
- **Enterprise mobility management:** In many organizations, employees use different types of mobile devices to access critical enterprise data, content, and applications. To address this demand, SAP offers the SAP Afaria mobile device management solution and the SAP Mobile Documents solution.
- **Mobile apps:** SAP has a variety of mobile apps that interface with our on-premise solutions and address line-of-business, industry, and consumer needs. In addition, SAP has opened our mobile development platform to our partner ecosystem to support the growing demand for mobile apps.
- **SAP Mobile Platform:** SAP Mobile Platform combines Sybase Unwired Platform, the former Sybase 365 Mobilizer Platform (for business-to-consumer applications), and Agentry from the acquired company Syclo into a single platform, thus supporting mobile development and deployment across the entire enterprise.

Database and Technology

Our database and technology portfolio provides a solid and comprehensive foundation for business applications. SAP HANA, our ground-breaking in-memory platform, has redefined innovation in the database and technology market and has become the fastest-growing product in our history. We depend on our ecosystem to expand our reach, and accelerate growth and adoption of SAP database and technology products beyond our installed base customers.

In addition to SAP HANA, we offer a comprehensive family of database and technology solutions that includes:
- **Application development and integration:** SAP NetWeaver provides a comprehensive technology platform, designed to efficiently develop, run, and extend business applications. SAP NetWeaver provides technology and enterprise software, such as the SAP NetWeaver Business Warehouse (SAP NetWeaver BW) application, and the SAP NetWeaver Application Server, SAP NetWeaver Portal, and SAP NetWeaver Process Orchestration components.
- **Database:** We offer the technology to make up a real-time data platform, including SAP HANA, SAP IQ database software, SAP Adaptive Server Enterprise (SAP ASE), and the SAP SQL Anywhere suite.

Cloud
In a world where customers need to respond quickly to changing market conditions, the cloud model offers an ideal combination of flexibility, affordability, and rapid time to value. With SAP Cloud powered by SAP HANA, we are helping customers enjoy the innovation potential of a cloud-based setup. At the same time, we are simplifying our consumption model, our product portfolio, and our customers' user experience.

Today, SAP offers one of the most comprehensive cloud portfolios on the market. With the decision to offer all our products in the cloud, the cloud category will evolve from a product category to a deployment option for our customers to simplify the consumption of our solutions. Our offerings span cloud applications, business networks, and cloud platforms. In addition, we offer our customers a choice of different cloud deployments to fit their business needs, such as public or private cloud models.

In 2013, SAP began offering **SAP Cloud powered by SAP HANA**, which includes infrastructure, platform, and software as services in the cloud, incorporating the former SAP HANA Enterprise Cloud managed cloud services offering. It allows entire enterprise systems to be run in the cloud and provides customers with a new deployment option to gain immediate value from the innovations of SAP HANA. This enables the operation of mission-critical business applications as well as new applications powered by SAP HANA. In providing such services, we aim to enable organizations to realize faster time to value coupled with lower total cost of ownership, and benefit from increased flexibility and reliability.

In addition, SAP HANA Cloud Platform is a development platform-as-a-service (PaaS) designed to help customers, independent software vendors, and partners rapidly create innovative enterprise software applications in the cloud leveraging our leading in-memory technology.

SAP supports a hybrid model, allowing customers to integrate new cloud services with their on-premise applications. This gives customers the opportunity to consume new innovations using the cloud while safeguarding their investments in their existing application landscape.

SERVICES AND SUPPORT
SAP offers comprehensive services and support to help 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. Our services and support portfolio 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.

Software-Related Services

Custom Development
The SAP Custom Development organization specializes in building individual software solutions that address the unique needs of our customers, and that fit seamlessly with existing SAP software. SAP Custom Development draws on our innovations, especially SAP HANA, to deliver unmatched impact and value for specific customer use cases.

Maintenance and Support
SAP offers a comprehensive and tiered maintenance and support model to customers of our on-premise solutions on a global basis. This support offering primarily includes SAP Enterprise Support and SAP Standard Support offerings.

– **SAP Enterprise Support:** Our premier maintenance and support offering is designed as a strategic, long-term partnership with our customers.
– **SAP Standard Support:** Our basic support offering delivers functions, knowledge, and tools that help customers implement, maintain, and enhance their SAP solutions.

Our support portfolio also contains two additional premium maintenance offerings:

– **SAP MaxAttention:** These services provide the highest possible level of support for our customers. The combination of SAP MaxAttention and SAP Enterprise Support offers customers comprehensive all-round support. This strategic offering is designed for continuous business and co-innovation with customers. Through the SAP Active Global Support (SAP AGS) organization, SAP MaxAttention offers support services tailored to the requirements of the customer, expertise acquisition by the customer, and continuous cooperation at senior management level based on an agreed-to balanced scorecard.
– **SAP ActiveEmbedded:** These enhanced engagement services help optimize solutions and accelerate adoption of technologies without disrupting customer businesses.

For our cloud portfolio, support is included as part of our cloud subscriptions. Customers have the option of choosing standard, premium, and platinum support. In the premium and platinum offerings, customers have access to support offerings, such as access to a dedicated support account manager.

Professional Services

Consulting Services

We offer consulting services for the planning, implementation, and optimization phase of our business solutions. Our consultants engage in a wide range of services, including business transformation, IT transformation, performance and insight optimization, and business applications services. These services help customers optimize business performance and leverage the full power of SAP solutions.

SAP consultants also implement **SAP Rapid Deployment** solutions, which combine preconfigured software and predefined services, such as SAP Best Practices, templates, tools, and user guides. By doing so, they help companies adopt innovations more quickly and at transparent cost.

Education Services

The SAP Education organization offers a complete portfolio of multimodal learning that covers the learning needs of single individuals, as well as organizations. We provide a consistent curriculum for learners around the world, including online e-learning, virtual live classroom sessions, learning on demand, and classroom training. Our educational programs help people become more proficient, efficient, and productive in their use of SAP solutions. 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 services and support from SAP, see www.sap.com/services-support/svc.html. For more information about how SAP handles security and privacy in our products and services, see the Security and Privacy section of the SAP Integrated Report 2013 online. For more information about SAP products and solutions, see www.sap.com/pc/index.html.

Customers

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

One example of this strategy is our Customer Engagement Initiative. This program offers customers early insight into certain aspects of our product road map, so they can influence the development cycle. In addition, it offers customers the opportunity to network on topics of mutual interest. These networking opportunities take place at a variety of global events, including the SAPPHIRE NOW and SAP d-code (previously SAP TechEd) conferences, as well as virtual events.

CUSTOMER LOYALTY

We gauge customer loyalty through an annual survey that measures our Net Promoter Score (NPS). Customer loyalty is one of our four companywide strategic goals, along with revenue, margin, and employee engagement. In 2013, our NPS increased by 3.2 percentage points to 12.1%, compared with 8.9% in 2012. The increase achieved in 2013 showed us that we are on the right track even though we had predicted an increase of eight percentage points at the beginning of the year. In addition, the results provided insights into different geographic regions and issues, and will help inform our future approach.

Our increased NPS reflects our commitment to listening to our customers and responding to their needs. Our goal is to best support their success and the success of SAP. For example, we are expanding on the insights provided by our surveys through in-person focus groups that explore customer feedback in more depth. These sessions have enabled us to identify the underlying reasons behind issues and focus more precisely on where we need to make improvements. We are also showing customers how we are addressing feedback. A prime example is the use of SAP Service Marketplace to describe improvement projects in a host of areas, from our licensing process to our digital experience. Customers can also provide input into these projects through idea place, an online platform from SAP, to capture, discuss, and rate ideas.

The NPS shows how likely our customers would be to recommend SAP to friends or colleagues on a scale of 0–10. To determine this metric, we start with the percentage of "promoters" of SAP – those who give us a score of 9 or 10. We then subtract the number of "detractors" – those who give us a score of 0–6. The method ignores "passives," who give us a score of 7 or 8. The NPS can range from –100% to +100%. For more information on the NPS, see the Internal Management System section, and the Non-Financial Notes section of the SAP Integrated Report 2013 online.

STRONG CUSTOMER DEMAND

Our strategy focuses on offering solutions and services to help customers run better today and tomorrow. To do so we offer a spectrum of solutions from complete suites to applications that are simple, lean, focused, quick to implement, and highly mobile. In 2013, we saw customers embrace this strategy by licensing or subscribing to the full range of SAP applications – from comprehensive solutions for large enterprises to the latest mobile apps.

Some examples by region include the following customers:

EUROPE, MIDDLE EAST, AND AFRICA (EMEA) REGION

– The Deutscher Fussball-Bund (DFB) is made up of the German Association Football League at the professional level and five regional and 21 state associations at the semi-pro and amateur levels. The customer plans to tailor campaigns and promotions to fans through the SAP CRM powered by SAP HANA rapid-deployment solution and SAP Event Ticketing software.
– Eldorado, a large consumer electronics and domestic appliances retailer in Russia, selected the SAP CRM powered by SAP HANA application, as well as the SAP 360 Customer, SAP Planning for Retail, and hybris OmniCommerce for retail to help improve customer service and achieve faster results. With SAP and hybris software, Eldorado expects to track and combine consumer information across channels in real time, so they can run their business and achieve full intimacy with their consumers.
– Nestlé Nespresso is a world leader in coffee machines and coffee maker technology. With the SAP Cloud for Sales solution, Nespresso aims to extend its premium experience by understanding and engaging customers at every step of the buying journey.
– The Royal Swaziland Sugar Corporation, a leading sugar producer in Africa, has chosen to adopt SAP Business Suite powered by SAP HANA. SAP Business Suite software will allow the company to consolidate multiple systems.
– Unilever, one of the largest multinational consumer goods companies in the world, partnered with SAP to develop the SAP Retail Execution mobile app on SAP Mobile Platform. With this SAP software, Unilever expects to empower its large sales force, merchandisers, and shopping assistants across multiple countries in Asia and Europe to accelerate opportunities at the point of sale and increase customer satisfaction.

AMERICAS REGION

– ExxonMobil, an American multinational oil and gas corporation, selected the SAP Cloud for Sales solution and the SAP Sales and Operations Planning solution (powered by SAP HANA) to support demand and supply balancing. Building on its on-premise SAP software deployment with cloud solutions from SAP, ExxonMobil expects to optimize logistics planning processes, increase planning accuracy, and shorten planning cycle time through the improved management of Big Data.
– Levi Strauss & Co, a well-known clothing brand, chose to run its analytics platform through SAP NetWeaver Business Warehouse powered by SAP HANA. With this, Levi Strauss expects to consolidate financial reporting globally, get real time insight into product performance, and help stock the right products in the right stores at the right time.
– Petrobras, Brazil's largest energy company, is already live with the SAP Business Planning and Consolidation application. Petrobras expects this implementation to improve forecast accuracy and drive real-time financial planning based on latest oil prices and currency fluctuations.
– ProHealth Care, a community-based healthcare system located in the United States, selected the SuccessFactors Enterprise bundle. With SAP, ProHealth Care expects to align with its top HR initiatives, focusing on patient safety and satisfaction.

ASIA PACIFIC JAPAN (APJ) REGION

- Agricultural Bank of China (ABC), one of the four Tier 1 banks in China, selected SAP ASE and SAP IQ software to support synergistic development in rural and urban areas. With SAP, ABC expects to capitalize on its comprehensive business portfolio and extensive distribution network through the use of an advanced IT platform.
- China Resources Enterprise (CRE), a large producer of consumer goods in China, selected the SAP 360 Customer solution and the SAP Trade Promotion Management application. With SAP software, CRE expects to gain the speed and flexibility it needs to execute its winning strategy from any device, anytime, anywhere.
- Net One Systems, a leading network integrator in Japan, selected the SAP ERP application to promote innovation in its operating processes, construct an efficient IT platform, and strengthen internal controls by linking information among its operations.
- Shanghai Huayi Group, one of China's largest chemical manufacturers, operates more than 20 wholly owned and shareholding subsidiaries. With SAP software, Shanghai Huayi Group expects to improve capital operations, resources sharing, and technological management to advance the company into the world's top 50 chemical makers.
- Varun Beverages Limited, a food and beverages company based in India, selected SAP Business Suite powered by SAP HANA to support faster, smarter, and real-time decision making. With SAP software, Varun Beverages expects to provide real-time analytical reporting to key stakeholders, while achieving a 20% reduction in the MRP process and a 15% reduction in overall order processing time.

Research and Development

Research and development is the source of the discoveries that will shape the future for SAP and its customers. At SAP, research and development is a global effort that is highly collaborative, focused on customer value, and involves co-innovation with customers, partners, and academia.

GLOBAL DEVELOPMENT, LOCAL FOCUS

Our Products & Innovation organization is truly global, with the majority of development colleagues located in 14 SAP Labs locations in 12 countries (see graphic). SAP Labs are globally distributed, situated within major technology hubs where access to talent and the latest technology trends create an optimal setup for innovation.

SAP Labs locations in fast-growing markets strive to produce market-relevant solutions that complement SAP's global product portfolio. In addition, they are structured in a manner that allows for close interaction with local stakeholders, including customers, partners, and universities. This strategy of distributed development, focusing on locations with talent availability, fostering diversity and access to new ideas, while also ensuring local market relevance, has proven highly successful for SAP.

To every technology and engineering challenge, SAP brings the strength and experience of a global development team. This helps ensure the rapid impact of research and development activities on our solution portfolio, and contributes to an ever-increasing pace of innovation.

CONTINUOUS INNOVATION

Research and development is only successful if it provides continuous improvement for existing products, while at the same time executing against promising new concepts that can help SAP enter new markets. And it must do so better and faster than our competition.

The following were among our 2013 R&D accomplishments:

SAP HANA

In 2013, SAP made further investments in our next-generation in-memory platform, SAP HANA, as the foundation for all of our products, solutions, and services – so that our customers can run their businesses in real time. A rich and growing ecosystem of partners further drives the adoption of SAP HANA as an open platform, and a number of startup companies now deliver new and innovative applications built on the SAP HANA platform.

Cloud

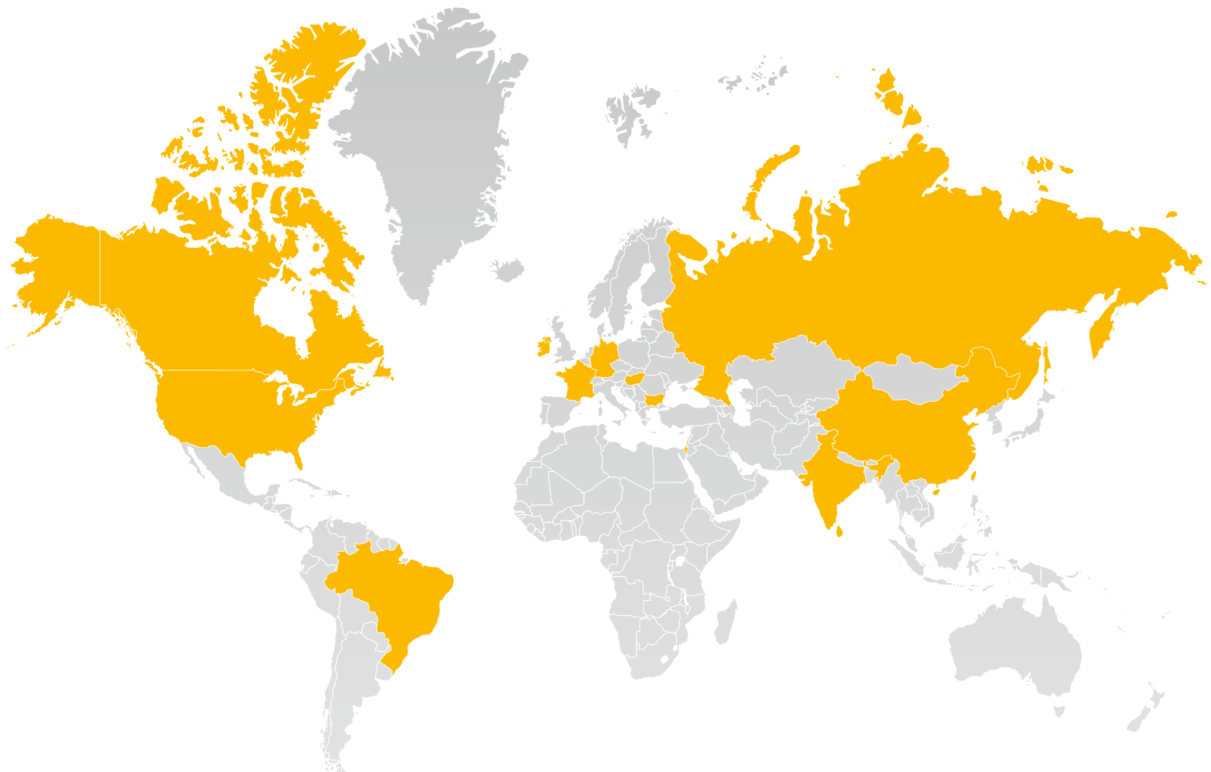
To further advance our leadership in the cloud, we continued to expand our portfolio of cloud-based applications. For example, customers that want to accelerate their transition to the real-time enterprise can now take advantage of our latest innovation in the cloud, SAP Cloud powered by SAP HANA, which includes infrastructure, platform, and software as services in the cloud, incorporating the former SAP HANA Enterprise Cloud managed cloud services offering. Core elements include an elastic infrastructure, the in-memory platform, and services for deploying SAP or custom applications in real time.

SAP Business Suite powered by SAP HANA

Our highly engaged and diverse research and development teams are also working to improve SAP Business Suite by simplifying the end-to-end experience of using the applications while also optimizing performance. Combining SAP Business Suite with SAP HANA was a major milestone in 2013, enabling customers to make decisions in real time and gain unmatched visibility into business processes In addition, the software helps customers unleash their full potential when it comes to meeting consumer and competitive demands through real-time access to data, real-time analytics, and unprecedented improvements in performance.

Adhering to our imperative of "SAP runs SAP," SAP has led the way in the adoption of SAP Business Suite powered by SAP HANA by going live internally with SAP CRM and SAP ERP applications now running on SAP HANA in 2013.

Major Development Locations (SAP Labs) in 12 Countries



SAP Fiori
With SAP Fiori applications, SAP continues to further renew and simplify the user experience for all our products. For example, SAP Fiori offers an intuitive end-to-end user experience for broadly and frequently used SAP software functions that work seamlessly across devices – desktop, tablet or smartphone.

New Industry Solutions
Across industries, we continue to look for opportunities to help our customers and partners expand their businesses by analyzing, evaluating, and co-innovating business processes. In 2013, for example, SAP brought its knowledge and experience to the sports and entertainment industry. Our solutions help sports teams, leagues, and venues run faster, smarter, and simpler. In addition, they are designed to deepen fan engagement, drive on-field performance, and optimize business efficiency.

A CULTURE OF CUSTOMER CENTRICITY, EMPOWERMENT, AND ACCOUNTABILITY

Today, SAP's development is closely attuned to customers' business environments, product landscapes, and users. In addition, we foster a development culture of customer centricity, empowerment, and accountability. We believe that our work impacts such factors as customer loyalty and employee engagement, and that those factors have significant relevance to our company's financial performance.

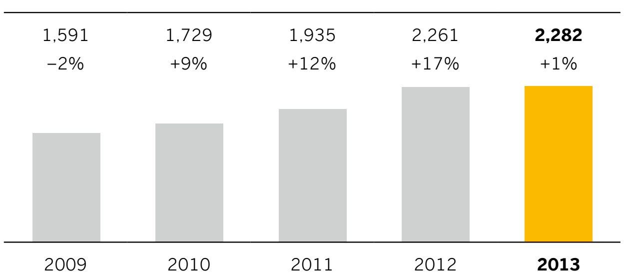
Our design-led research and development methodology puts the customer and user at the center during the entire development process. This results in robust solutions to complex business challenges – solutions that are technically feasible, desirable to users, and viable to the business for both SAP and its customers.

RESEARCH AND DEVELOPMENT EXPENDITURE

SAP's strong commitment to research and development (R&D) is also reflected in our expenditures: In 2013, we increased our R&D expense (IFRS) slightly by €21 million, to €2,282 million (2012: €2,261 million). We spent 13.6% of total revenue on R&D in 2013 (2012: 13.9%). Our non-IFRS R&D expense as a portion of total operating expenses declined slightly from 19.2% to 19.0% year over year. While we continue to increase our innovative capacity, we increased our efficiency.

Research and Development (IFRS)

€ millions | change since previous year



At the end of 2013, our total full-time equivalent (FTE) count in development work was 17,804 (2012: 18,012). Measured in FTEs, our R&D headcount was 27% of total headcount (2012: 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 5,500 validated patents worldwide. Of these, more than 700 were granted and validated in 2013.

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

Partner Ecosystem

SAP engages with an extensive partner ecosystem to address the needs of customers around the world. With nearly 11,500 partners at the end of 2013, we continue to foster our partner ecosystem. Partners operate independently of SAP, and complement our business in one or more of the following ways:

– **Selling SAP software:** SAP partners help companies of all sizes identify, purchase, and deploy the ideal solutions to address their business needs. SAP value-added resellers (VARs) and multitier distribution channels offer local market and industry expertise that addresses specific market needs. SAP closely aligns its sales efforts with those of our partners through well-defined rules of engagement that outline each organization's roles and responsibilities. In most markets, partners are the primary sales channel to address the needs of small and midsize enterprises (SMEs). Our company also sells select products through our own online channel, SAP Store, which includes complementary solutions developed by SAP partners. In addition, SAP resells applicable partner solutions as part of our solution extensions portfolio. These partner-developed solutions are tested, validated, and approved by SAP development organizations, and supported by SAP.

– **Developing solutions that complement SAP software:** SAP has a vibrant community of partners that develop on SAP platforms and create complementary products integrating with SAP applications. This community is vital to providing our customers with a broad portfolio of solutions that leverage the capabilities of SAP HANA, SAP Mobile Platform, our cloud offerings, and more. At the same time, we maintain strategic relationships with industry-leading technology, software, and services firms. SAP engages with the partner community in the development of new solutions, and works closely with partners on new product initiatives. Partners can embed SAP technology within their offerings under an original equipment manufacturer (OEM) licensing agreement. We also work actively with partners to enable new and innovative delivery and go-to-market approaches to support customer needs and preferences. Beyond these formal partnerships, companies can also certify their integration with SAP technology through the SAP Integration and Certification Center (SAP ICC).

– **Providing implementation and other services:** SAP has strong partnerships with a broad network of IT professional services firms that provide consulting, system integration, hosting, education, and more. At the end of 2013, our partners collectively had more than 380,000 skilled resources in SAP solutions and technology. These companies are critical to the successful implementation and deployment of SAP solutions at customers we serve together. In response to growing customer demand for flexible deployment and purchase options, SAP is working closely with the partner ecosystem to offer innovative cloud-based offerings and business models, including OEM and managed cloud services, and by making SAP platforms and applications available through public cloud offerings.

To help the SAP partner ecosystem achieve its business goals, SAP provides an extensive array of business support offerings. SAP's flagship partner program, SAP PartnerEdge, offers a tiered engagement model that provides marketing, sales, and technical enablement, as well as education, deal support, and a variety of other benefits and resources. We provide SAP global partners – a select group of leading global technology, software, and services companies – with dedicated teams that work closely with them to proactively engage in business development and technical initiatives addressing specific market needs. Many of our partners participate in SAP Community Network, an online community that facilitates networking and information sharing for technical professionals. In addition, many participate in the SAP Listens program, which surveys partners for feedback and provides insight into projects we have initiated to address partner issues.

A vibrant partner ecosystem is essential to SAP's success, and is a key component in our ability to achieve our mission of helping businesses run better and improving the lives of people everywhere.

Acquisitions

SAP views acquisitions as investments in people, technologies, and growth. In 2013, SAP made the following acquisitions:

ACQUISITIONS

– In March, SAP acquired Ticket-Web GmbH & Co. KG, a provider of ticketing solutions and niche customer relationship management (CRM) software for sports and entertainment promoters. The acquisition helped SAP enter the sports and entertainment industry, as we can now offer enhanced solutions that help promoters, venues, and teams market events over the Internet and better manage arenas.
– In April, SAP acquired certain assets from KMS Software Company LLC, a provider of Web-based human capital management software and solutions in the areas of electronic onboarding, off-boarding, forms management, and new-hire engagement.
– In April, SAP acquired Camilion, a provider of product development, product lifecycle, and underwriting solutions for the insurance market. These solutions allow SAP customers to streamline the management and creation of new insurance products, providing insurance brokers and underwriters with simple tools to help speed up transactions and reduce costs.
– In April, SAP acquired SmartOps, a provider of inventory and service-level optimization software solutions. This acquisition helps SAP develop real-time supply chain software solutions on the SAP HANA platform. The solutions help customers optimize inventory and service levels, freeing up working capital for innovation and growth.
– In August, SAP acquired hybris, one of the leading commerce technology companies. This is an investment in the future of commerce and customer engagement. We continue to combine the omnichannel commerce solutions of hybris with enterprise technology and industry leading in-memory, cloud, and mobile innovations from SAP. Together, these capabilities can help facilitate new levels of customer insight and engagement.
– In October, SAP acquired KXEN, a provider of predictive analytics technology for line-of-business users and analysts. The addition of KXEN solutions will provide easy-to-use predictive capabilities for the extensive SAP customer base.

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

VENTURE ACTIVITIES

Through SAP Ventures, which comprises our consolidated investment funds, SAP has partnered with renowned entrepreneurs worldwide to build industry-leading businesses. SAP Ventures has supported more than 100 companies on five continents for more than 15 years. Many of these companies have been acquired or have become publicly listed companies.

In October, SAP announced its commitment to invest US$650 million through a new consolidated investment fund, named SAP Ventures Fund II.

In 2013, SAP made a total commitment of US$1 billion bringing SAP Ventures' total available investment pool to more than US$1.4 billion for use over the lifetime of its respective funds. Investments through the funds are currently ongoing and depend on capital calls from the funds. SAP Ventures seeks companies with an established market presence that are growing very fast, and which they can help fuel their growth by adding expertise, relationships, geographic reach, and capital. It invests globally with a particular focus on emerging companies in Europe, India, and the United States, as well as in Brazil and China.

For more information about our consolidated investment funds, see the Notes to the Consolidated Financial Statements section, Note (34).

Employees and Social Investment

Nothing has a greater impact on SAP's long-term success than the creativity, talent, and commitment of our people. Their ability to understand the needs of our customers and to innovate delivers sustainable value to our company and society. Successful strategies to attract, retain, develop, and engage our employees, therefore, are critical to driving a culture of innovation, sustained growth, and profitability.

We continually review and evolve these strategies in response to the markets we serve, demographic trends, and changes in our business model. As we move more of our business to the cloud, we are navigating profound shifts in how people consume and create software. This rapid change means that we innovate in much faster cycles than in the past. As a result, we must have the right mix of talent and capabilities to support our customers and deliver on our business strategy. Our people must be agile and able to connect quickly and seamlessly with the consumers of our solutions.

We are seeking to complement our established employee base by hiring newer generations of talent that bring a different perspective and skill set. We are also working to address shifting expectations. Many professionals today are seeking a stronger sense of purpose in their work, along with a creative, collaborative, and flexible job environment. Fostering this type of culture is also critical to our ability to innovate.

To adapt to this evolving landscape, we are reviewing a wide range of areas, from how we attract diverse talent and develop our employer brand to how we define what it means for our leaders to develop and excel. In 2013, we took a number of steps to make our talent management strategies even more effective in supporting our future innovation and growth. Mobilizing the skills and passions of the people of SAP fuels not only our own success, but also the success of our customers, as well as our ability to fulfill our vision to help the world run better and improve people's lives.

RECRUITING TALENT TO FULFILL OUR VISION

Throughout 2013, we continued to recruit employees throughout the world, with particular emphasis on emerging markets, including Brazil, China, India, Russia, and Turkey. We are also focused on countries in Africa – namely, Kenya, Nigeria, and South Africa. In addition to our regional emphasis, we laid the foundation to attract talent with different skills to support our cloud strategy. For example, we seek candidates with design expertise to help us create software for the next generation of customers. In addition, we must meet increasing demand for products that take a human-centered approach to design and are extremely easy to use.

To support these priorities, we undertook an end-to-end review of our talent management process in 2013, with particular focus on how to attract and acquire newer generations of talent ("early talent"). We recognize that to meet our business goals, we need a workforce that is agile and multigenerational, with strong cross-cultural awareness. We are highlighting opportunities for emerging talent to connect with a sense of purpose in their work at SAP. In addition, we are creating new ways to interact with prospective hires, such as inviting our employees to speak with college students, running design-thinking workshops on campus, and expanding our presence on social media.

NURTURING TALENT AND LEADERSHIP

In 2013, we worked toward accelerating employee career development in several ways. Specific projects included enhanced assessments of individual potential and development needs, career development sessions, greater transparency of internal opportunities, and expanded fellowships that allow people to work outside their regular roles. We encouraged employees to work closely with their managers on an ongoing development plan and introduced Success Map, a cloud-based solution developed by SuccessFactors, to enhance talent management and employee development. In addition, we offer a wide range of opportunities for our employees to develop their professional abilities, from e-learning courses to coaching. To ensure that our learning portfolio focuses on the capabilities we need most as an organization, we have been reviewing and refining these offerings. On average, our employees engaged in approximately nine days of training in 2013, compared to 11 days in 2012.

We also undertook a review of our leadership culture to identify and enhance the qualities that are critical as we shift our business model. As a result, we will increase our focus on hiring and developing leaders who drive simplification and develop outstanding talent to ensure our customers' success. Two pilot programs have already provided our leaders with the opportunity to explore such critical topics in depth, exploring how to lead through change, inspire innovation, and take a holistic approach to leadership at SAP. In addition, we continue to offer a comprehensive suite of leadership programs to all levels of management, from coaching to specialized classroom learning. We are especially focused on deepening our general management capabilities.

We believe that to address the complex problems faced by business and society, our employees must understand and collaborate with people from a wide range of backgrounds and perspectives. Our Social Sabbatical program supports this goal, taking an innovative approach to developing talent while creating a positive impact in communities around the world. A group of 72 high-performing SAP employees from 30 countries are working in close collaboration with entrepreneurs, small and midsize enterprises, and nongovernmental organizations (NGOs) in emerging markets. Projects run for one month and focus on helping organizations grow, tackling business challenges, and expanding their impact. Programs are currently running in Brazil, China, India, and South Africa. Social Sabbaticals demonstrate how we can create value for SAP as well as others. Our employees return with an enhanced ability to lead, design innovative solutions, and work across functions, sectors, and cultures. Organizations benefit from fresh input and expertise that advances their mission to serve society.

ENGAGING EMPLOYEES

In our 2013 People Survey, a general survey of all employees conducted every two years, we achieved an overall employee engagement score of 77%. This is down from the engagement index of 79% reached the previous year during a pulse check of half of our employees, but equal to the score achieved during the last full People Survey in 2011. Our target for 2013 was a score of 82%. We are now committed to achieving this score in 2015. Despite the slight drop in employee engagement in 2013, we expect to see an incremental increase in our industry-leading score in 2014.

We attribute this to the fundamental transformation impacting the industry and to changes in top management that took place this year. In response to the market and customers, we are actively driving a growth and innovation strategy, with concerted efforts to be a leader in the cloud with SAP HANA as the platform for the industry. At the same time, the Executive

Board has undergone significant changes in the past year, with a sole CEO model heralded for 2014. We continually focus on driving engagement through a range of activities, from career development to enhanced leadership. Finally, each board member has committed to following up on a key topic from the People Survey. Employee engagement remains one of SAP's four company-wide strategic goals, along with revenue, margin, and customer loyalty.

RETAINING TALENT

In 2013, the employee retention rate at SAP worldwide was 93.5% (2012: 94.0%). 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 2013, the average length of service at SAP worldwide was approximately 6.5 years (2012: 6.8 years).

In addition to measuring our retention rate, we also calculate its financial impact. We conducted an analysis showing that for each percentage point that our retention rate goes up or down, the impact on our operating profit is approximately €60 million.

We do not seek a general retention rate of 100%, as some turnover of talent supports our ability to innovate. However, we view a high retention rate as a priority and work to retain talent through our focus on employee engagement and career development. We are especially focused on retention in highly competitive job markets such as in Brazil and China.

EXPANDING EMPLOYEE OWNERSHIP

In 2013, we continued our share-based compensation programs to give employees worldwide the opportunity to participate in the long-term success of SAP. Our Employee Participation Plan (EPP) is a global plan open to employees worldwide. The plan creates a common financial incentive and reward for achieving the yearly milestones of our 2015 goals. Its formula is based on virtual shares in the Company's performance, allocated at the beginning of the year, and on the performance of SAP stock. The 2013 tranche pays out in 2014.

The EPP is offered to employees in addition to our existing Share Matching Plan (SMP) and Stock Option Plan (SOP). Under the SMP, eligible employees are invited to purchase SAP shares at a discount of 40%. After a holding period of three years, employees receive one SAP share free of charge for every three shares held. Participants in the 2010 tranche received their free shares in 2013 after the holding period ended.

The SOP targets top executives and top performers with an allocation of stock options that vest after three years. Beneficiaries who were granted options in 2010 were entitled to exercise them in 2013 and benefited from the rise in the stock price.

For more information about share-based payments, see the Notes to the Consolidated Financial Statements section, Note (27).

DRIVING INNOVATION THROUGH DIVERSITY AND INCLUSION

We reframed our approach to diversity and inclusion in 2013 to focus on four key areas that are critical to innovation and sustainable long-term success: Gender Intelligence, Generational Intelligence, Culture and Identity, and Differently Abled People. Across all four areas, we seek to support the unique contributions of every individual. For example, to increase understanding and effectiveness among people of both genders, we conduct a workshop called Women and Men Leading Together. Exploring the subtleties of gender dynamics, this workshop is now mandatory for all senior executives.

We aim to help lead the tech industry in developing a better gender balance, and we continue to work toward our goal of increasing the number of women in management from 18% in 2010 to 25% in 2017. Our overall percentage of women in the workforce slightly increased in 2013 to 31% (2012: 30%), and the percentage of women in management increased to 21.2% in 2013 from 20.8% in 2012. To further support progress, we offer executive sponsorships for women and require that at least one diversity candidate is included on the short list for leadership and other positions. In addition, all members of our Executive Board have committed to dedicated action plans to support the recruitment, retention, and career advancement of candidates with diverse backgrounds.

One of our most significant developments in 2013 was the introduction of our Autism at Work initiative, which has drawn enormous support from the media, the public, and our employees. We ran pilots in Canada, Germany, India, Ireland, and the United States, hiring an initial group of people on the spectrum of autism disorders to work on specialized IT tasks such as software testing. Autism at Work enables us to tap a broader pool of talent and spark innovation by embracing differences in how people think, work, and tackle problems. We also see potential to make a positive impact on people's lives and facilitate a broader conversation about autism that challenges assumptions and inspires change.

CREATING HEALTHY CULTURE

At SAP, we focus on the health of our employees as well as the health of our organizational culture. The two are interrelated, and we want to ensure that people have the ability to manage stress, balance their personal and professional lives, perform at their best, and thereby help drive our innovation. Our Business Health Culture Index (BHCI), based on our People Survey, assesses the degree to which our workplace culture supports people's well-being and work/life balance. In 2013, we achieved a BHCI score of 67%, compared to 66% in 2012. Given the fast pace of change in the IT industry, we have set a goal of maintaining a score of 66% or higher.

We work toward our health goals through such global initiatives as our Health and Innovation Weeks, and workshops for managers on how to help their teams improve their resilience to stress. In 2013, we piloted a program that offered employees in Austria and Ireland the chance to create an in-depth personal health profile and identify opportunities to enhance their well-being. Utilizing tools such as biofeedback, the program assessed everything from diet to sleep habits to how the heart responds to stress. Highly popular with employees, the program provided us with aggregated, anonymous data that will help guide our health efforts in the future as we work to support creativity, resilience, and performance.

SOCIAL INVESTMENTS

Our social investment strategy leverages our talent, technology, and capital to create long-term, sustainable change. In 2013, we continued to focus on two areas that are critical to both SAP and society: Education and entrepreneurship. Fundamental to creating opportunity and enabling people to join the market economy, education also helps to create a pipeline of talent for SAP. Entrepreneurship plays an equally vital role in driving economic growth, creating jobs and spurring innovation. As we provide emerging entrepreneurs with technology and other support, we gain a deeper understanding of the market for small businesses and medium-size companies, positioning us to better serve customers in the future.

In 2013, SAP contributed about €20 million in cash donations to non-governmental and non-profit organizations. We donated software to more than 1,300 non-profit organizations and began a new program to provide the non-profit sector with analytics and cloud solutions. Our employees volunteered about 125,000 hours in communities in 45 countries. In addition, the SAP Solidarity Fund, a non-profit organization focused on helping those affected by catastrophic events, responded to such disasters as the typhoon Haiyan in the Philippines and the flood in Germany. SAP employees donated more than €240,000 to the fund in 2013, of which SAP matched €185,000.

To advance our global entrepreneurship program, we identified 25 entrepreneurs in Brazil who will receive a range of support from SAP, including technology and mentoring. We also introduced a new program, Skills for Africa, which provides free educational opportunities in information and communication technology (ICT) and helps people find employment. Our sister program in Brazil, *Instituto Esperansap*, is now in its fourth year. These programs herald a new way of thinking, where we play a direct role in preparing the next generation of talent and developing a skilled workforce that will help drive our future growth.

HEADCOUNT

On December 31, 2013, we had 66,572 full-time equivalent (FTE) employees worldwide (December 31, 2012: 64,422). This represents an increase in headcount of 2,150 FTEs in comparison to 2012. Of the overall headcount increase in 2013, 1,111 resulted from acquisitions. The average number of employees in 2013 was 65,409 (2012: 61,134).

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, 2013, the largest number of SAP employees (47%) were employed in the EMEA region (including 26% in Germany and 21% in other countries in the region), while 29% were employed in the Americas region (including 20% in the United States and 9% in other countries in the region) and 24% in the APJ region.

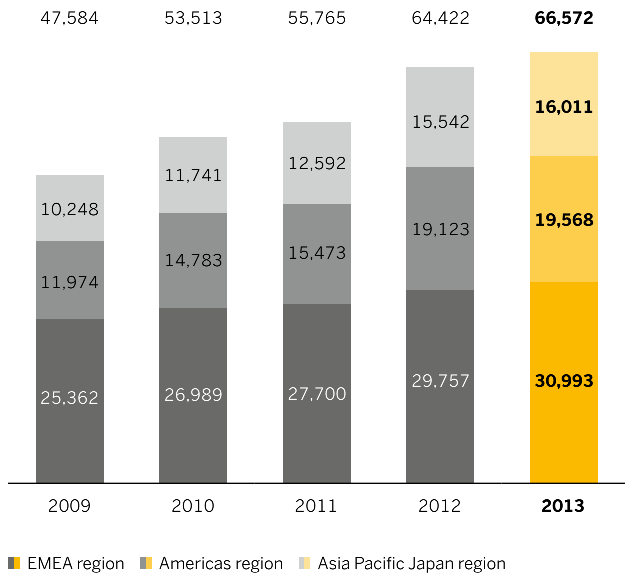
Our worldwide headcount in the field of software and software-related services grew 7% to 11,261 FTEs (2012: 10,551). Cloud operations and support accounted for most of the increase. Professional services and other services counted 14,629 FTEs at the end of 2013 – an increase of 3% (2012: 14,259). Most of this increase was in consulting. A shift in the focus of our industry solutions led to some movement of employees from research and development to sales and marketing, resulting in a 1% headcount decrease to 17,804 FTEs (2012: 18,012) in research and development and a 6% headcount increase to 15,824 FTEs (2012: 14,899) in sales and marketing. Mainly as a result of our acquisition of hybris, general and administration headcount rose 7% to 4,566 FTEs at the end of the year (2012: 4,286). Our infrastructure employees, who provide IT and facility management services, numbered 2,488 FTEs – an increase of 3% (2012: 2,415) that mainly resulted from our acquisitions and investments in our company IT.

In the Americas region, headcount (FTEs) increased by 445, or 2%; in the EMEA region, the increase was 1,236, or 4%; and in the APJ region, it was 469, or 3%.

Our personnel expense per employee decreased to approximately €114,000 in 2013 (2012: approximately €119,000). The decrease is primarily related to foreign exchange effects as the majority of our employees is located outside of the eurozone and paid in local currency. 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 SAP employed, see the Notes to the Consolidated Financial Statements section, Note (7).

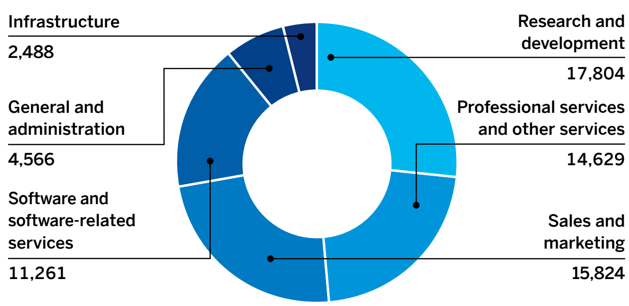
Number of Employees

Full-time equivalents



Employees by Functional Area

Full-time equivalents



Energy Consumption and Greenhouse Gas Emissions

Over the past several years, we have worked to better understand the connections between our energy consumption, its related cost, and the resulting environmental impact. Today we measure and address our energy usage throughout SAP, as well as our greenhouse gas emissions across our entire value chain. Since the beginning of 2008, we calculate that energy efficiency initiatives have contributed to a cumulative cost avoidance of €260 million, compared to a business-as-usual extrapolation.

Moreover, to credibly offer solutions that help our customers better manage their use of resources, we must do so ourselves. By addressing the financial and environmental impact of our energy consumption, we have gained valuable insights to create solutions for our customers.

TOTAL ENERGY CONSUMED

Because our energy usage drives our emissions, one of the most important measures we look at is our total energy consumed. This includes all energy that SAP produces or purchases – in other words, the energy whose production causes emissions falling into Scopes 1 and 2 of the Greenhouse Gas Protocol. Our total energy consumption increased to 910 gigawatt hours (GWh) in 2013, compared to 860 GWh in 2012. This increase is due to significant growth in our business. In addition, as software usage shifts to the cloud, we are hosting more of our customers' systems in our data centers, requiring additional servers and facilities that consume more energy. As we describe in more detail below, we believe that this shift has the opposite effect for our customers, who can save energy through our shared infrastructure.

As our business grows, we maintain the efficiency gains we have made over the past several years. For example, our total corporate car fleet is not consuming more fuel despite the fact that a significant number of company cars has been added, since the average company car has become more fuel-efficient. So, while our car fleet grew by 6%, we had efficiency gains of 6% across the entire fleet. As a result, our total energy consumption remained steady at 13,900 kilowatt hours (kWh) per employee in 2013.

GREENHOUSE GAS EMISSIONS

Our goal is to reduce the greenhouse gas emissions from our operations to levels of the year 2000 by 2020. This target includes direct and indirect emissions from running our business (Scopes 1 and 2), as well as a limited subset of other indirect (Scope 3) emissions, such as those stemming from business travel. We do not include all of our Scope 3 emissions in our target because we chose to focus first on those emissions over which we have the most control. However, as detailed in the Energy and Emissions II section in the SAP Integrated Report 2013 online, we are increasingly addressing both our upstream and downstream emissions to drive a comprehensive carbon strategy for SAP.

In addition to our long-term goal for 2020, we have set annual targets. In 2013, our total emissions increased to 545 kilotons CO_2 (2012: 485 kilotons). As a result, we missed our annual target to reduce our emissions to 460 kilotons. Just as with our increase in energy consumption, our increased emissions reflect the growth of our business. Due to our environmental efforts of the past, however, the overall absolute reduction achieved between the beginning of 2008 and today is 9%. At the same time, the average number of employees increased by almost 26%.

At the same time, we experienced some decrease in efficiency in 2013 as it relates to our emissions. While our overall energy efficiency remained steady, our greenhouse gas emissions increased from 30.0 grams CO_2 per euro of total revenue in 2012 to 32.4 grams CO_2 per euro in 2013. Our carbon emissions per employee also increased by about 5% in 2013, respectively.

One root cause for this development is our change in business model. As our customers increasingly leverage SAP software in the cloud, our leadership in this market means that systems that previously ran at our customers' sites are increasingly running in SAP data centers. In other words, the emissions that used to be caused by our customers running our software have become SAP's emissions. As a result, our emissions per employee and per euro in revenue increased in 2013.

In 2014, we plan to address these emissions, as well as our overall footprint, by powering all of our data centers and facilities with 100% renewable electricity. This shift will effectively eliminate the emissions caused by our customers' systems that have moved into our green cloud. Given the large size of our customers' footprints and our growth strategy in the cloud, we see significant potential to reduce both our own and our customers' environmental impact. In 2013 alone, the emissions caused by SAP products in use at our more than 253,500 customers' sites were at least 10 times larger than SAP's own footprint, meaning they caused more than 5,800 ktons of CO_2. By using 100% renewable energy, we will dramatically broaden the reach of our sustainability efforts and align them with our cloud strategy. We believe this move will not only help the world run better, but contribute to achieving our 2020 carbon target.

EFFICIENCY VERSUS TRANSFORMATION

Our results in 2013 point to an increasing challenge faced not only by SAP but also by our customers. Companies typically increase their resource consumption when they grow. Under traditional business models, they continuously create and sell more goods or services. For this reason, many companies have focused on increasing their efficiency – a prime example is the far better fuel efficiency of passenger cars today compared to decades ago.

Efficiency, however, has its limits. The demands of growth, as we are discovering, often overtake efficiency gains. Extending the example of cars – we have many more cars on the road today, which more than cancels out the reduction in consumption per car. For this reason, and in addition to our green cloud strategy, we are increasingly focused on another path to sustainable growth – applying technology innovation to transformations in how business is conducted.

In the case of SAP, we are seeking to bring about transformations in a range of areas, from incentivizing behavioral change to supporting innovative approaches to conserving resources. TwoGo by SAP, for instance, is a ride-sharing application that turns the daily commute into an economic, social, and environmental opportunity. We began offering TwoGo by SAP to other companies in 2013, supporting their own efforts to reduce the cost of fuel, parking and business trips, enhance employee networks, change behavior, and reduce emissions. For more information on this innovation, see www.twogo.com.

NET POSITIVE IMPACT

As the example of TwoGo by SAP shows, we ultimately aim to help other organizations with their journey toward change. While we are committed to improving our own environmental performance, we believe that we can make a far greater impact by helping our customers reduce their energy use and emissions. We are increasingly focused on facilitating and measuring this "enabler effect," which our software supports in both direct and indirect ways. A prime example of the former is a transportation application that enables companies to better manage their freight and routes to reduce fuel consumption. Indirectly, our customers can use our analytics to assess their operations and make adjustments that will save energy, reduce emissions, and lower costs. For example, our software can help determine when equipment needs refurbishment or support manufacturers in negotiating better energy rates during peak times. Through the advanced computing power of SAP HANA, we can now help companies make these adjustments in real time, increasing their efficiency even further.

Based on a study from Global e-Sustainability Initiative (GeSI SMARTer2020) assessing the potential effect for the information and communications technology (ICT) industry overall as well as our own estimates, we believe that our solutions contribute to an avoidance of emissions that eclipses the footprint of our entire value chain, including our downstream emissions (use of our software at customers' sites). Putting such estimates in tangible terms, the total emissions generated by ICT are expected to reach 1.3 gigatons (Gt) of carbon by 2020. By contrast, ICT has the potential to abate 9.1 Gt CO_2 in that same time period. Similarly, we estimate that SAP's downstream emissions will reach 0.0091 Gt CO_2 by 2020. Global emissions, on the other hand, are expected to reach 55 Gt CO_2 by that time – offering enormous potential for ICT as a whole and for SAP to enable reductions.

We will continue developing methodology to estimate this impact so that we can direct our strategy and resources to those areas where we can create the greatest long-term impact.

Internal Management System

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

MEASURES WE USE TO MANAGE OUR FINANCIAL PERFORMANCE

Measures We Use to Manage Our Operating Financial Performance

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

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

Non-IFRS software and software-related service (SSRS) revenue: We use non-IFRS SSRS revenue and constant currency non-IFRS SSRS revenue to measure our revenue growth. Our SSRS revenue includes software and related support revenue plus cloud subscription and support revenue. Software revenue and cloud subscription and support revenue are our key revenue drivers because they tend to affect our other revenue streams. Generally, customers who buy software licenses also enter into maintenance contracts, and these generate recurring software-related service revenue in the form of support revenue after the software sale. Maintenance contracts cover support services and software updates and enhancements. Software revenue as well as cloud subscription and support revenue also tend to stimulate service revenue from consulting and training sales.

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

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

Measures We Use to Manage Our Non-Operating Financial Performance
We use the following measures to manage our non-operating financial performance:

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

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

Measures We Use to Manage Overall Financial Performance
We use the following measures to manage our overall financial performance:

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

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

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

MEASURES WE USE TO MANAGE OUR NON-FINANCIAL PERFORMANCE
In 2013, we used the following key measures to manage our non-financial performance in the areas of employee engagement and customer loyalty:

Employee Engagement Index: We use the employee engagement index to measure motivation and loyalty of our employees, how proud they are of our company, and how strongly they identify with SAP. The index is derived from surveys conducted among our employees. With this measure, we recognize that we can achieve our growth strategy with engaged employees only.

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

VALUE-BASED MANAGEMENT

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

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

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

NON-IFRS FINANCIAL MEASURES CITED IN THIS REPORT

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

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

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

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

€ millions, unless otherwise stated

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

Explanation of Non-IFRS Measures

We disclose certain financial measures, such as non-IFRS revenue, non-IFRS operating expenses, non-IFRS operating profit, non-IFRS operating margin, non-IFRS earnings per share, constant currency revenue, and operating profit measures that are not prepared in accordance with IFRS and are therefore considered non-IFRS financial measures. Our non-IFRS financial measures may not correspond to non-IFRS financial measures that other companies report. The non-IFRS financial measures that we report should only be considered in addition to, and not as substitutes for or superior to, revenue, operating expenses, operating profit, operating margin, earnings per share, or other measures of financial performance prepared in accordance with IFRS.

We believe that the disclosed supplemental historical and prospective non-IFRS financial information provides useful information to investors because management uses this information, in addition to financial data prepared in accordance with IFRS, to attain a more transparent understanding of our past performance and our anticipated future results. In 2013, we used these non-IFRS measures consistently in our internal planning and forecasting, reporting and compensation, as well as in our external communications as follows:

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

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

Non-IFRS Revenue

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

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

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

Non-IFRS Operating Expense

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

– Acquisition-related charges
  - Amortization expense/impairment charges of intangibles acquired in business combinations and certain stand-alone acquisitions of intellectual property (including purchased in-process research and development)
  - Settlements of pre-existing business relationships in connection with a business combination

  - Acquisition-related third-party expenses
- Discontinued activities: Results of discontinued operations that qualify as such under IFRS in all respects except that they do not represent a major line of business
- Expenses from our share-based payments
- Restructuring expenses

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

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

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

Usefulness of Non-IFRS Measures

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

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

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

We believe that our non-IFRS financial measures described above have limitations, including but not limited to, the following:
- The eliminated amounts could be material to us.
- Without being analyzed in conjunction with the corresponding IFRS measures, the non-IFRS measures are not indicative of our present and future performance, foremost for the following reasons:
  - While our non-IFRS profit numbers reflect the elimination of certain acquisition-related expenses, no eliminations are made for the additional revenue and other revenue that result from the acquisitions.
  - While we adjust for the fair value accounting of the acquired entities' recurring revenue contracts, we do not adjust for the fair value accounting of deferred compensation items that result from commissions paid to the acquired company's salesforce and third parties for closing the respective customer contracts.
  - The acquisition-related charges that we eliminate in deriving our non-IFRS profit numbers are likely to recur should SAP enter into material business combinations in the future.

- The acquisition-related amortization expense that we eliminate in deriving our non-IFRS profit numbers is a recurring expense that will impact our financial performance in future years.
- The revenue adjustment for the fair value accounting of the acquired entities' contracts and the expense adjustment for acquisition-related charges do not arise from a common conceptual basis. This is because the revenue adjustment aims to improve the comparability of the initial post-acquisition period with future post-acquisition periods, while the expense adjustment aims to improve the comparability between post-acquisition periods and pre-acquisition periods. This should particularly be considered when evaluating our non-IFRS operating profit and non-IFRS operating margin numbers as these combine our non-IFRS revenue and non-IFRS expenses despite the absence of a common conceptual basis.
- Our discontinued activities and restructuring charges could result in significant cash outflows. The same applies to our share-based payment expense because most of our share-based payments are to be settled in cash rather than shares.
- The valuation of our cash-settled, share-based payments could vary significantly from period to period due to the fluctuation of our share price and other parameters used in the valuation of these plans.
- In the past we have issued share-based payment awards to our employees every year and we intend to continue doing so in the future. Thus, our share-based payment expenses are recurring although the amounts usually change from period to period.

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

Constant Currency Information

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

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

Free Cash Flow

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

Free Cash Flow
€ millions

	2013	2012	Change (in %)
Net cash flows from operating activities	3,832	3,822	0
Purchase of intangible assets and property, plant, and equipment (without acquisitions)	–566	–541	5
Free cash flow	**3,266**	**3,281**	**–0**

Economy and the Market

GLOBAL ECONOMIC TRENDS
In its most recent monthly report, the European Central Bank (ECB[1]) concludes that the global economy has remained fairly weak in 2013, especially in the first half of the year. That is consistent with the view of the International Monetary Fund (IMF), stating that in 2013 gross domestic product (GDP) across the world grew 3% year over year.

The experts also note regional divergence: According to the ECB, growth shifted to the industrialized economies and became established there. In contrast, growth in most of the major emerging economies slowed. Weaker domestic demand, limited scope for government stimulus programs, and tougher financing conditions are the reasons cited by the ECB. Additionally, commodity-exporting countries suffered from the sluggish demand on the international commodity markets.

The economy of the Europe, Middle East, and Africa (EMEA) region was weak in 2013. Annual GDP in the euro area declined 0.4% year over year, according to the numbers published by the ECB. The ECB reports that weak domestic and export demand slowed down economic activity in the larger Central and Eastern European countries and Russia, although it perceived a more encouraging trend toward the end of the year. In comparison, the Middle East and Africa merely experienced a slight deceleration of growth. However, political instability severely hindered economic growth in some countries in the region, notably Iraq and Libya.

In the global context, the economy of the Americas region proved relatively robust, the ECB notes. Despite tax increases and government spending cuts that came into force in March, year-over-year annual growth in the United States was just short of 2% compared to 2012. Growth was faster in the second half of the year than in the first as conditions on the residential real estate and labor markets improved, consumer spending rose, and exports increased. The ECB reports continuing recovery in Latin America, at only a slightly reduced pace.

The contrary development of the industrialized and emerging economies was particularly noticeable in the Asia Pacific Japan (APJ) region, according to the ECB. Japan, with its expansive financial and monetary policy, turned to positive GDP growth rates and achieved growth of 2%. Only in the third quarter was there a slight dip, caused by weaker exports. Most emerging economies in Asia performed clearly more subdued than in recent years, the ECB reports. In China, for instance, only the third quarter saw a slight acceleration in growth (to 7.8% year over year) after a modest stimulus package.

THE IT MARKET
Worldwide IT investment growth was higher than overall global economic growth throughout 2013, U.S. market research firm International Data Corporation (IDC) reports. However, that growth slowed during the course of the year. For this reason IDC corrected its projections downward more than once. The main reason for this was slower growth in the emerging economies such as in China and Russia. For that reason the emerging economies did not grow as quickly as IDC had expected at the beginning of the year.

In 2013, the global IT market expanded by a percentage in the middle of the single-digit range, which was slightly less than in the prior year. Leading the way was the mobile devices segment, with growth well into the double-digit range. In fact, IDC revised its forecast for the mobile device segment upward several times in the course of the year. The software segment also outperformed the overall IT market, IDC reports. The PC segment was sluggish the entire year, especially in the emerging economies, where economic growth flagged. Global spending on servers and data storage devices contracted. In contrast, IDC reports that the global market for IT services expanded by a percentage in the low single digits.

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

In the EMEA region, the Western European market for IT recorded low but stable growth and has now, in IDC's view, survived the crisis. In Russia the economic development was completely different, according to the IDC. Over the year, it revised its forecast for growth in the Russian IT market downward by several percentage points in light of the weak Russian economy.

In the Americas region, the IT market followed the relatively robust expansion of the global economy. Although the economic policy situation was at times volatile in the United States, the U.S. IT market largely met expectations. IT investment grew by a percentage in the middle single-digit range year over year. The IT market also proved resilient in Latin America, including Brazil, and even recorded double-digit growth.

In the APJ region, the IT market reflected trends in the overall economy. Notably, the IT market in Japan performed better than IDC had originally expected. At the beginning of the year, IDC forecasted a contraction, but in fact over the full year IT investment increased slightly. On the other hand, IT spending in China grew more slowly than IDC had originally expected. Full-year growth was well below the double-digit percentages of recent years.

IMPACT ON SAP

SAP business was only slightly affected by the relatively weak growth in 2013 – especially in the first half of the year – in the overall global economy and in the IT industry: Despite a slower than expected start to the year, in 2013 our growth surpassed that of the global economy and of the IT industry.

We owe this success first and foremost to our greater focus on innovation strategy and with it our investment in three new fields of business: mobile solutions, in-memory computing with SAP HANA, and cloud solutions. The heightened pace of innovation at SAP and the rapid and successful integration of the companies we acquired, have been the decisive factors in our achieving double-digit constant currency growth in non-IFRS software and software-related services revenue.

SAP was highly successful in the EMEA region. With double-digit growth in revenue from software and cloud subscriptions, we again increased our market share. Alongside double-digit percentage growth in our home market, Germany, we performed remarkably well in France, Russia, the Middle East, and Africa, achieving high double-digit software revenue growth.

Likewise, our Americas region outperformed the overall economy and the IT market. The double-digit increase in revenue from software and cloud subscriptions in 2013 were mainly driven by a substantial – triple-digit – rise in cloud subscription revenue in North America and very strong core business in Latin America.

In the APJ region, the economic environment was very weak at the beginning of the year, and SAP's revenue suffered during this time as a result. However, the regional economy turned around toward the end of the year, reflected in double-digit growth for our software and cloud subscription revenue in the fourth quarter – a commendable result in the competitive context. This helped return SAP to modest single-digit revenue growth for the full year in the APJ region.

The emerging economies, with high double-digit growth, are important growth markets for SAP. Key among them are China as well as the Middle East, Russia, and Brazil, where we achieved strong double-digit software and cloud subscription revenue growth rates.

Overall, in 2013 we demonstrated an aptitude for global growth that few other companies in the IT industry can match.

Report on Economic Position

PERFORMANCE AGAINST OUTLOOK FOR 2013 (NON-IFRS)

Our 2013 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.

Guidance for 2013 (Non-IFRS)

At the beginning of 2013, we have given the guidance that our software and software-related service revenue (non-IFRS) for 2013 would increase by between 11% and 13% at constant currencies (2012: €13,246 million). For cloud subscription and support revenue (non-IFRS) we forecasted an increase to €750 million (2012: €342 million) at constant currencies. For SAP HANA, we estimated a software revenue of €650 million to €750 million. We expected our full-year operating profit (non-IFRS) for 2013 to be between €5.85 billion and €5.95 billion (2012: €5.21 billion) at constant currencies. We anticipated an effective tax rate (IFRS) of between 25.5% and 26.5% (2012: 26.2%) and an effective tax rate (non-IFRS) of between 27.0% and 28.0% (2012: 27.5%).

In April, we confirmed the guidance for 2013 that we had published in January 2013. In July 2013, we amended our forecast for revenue growth:

Although the difficult macroeconomic environment, in particular in the Asia Pacific Japan region, and the rapid transition to the cloud have resulted in lower software revenue expectations, we remained committed to double-digit growth with at least 10% growth in non-IFRS software and software-related service revenue at constant currencies in full year 2013 (2012: €13,246 million). We confirmed our predictions for cloud subscription and support revenue and for operating profit, while we adjusted the anticipated effective tax rate to between 24.0% and 25.0% (IFRS) and to between 25.5% and 26.5% (non-IFRS).

Actual Performance in 2013 Compared to Guidance (Non-IFRS)

We achieved or exceeded the amended outlook guidance for revenue and operating profit we published in July.

Comparison of Forecast and Results for 2013

	Forecast for 2013	**Results for 2013**
Software and software-related service revenue (non-IFRS, at constant currencies)[1]	at least +10%	+11%
Cloud subscription and support revenue (non-IFRS, at constant currencies)	around € 750 million	€786 million
Operating profit (non-IFRS, at constant currencies)	€5.85 billion to €5.95 billion	€5.90 billion
Effective tax rate (IFRS)[1]	24.0% to 25.0%	24.4%
Effective tax rate (non-IFRS)[1]	25.5% to 26.5%	25.9%
SAP HANA software revenue (non-IFRS)	€650 million to €700 million	€633 million (at actual currencies) €664 million (at constant currencies)

[1] Revised forecast (July 2013).

Despite ongoing economic uncertainty throughout 2013, our new and existing customers continued to show a strong willingness to invest in our solutions.

At constant currencies, cloud subscription and support revenue (non-IFRS) grew from €343 million in 2012 to €786 million in 2013, an increase of 129% before elimination of effects relating to the fact that Ariba and SuccessFactors numbers are included only for part of 2012 because they were acquired in the course of that year. Of the 129% growth, those effects account for 97 percentage points. Our software and software-related services revenue grew 11% at constant currencies to €14,657 million (2012: €13,246 million).

The Europe, Middle East, and Africa (EMEA) region recorded strong single-digit growth in software and cloud subscription revenue at constant currencies. The Americas region, while rapidly shifting to the cloud, achieved very strong growth of 15% in software and cloud subscriptions at constant currencies. After ending the year with a strong fourth quarter, in 2013 the Asia Pacific Japan (APJ) region achieved a 3% constant-currency increase in full-year revenue from software and cloud subscriptions. As a result, in 2013 SAP's full-year software and cloud subscription revenue increased 6% (11% at constant currencies) to €5,275 million. The acquisitions of SuccessFactors, Ariba, and hybris contributed 2.8 percentage points to the growth in software and software-related service revenue at constant currencies.

At the beginning of 2013, we forecasted low single-digit percentage growth in professional services and other service revenue and significant increase in total revenue for the year. Although in the event our professional services and other service revenue (non-IFRS) actually decreased by 3% at constant currencies, the strong growth we achieved in software and software-related service revenue (non-IFRS) helped us attain the overall guidance: Total revenue (non-IFRS) increased 8% at constant currencies to €17,633 million (2012: €16,304 million). Our 2013 outlook guidance for SAP HANA software revenue was €650 million to €700 million (2012: €392 million). Because of adverse currency effects, the revenue we achieved was €633 million (€664 million at constant currencies).

In 2013, we achieved operating profit (non-IFRS) of €5,902 million at constant currencies. Thus, operating profit (non-IFRS) at constant currencies was in the middle of the range that SAP had projected (€5.85 billion to €5.95 billion). Despite again investing significantly in innovation, we were able to increase our operating profit by successfully scaling our cloud business and maintaining operational discipline.

We achieved an effective tax rate (IFRS) of 24.4% and an effective tax rate (non-IFRS) of 25.9%, which is within the updated range of 24.0% to 25.0% (IFRS) and 25.5% to 26.5% (non-IFRS) we announced in July 2013.

OPERATING RESULTS (IFRS)

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

We acquired hybris in August 2013, so hybris results are incorporated in our results only for the months August to December. We acquired SuccessFactors in February 2012, so SuccessFactors results are incorporated in our 2012 results only for the months February to December. Similarly, because we acquired Ariba in October 2012, Ariba results are incorporated in our 2012 results only for the months October to December.

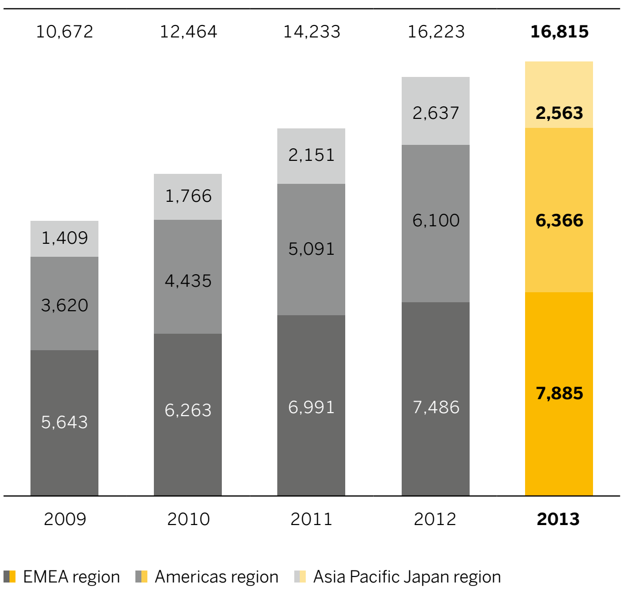
Revenue

Total Revenue

Total revenue increased from €16,223 million in 2012 to €16,815 million in 2013, representing an increase of €592 million, or 4%. This growth reflects an 8% increase from changes in volumes and prices and a 5% decrease from currency effects. The growing revenue result primarily from a €426 million increase in cloud subscription and support revenue and a €501 million rise in support revenue. Consulting revenue declined by €200 million and software revenue by €142 million. Software and software-related service revenue climbed to €13,950 million in 2013, an increase of 6%. Software and software-related service revenue represented 83% of total revenue in 2013 (2012: 81%). In 2013, consulting and other service revenue contributed €2,865 million to our total revenue, representing a drop of 6% compared to 2012.

Total Revenue by Region (based on customer location)

€ millions



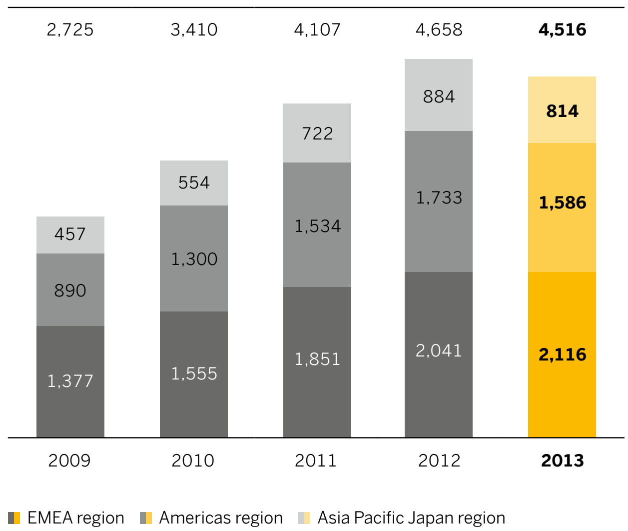
For more information about the breakdown of total revenue by region and industry, see the Revenue by Region and Industry section below.

Software and Software-Related Service Revenue

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

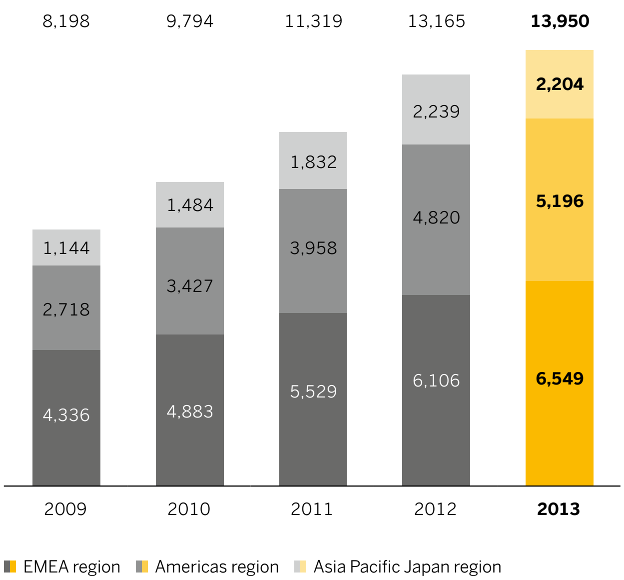
Software Revenue by Region (based on customer location)

€ millions

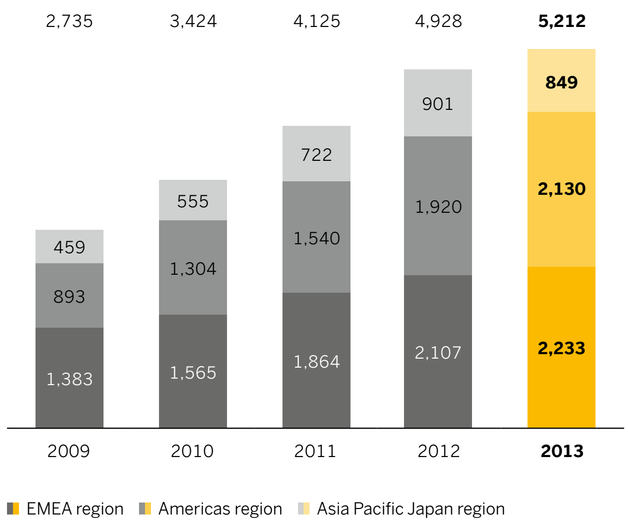


In 2013, software and software-related service revenue grew from €13,165 million in 2012 to €13,950 million, representing an increase of 6%. This software and software-related service revenue growth reflects an 11% increase from changes in volumes and prices and a 5% decrease from currency effects.

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



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



Revenue from software and cloud subscriptions rose from €4,928 million in 2012 to €5,212 million in 2013, representing an increase of €284 million, or 6%. This growth consists of an 11% increase from changes in volumes and prices and a 5% decrease from currency effects.

A combination of a challenging macroeconomic environment in key markets and the accelerating industry shift to the cloud resulted in a 2% increase from changes in volumes and prices. There was also a 5% decrease from currency effects. Overall, software revenue declined €142 million or 3% from €4,658 million in 2012 to €4,516 million in 2013. In 2013, SAP HANA contributed €633 million to total software revenue.

Cloud subscription and support revenue increased from €270 million in 2012 to €696 million in 2013. This increase is largely due to the acquisition of Ariba on October 1, 2012, and to continuing strong growth at SuccessFactors and Ariba in 2013.

Our customer base continued to expand in 2013. Based on the number of contracts concluded, 16% of the orders we received for software in 2013 were from new customers (2012: 19%). The total value of software orders received fell 7% year over year. The total number of contracts signed for new software decreased 6% to 55,909 (2012: 59,289 contracts), while the average order value decreased by 1%.

Our stable customer base, continued investment in software by new and existing customers throughout 2013 and the previous year, and the continued success of our premium support offerings resulted in an increase in support revenue from €8,237 million in 2012 to €8,738 million in 2013. The SAP Enterprise Support services offering was the largest contributor to our support revenue. The €501 million, or 6%, growth in support revenue reflects an 11% increase from changes in volumes and prices and a 5% decrease from currency effects. This growth is primarily attributable to SAP Product Support for Large Enterprises, SAP Enterprise Support, and our premium offerings. Accordingly, the acceptance rate for SAP Enterprise Support among new customers rose from 96% in 2012 to 98% in 2013.

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 and of training revenue from educational services supplied to customers and partners on the use of our software products and related topics.

Professional services and other service revenue decreased from €3,058 million in 2012 to €2,865 million in 2013, representing a decline of €193 million, or 6%. This decline reflects a 3% decrease from changes in volumes and prices and a 4% decrease from currency effects.

Customers' cautious buying behavior toward large services projects led to a decline in consulting revenue from €2,442 million in 2012 to €2,242 million in 2013, representing a decrease of €200 million, or 8%. This decline reflects a 5% decrease from changes in volumes and prices and a 4% decrease from currency effects. Consulting revenue contributed 78% of the total consulting and other service revenue (2012: 80%). Consulting revenue contributed 13% of total revenue (2012: 15%).

Revenue from other services increased €7 million, or 1%, to €623 million in 2013 (2012: €616 million). This reflects a 5% increase from changes in volumes and prices and a 4% decrease from currency changes.

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).

EMEA Region

In 2013, the EMEA region generated €7,885 million in revenue, which was 47% of total revenue (2012: €7,486; 46%). This represents a year-over-year increase of 5%. Total revenue in Germany increased 5% to €2,505 million in 2013 (2012: €2,380 million). Germany contributed 32% (2012: 32%) of all EMEA region revenue. The remaining revenue in the EMEA region was primarily generated in the United Kingdom, France, Switzerland, the Netherlands, Russia, and Italy. Software and software-related service revenue generated in the EMEA region in 2013 totaled €6,549 million (2012: €6,106 million). Software and software-related service revenue represented 83% of total revenue in 2013 (2012: 82%). Software and cloud subscription revenue rose by 6% to €2,233 million in 2013 (2012: €2,107 million). This growth reflects an 8% increase from changes in volumes and prices and a 2% decrease from currency effects.

Americas Region

In 2013, 38% of our total revenue was generated in the Americas region (2012: 38%). Total revenue in the Americas region increased 4% to €6,366 million; revenue generated in the United States increased 4% to €4,661 million. This growth reflects an 8% increase from changes in volumes and prices and a 4% decrease from currency effects. The United States contributed 73 % (2012: 73%) of all revenue generated in the Americas region. In the remaining countries of the Americas region, revenue climbed 4% to reach €1,705 million. This growth reflects a 13% increase from changes in volumes and prices and a 9% decrease 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 2013 totaled €5,196 million (2012: €4,820 million). Total software and software-related service revenue represented 82% of all revenue in the Americas region in 2013 (2012: 79%). Software and cloud subscription revenue rose by 11% to €2,130 million in 2013 (2012: €1,920 million). This growth reflects a 17% increase from changes in volumes and prices and a 6% decrease from currency effects.

APJ Region

In 2013, 15% (2012: 16%) of our total revenue was generated in the APJ region, with the strongest revenue growth being achieved in China. Total revenue in the APJ region decreased by 3% to €2,563 million. In Japan, revenue fell by 21% to €624 million, which represents 24% (2012: 30%) of the total revenue generated in the APJ region. This drop in revenue is attributable, in full, to currency effects. In the remaining countries of the APJ region, revenue increased by 5%. 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 2013 totaled €2,204 million (2012: €2,239 million). That was 86% of total revenue (2012: 85%). Software and cloud subscription revenue fell by 6% to €849 million in 2013 (2012: €901 million). This decrease reflects a 4% increase from changes in volumes and prices and a 10% decrease from currency effects.

Revenue by Industry

With effect from January 2013, we rearranged our industry sectors from nine groups into six so that we could focus better on the requirements of existing and potential customers.

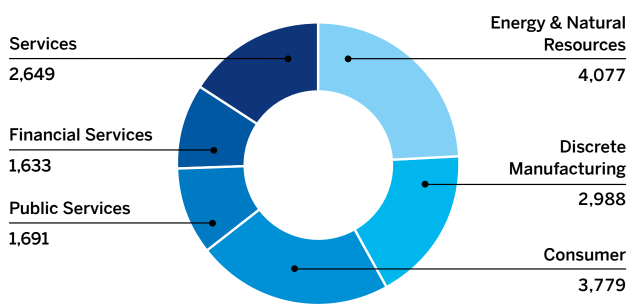
We merged one of our existing industry sectors, process manufacturing – which covers the chemicals and mill products industries – with the energy and natural resources industry sector. We combined our former consumer products and the retail and wholesale distribution industry sector into the consumer sector. The healthcare and life sciences, (medical and pharmaceutical) industries, which were previously grouped together under the healthcare sector, now belong to the public services or consumer industry sectors, respectively. To address the changing needs of our customers, a new industry subgroup was established, sports and entertainment, which is part of the professional services sector.

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 2013, we achieved above-average growth in the following sectors, measured by changes in total revenue: Financial Services (€1,633 million, at a growth rate of 13%), Services (€2,649 million, at a growth rate of 7%), Public Services (€1,691 million, at a growth rate of 5%), and Energy and Natural Resources (€4,077 million, at a growth rate of 4%). The revenue from the other industry sectors: Consumer €3,779 million, which was a 4% improvement on the prior year; Discrete Manufacturing €2,988 million, which was a 4% decline mainly related to APJ and the Americas.

Revenue by Industry

€ millions



Operating Profit and Operating Margin

In 2013, our operating profit totaled €4,479 million (2012: €4,041 million), a significant year-over-year increase despite adverse currency effects. We invested in innovations and made substantial advances in our cloud business in 2013.

In 2013, operating expenses increased €155 million or 1% to €12,336 million (2012: €12,181 million). The main contributors to that increase were our greater acquisition-related and restructuring expenses, continued investment in sales activities and the cloud, and higher personnel and infrastructure expenses related to acquisitions.

The effect of acquisition-related expenses, which were €555 million (2012: €537 million), and restructuring expenses, which were €70 million (2012: €8 million), on operating profit was greater than in the prior year. The operating profit for 2013 was also affected by continued investments in global sales activities and cloud computing. The number of SAP employees (expressed in full-time equivalents – FTEs) rose year over year by 2,150 persons, including more than 1,100 employees from acquired businesses.

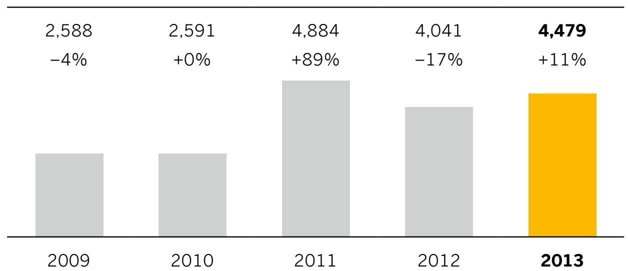
Those negative effects on operating profit were in part offset by a reduced expense for share-based payment, which totaled €327 million in 2013 (2012: €522 million) owing to a less steep increase in the SAP stock price, and by a reduction in our general and administration expense.

As an overall result of these effects on operating profit, our operating margin widened 1.7 percentage points to 26.6% in 2013 (2012: 24.9%).

The sections that follow discuss our costs by line item.

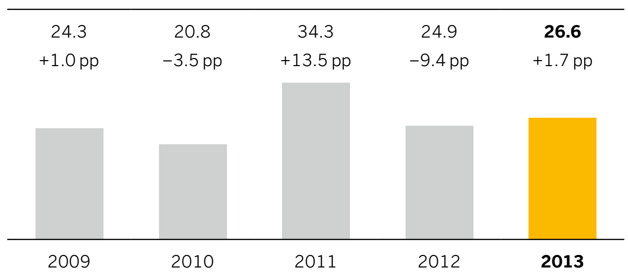
Operating Profit

€ millions | change since previous year



Operating Margin

Percent | change since previous year



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

In 2013, the cost of software and software-related services increased a modest 2% to €2,597 million (2012: €2,555 million). The main factors were a €95 million acquisition-related increase in the cost of providing and operating our cloud solutions and a €13 million increase in customer support costs.

They both represent investments that contributed to revenue growth. At the same time, the license fees we pay to third parties decreased by €63 million. The gross 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 2013 at 81% (2012: 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.

The growth of our cloud business and increased demand for pre-bundled offerings led to a reduction in our professional and other services revenue as well as in our professional and other services expense. We reduced costs for professional and other services 5% from €2,520 million in 2012 to €2,402 million in 2013. Our gross margin on professional and other services, defined as professional and other services profit as a percentage of professional and other services revenue, narrowed to 16% (2012: 18%).

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 depreciation of the computer hardware and software we use for our R&D activities.

We acquired Ariba and SuccessFactors in the course of 2012, so in 2012 our R&D expense did not include a full year's Ariba and SuccessFactors R&D. Moreover, the depreciation expense for R&D servers and computer systems was greater in 2013 than in 2012. Nonetheless, our total R&D expense increased only slightly, by 1% to €2,282 million (2012: €2,261 million). Therefore, while we continue to increase our innovative capacity our R&D expense as a percentage of total revenue was slightly less year over year at 13.6% (2012: 13.9%). 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.

Our sales and marketing expense rose 6% from €3,912 million in 2012 to €4,131 million in 2013. The increase was mainly the result of greater personnel costs as we expanded our global sales force, notably for cloud business, and of the reallocation and re-tasking of employees to sales-related work. By increasing our sales force we accelerated our revenue growth. The ratio of sales and marketing expense to total revenue, expressed as a percentage, increased slightly to 24.6% (2012: 24.1%) because costs grew more rapidly than revenue.

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

General and administration expense decreased 9% from €949 million in 2012 to €866 million in 2013. This resulted mainly from a reduced expense for share-based payment and efficient cost management. Consequently, the ratio of general and administration expense to total revenue decreased in 2013 to 5% (2012: 6%).

Results by Segment
We had two divisions in 2013, On-Premise and Cloud, each further divided into operating segments. Our On-Premise division comprises two operating segments: On-Premise Products and On-Premise Services. Our Cloud division also comprises two operating segments: Cloud Applications and Ariba.

The revenue and profit numbers for each of our operating segments relate to our internal management reporting and differ from the revenue and profit numbers presented in our IFRS Consolidated Statements of Income. For more information about our segment reporting and 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 installation on the customer's hardware) 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 them.

On-Premise Products segment revenue grew 3% from €12,881 million in 2012 to €13,227 million in 2013. This increase reflects a 7% increase from changes in volumes and prices and a 4% decrease from currency effects. The increase resulted principally from growth in support revenue, which more than offset a slight decline in software solution licensing. Software revenue attributable to our On-Premise Product segment declined 3% to €4,517 million (2012: €4,656 million). The decline reflects a 2% increase from changes in volumes and prices and a 5% decrease from currency effects. Support revenue grew 6% to €8,710 million (2012: €8,226 million). This increase reflects a 10% increase from changes in volumes and prices and a 4% decrease from currency effects.

In 2013, cost of revenue increased 1% to €2,020 million (2012: €1,994 million) and sales and marketing costs grew 1% to €3,447 million (2012: €3,414 million). The moderate increase in expenses in the On-Premise Products segment was the result of greater investment in providing and operating our Cloud solutions in response to growing demand in 2013.

On-Premise Products segment profit rose 4% to €7,760 million (2012: €7,473 million) and the associated segment profitability was 59% (2012: 58%).

On-Premise Services Segment

The On-Premise Services segment performs various professional services, primarily supporting the implementation of our software products and providing education services concerning the use of those software products.

On-Premise Services segment revenue decreased 9% from €2,967 million in 2012 to €2,695 million in 2013. This reduction in revenue reflects a 6% decrease from changes in volumes and prices and a 3% decrease from currency effects. Our cloud business grew more quickly than our business as a whole, and demand for preconfigured solutions increased. As expected, this led to a decrease in both, revenue from consulting and education services and in the expense of providing them.

Accordingly, cost of revenue in the On-Premise Services segment decreased 7% to €2,134 million in 2013 (2012: €2,306 million).

On-Premise Services segment profit declined 15% to €562 million (2012: €661 million). Segment profitability was 21% (2012: 22%).

Cloud Division

Our Cloud division earns revenue by providing software for customers to use in the cloud and by providing services relating to that software.

Driven by the acquisition of SuccessFactors in the first quarter of 2012 and Ariba in the final quarter of 2012, SAP developed a strong cloud momentum that continued in 2013. Our Cloud division revenue run rate reached €1,063 million (end of 2012: €848 million), based on annualized fourth-quarter revenue. The annualized revenue is the overall 2013 fourth-quarter revenue from the Cloud division of €266 million (2012: €212 million), multiplied by four.

The cloud revenue reflects only the portion of customer orders already recognizable in revenue. In contrast, the portion of customer orders already invoiced for that refers to services that have not yet been delivered and is as such not recognizable in revenue is reflected in deferred cloud revenue. Orders placed by the customers, which have not yet been delivered and not yet been invoiced are included in the backlog perfomance indicator.

Non-IFRS deferred cloud subscription and support revenue was €447 million on December 31, 2013 (December 31, 2012: €358 million), a year-over-year increase of 25%. Our cloud subscription and support backlog increased 50% to €1,202 million on December 31, 2013 (December 31, 2012: approximately €800 million).

Cloud Applications Segment

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

In 2013, revenue from the Cloud Applications segment grew 53% to €514 million (2012: €336 million). This increase reflects a 57% increase from changes in volumes and prices and a 4% decrease from currency effects. Greater customer demand for cloud applications led to the steep rise in revenue in 2013.

In 2013, cost of revenue increased 9% to €178 million (2012: €163 million) and sales and marketing costs grew 42% to €328 million (2012: €231 million). These costs rose in the Cloud Applications segment principally as a result of increased business activity in response to greater customer demand for cloud applications in 2013.

Cloud Applications segment profit grew to €8 million (2012: –€59 million loss). Segment profitability was 2% (2012: –17%).

Ariba Segment

The Ariba segment is primarily engaged in marketing and selling subscriptions to cloud software developed by Ariba for its business commerce network. While this segment is named Ariba, it is not identical to the acquired Ariba business because certain SAP activities have been transferred to our Ariba segment.

The numbers for the Ariba segment include the acquired Ariba company numbers as of October 1, 2012, as well as the numbers for those SAP activities that were allocated to the Ariba segment upon its establishment.

In 2013, revenue from the Ariba segment grew 283% to €461 million (2012: €120 million). This increase reflects a 299% increase from changes in volumes and prices and a 16% decrease from currency effects. It results mainly from the fact that only fourth-quarter Ariba revenue is included in the 2012 numbers.

In 2013, cost of revenue increased 151% to €180 million (2012: €72 million) and sales and marketing costs grew 250% to €151 million (2012: €43 million). The expense rise in the Ariba segment is mainly due to the fact that Ariba was acquired in the final quarter of 2012.

Ariba segment profit was €130 million (2012: €5 million). Segment profitability was 28% (2012: 5%).

Financial Income, Net

Financial income, net, changed to –€66 million (2012: –€72 million). Our finance income was €115 million (2012: €103 million) and our finance costs were €181 million (2012: €175 million).

Finance income mainly consists of interest income from loans and financial assets (cash, cash equivalents, and current investments), which was €37 million in 2013 (2012: €45 million). This decrease is attributable to a lower average liquidity and lower interest rates than in 2012.

Finance costs mainly consist of interest expense on financial liabilities (€131 million in 2013 compared to €130 million in 2012) and remained virtually stable year over year. For more information about these financing instruments, see the Notes to the Consolidated Financial Statements section, Note (17b).

Another factor in financial income, net, in 2013 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 €32 million (2012: €27 million) and interest expenses of €23 million (2012: €28 million).

Income Tax

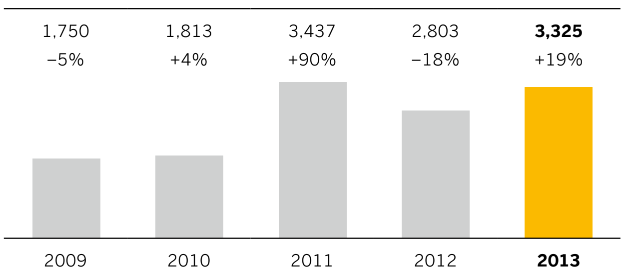
Our effective tax rate decreased to 24.4% in 2013 (2012: 26.2%). The reason for the year-over-year decrease mainly resulted from prior year taxes. For more information, see the Notes to the Consolidated Financial Statements section, Note (10).

Profit After Tax and Earnings per Share

Profit after tax increased 19% to €3,325 million in 2013 (2012: €2,803 million). The higher profit after tax in 2013 derived mainly from the increase of our operating profit and the lower effective tax rate.

Profit After Tax

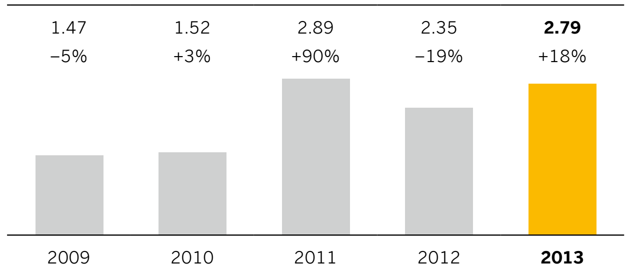
€ millions | change since previous year



Basic earnings per share increased to €2.79 (2012: €2.35). The increase reflects the higher profit after tax compared to 2012. The number of shares outstanding remained almost constant year over year at 1,193 million (2012: 1,192 million).

Earnings per Share

€ | change since previous year



Dividend

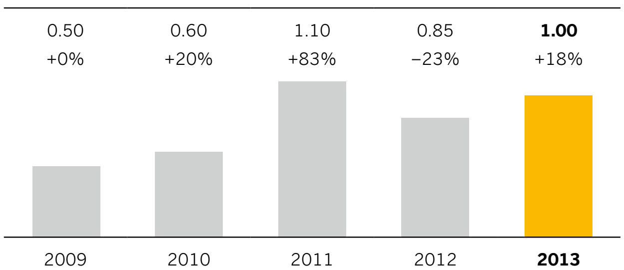
We believe our shareholders should benefit appropriately from the profit the Company made in 2013. We wish to continue our dividend policy, which is that the payout ratio should be more than 30% of the profit after tax of the Group.

The Executive Board and the Supervisory Board will therefore recommend to the Annual General Meeting of Shareholders that the total dividend be increased by 18% to €1.00 per share (2012: €0.85). Based on this recommendation, the overall dividend payout ratio (which here means total distributed dividend as a percentage of profit) would be 36% (2012: 36%).

If the shareholders approve this recommendation and if treasury shares remain at the 2013 closing level, the total amount distributed in dividends would be €1,194 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. In 2013 we distributed €1,013 million in dividends from our 2012 profit. In 2012 we also returned €53 million to the shareholders by repurchasing SAP treasury shares. In 2013 we did not repurchase further SAP treasury shares.

Dividend per Share

€ | change since previous year



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.

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 centrally by the Group, so that liquid assets across the Group can be consolidated, monitored, and invested in accordance with Group policy. High levels of liquid assets help keep SAP flexible, sound, and independent. In addition, various credit facilities are currently available for additional liquidity, if required. For more information about these facilities, see the Credit Facilities section.

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, 2013, 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 2013.

In 2013, SAP signed a new revolving credit facility contract. The size of the facility was increased from €1.5 billion to €2.0 billion to support the company's growth – for more information see the Credit Facilities section. 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. 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. For more information about the financial debt, see the Cash Flows and Liquidity section.

Capital Structure Management

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

Based on our strong corporate financial profile and our excellent capital market reputation, we have so far successfully executed external financing transactions without an external rating. However, we will continue to closely monitor our financing situation to determine whether not having an external rating continues to be appropriate.

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 repurchases of shares will be balanced with our effort to continue to maintain an adequate liquidity position.

Capital Structure

	2013		2012		% Change
	€ millions	% of Total equity and liabilities	€ millions	% of Total equity and liabilities	
Equity	16,048	59	14,133	54	14
Current liabilities	6,347	23	6,546	25	–3
Non-current liabilities	4,699	17	5,627	21	–16
Liabilities	11,046	41	12,173	46	–9
Total equity and liabilities	**27,094**	**100**	**26,306**	**100**	**3**

Our financing activities improved our debt ratio (defined as the ratio of total liabilities to total equity and liabilities, expressed as a percentage) to 41% at the end of 2013 (as compared to 46% at the end of 2012). The ratio of total financial debt to total equity and liabilities decreased by 3% to 16% at the end of 2013 (19% as at December 31, 2012). Total financial debt consists of current and non-current bonds and private placements. For more information about our financial debt, see the Notes to the Consolidated Financial Statements section, Note (17).

As part of our financing activities in 2014, the Company intends to repay a €500 million Eurobond and an €86 million German promissory note when they both mature in April 2014.

Total liabilities on December 31, 2013, mainly comprised financial liabilities of €4,506 million (of which €3,758 million are non-current). Financial liabilities on December 31, 2013, consisted largely of financial debt, which included amounts in euros (€2,386 million) and U.S. dollars (€1,922 million). On December 31, 2013, 100% of financial debt was held at fixed interest rates, of which 56% were swapped into variable interest rates using interest rate swaps. 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, 2013, primarily comprised amounts in euros (€1,056 million) and U.S. dollars (€884 million). Current investments are included in other financial assets in the statement of financial position. Financial debts are included within financial liabilities in the statement of financial position.

Group Liquidity of SAP Group

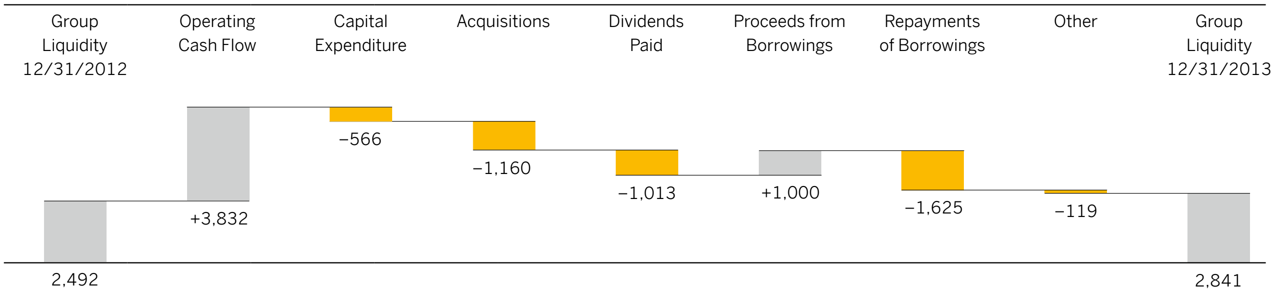
€ millions

	2013	2012	Change
Cash and cash equivalents	2,748	2,477	271
Current investments	93	15	78
Group liquidity	**2,841**	**2,492**	**349**
Current financial debt	586	600	–14
Net liquidity 1	**2,255**	**1,892**	**363**
Non-current financial debt	3,722	4,394	–672
Net liquidity 2	**–1,467**	**–2,502**	**1,035**

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



Net liquidity is Group liquidity less total financial debt as defined above.

The increase in Group liquidity from 2012 was mainly due to positive cash inflows from our operations, which were partly offset by cash outflows for acquisitions (such as hybris), dividend payments and repayment of an issued Eurobond.

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

Analysis of Consolidated Statements of Cash Flow

Analysis of Consolidated Statements of Cash Flow

€ millions

	2013	2012	Change (in %)
Net cash flows from operating activities	3,832	3,822	0
Net cash flows from investing activities	−1,781	−5,964	−70
Net cash flows from financing activities	−1,589	−194	>100

Net cash provided by operating activities remained stable in 2013 (€3,832 million) compared to the prior year (2012: €3,822 million). Increased income tax payments of €193 million to €1,295 million in 2013 burdened net cash flows from operating activities. In addition, days' sales outstanding (DSO) for receivables, defined as average number of days from the raised invoice to cash receipt from the customer, was 62 days, a three-day increase compared to 2012 (59 days).

Cash outflows from investment activities totaled €1,781 million in 2013, much decreased from the 2012 figure of €5,964 million that were attributed mainly to business combinations of SuccessFactors and Ariba. In 2013, cash outflows were mainly driven by the acquisitions of consolidated companies (especially hybris) as well, for which we paid €1,160 million in total. For more information about current and planned capital expenditures, see the Assets and Investment Goals sections.

Cash outflows from financing activities totaled €1,589 million in 2013, compared to €194 million in 2012. In 2013, cash outflows were mainly driven by dividends paid and a repayment of an issued €600 million Eurobond. In addition, we took out a short-term bank loan in the amount of €1,000 million to finance the acquisition of hybris that were fully offset by repayments in the same amount and year. In the previous year, cash outflows from financing activities were mainly driven by repayments of a Eurobond tranche (€600 million) and several tranches (€611 million) of the promissory notes we issued in 2009 and dividends paid. This was almost fully compensated by a successfully placed Eurobond transaction totaling €1.3 billion and a U.S. private placement transaction of US$1.4 billion.

The decrease of total dividends paid in 2013 to €1,013 million (2012: €1,310 million) was due to a decrease in dividend paid to €0.85 per share compared to €1.10 per share in the previous year, of which €0.35 per share was an extraordinary payout to celebrate our 40th anniversary in 2012.

Credit Facilities

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

By signing a new credit facility contract of €2.0 billion, SAP refinanced its existing credit facility of €1.5 billion that would have expired in December 2015. The revolving credit facility was early refinanced due to favorable market conditions with a tenor of five years plus two one year extension options. The credit line may be used for general corporate purposes. A possible future withdrawal is not bound to any financial covenants. Borrowings under the facility bear interest at the euro interbank offered rate (EURIBOR) or London interbank offered rate (LIBOR) for the respective optional currency plus a margin ranging from 0.3% to 0.525% (2012: 0.45% to 0.75%). We pay a commitment fee of 0.079% (2012: 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, 2013, SAP AG had additional available credit facilities totaling €487million. As at December 31, 2013, 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, 2013, approximately €36 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, 2013.

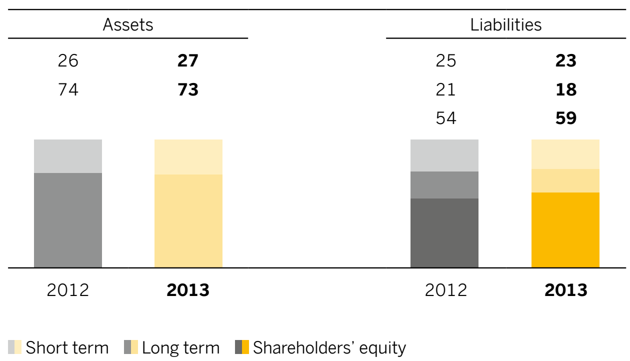
ASSETS (IFRS)

Analysis of Consolidated Statements of Financial Position

Total assets increased by 3% year over year to €27,094 million.

Breakdown of Consolidated Statements of Financial Position

Percent

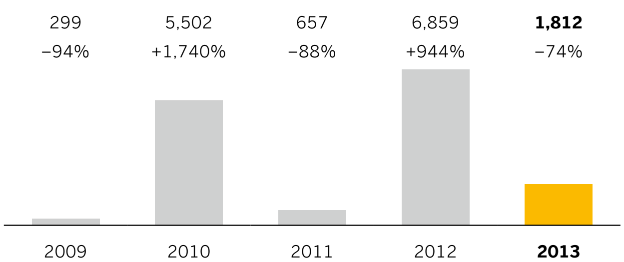


Total current assets increased by 6% in 2013 from €6,928 million to €7,352 million. This was mainly due to an increase in cash and cash equivalents to €2,748 million (2012: €2,477 million) stemming from cash inflows from our operating activities.

Total non-current assets increased slightly in 2013 to €19,741 million compared to the previous year's figure of €19,378 million. This 2% increase was mainly due to additions to goodwill, resulting from the acquisition of hybris.

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

€ millions | change since previous year



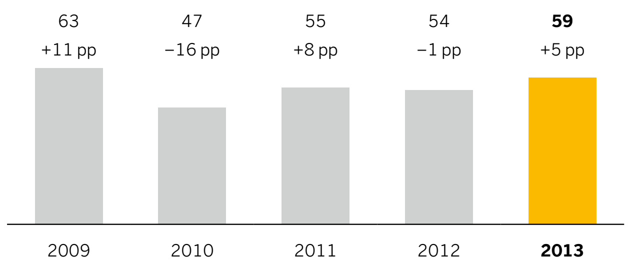
Current liabilities decreased slightly to €6,347 million in 2013 as compared to the prior year (€6,546 million) which is mainly due to a drop in our provisions for share-based payments. In 2013 we paid back a €600 million Eurobond, which was almost fully compensated by reclassifications of €586 million from non-current liabilities to current liabilities due to changes in the respective maturity profile.

The decrease in total non-current liabilities from €5,627 million in 2012 to €4,699 million in 2013 was due mainly to financing activities. The decrease of non-current financial debt relates to reclassifications from non-current liabilities to current liabilities due to changes in the respective maturity profile. For more information about financing activities in 2013, see the Finances (IFRS) section.

Such financing activities improved the equity ratio (that is, the ratio of shareholders' equity to total assets) to 59%, compared to 54% of the prior year.

Equity Ratio

Percent | change since previous year



Principal Capital Expenditures and Divestitures Currently in Progress

In 2013, we started construction activities in several locations. We aim to extend our office space and data center capacities to be able to cover future growth. We plan to cover all of these projects in full from operating cash flow. The most important projects are:

- In Bangalore, India, we want to add additional capacity of roughly 2,500 employees. We estimate the total cost to be approximately €51 million, of which we had paid approximately €2 million as of December 31, 2013. We expect to complete the construction of this office building in 2016.
- In Ra'anana, Israel, we commenced construction of a new building. We estimate the total cost of this project to be approximately €50 million, of which we had paid approximately €10 million as of December 31, 2013. We expect to complete the construction of this office building in 2016.
- In our research center in Potsdam, Germany, we started with a second construction phase in order to realize additional capacity for at least 100 employees. With the extension of our research center we aim to create the general conditions for further teams contributing innovations to SAP products in miscellaneous fields. We estimate the total cost to be approximately €12 million, of which we had paid approximately €2 million as of December 31, 2013. We expect to complete the construction of this office building in 2015.

– In New York City, New York, United States, we started planning the leasehold improvements for our new office space. The project includes the consolidation of our New York City offices for approximately 600 employees. We estimate the total capital expenditures for this project to be approximately €37 million. We expect to complete the leasehold improvements in 2016.
– In Paris, France, we started an office consolidation project. The project aims to consolidate three office spaces in Paris into one office space. We estimate the total cost of the leasehold improvements to be approximately €24 million. We expect to complete the leasehold improvements in 2014.
– In St. Leon-Rot, Germany, we started increasing the capacity of our data center. We estimate the total cost of this project to be approximately €30 million, of which we had paid approximately €14 million as of December 31, 2013. We expect to complete the construction for this project in 2014.
– In Newtown Square, Pennsylvania, United States, we also started to increase the capacity of our data center. We estimate the total cost of this project to be approximately €20 million, of which we had paid approximately €2 million as of December 31, 2013. We expect to complete the construction for this project in 2014.

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 €76.5 billion at the end of 2013 (2012: €74.7 billion), with the equity on the Consolidated Statements of Financial Position, which was €16.0 billion (2012: €14.1 billion). This means that the market capitalization of our equity is more than four times higher than the 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 have built up – in particular, the SAP brand itself – and our organization. On December 31, 2013, SAP ranked third 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 ranked again the 25th most valued brand in the world (2012: 25th). 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$16.7 billion, an increase of 7% compared to the previous year (2012: US$15.6 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 2013. We gained more than 21,500 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 NPS, 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 Investment section and the Research and Development section. We also increased the value of our partner ecosystem by continuing to develop sales and development partnerships.

Report on the Economic Position of SAP AG

SAP AG is headquartered in Walldorf, Germany, and is the parent company of the SAP Group, which comprises 272 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 mainly 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

	2013	2012
Total revenue	8,413	7,812
Other operating income	893	796
Cost of services and materials	−2,896	−2,610
Personnel expenses	−1,390	−1,417
Depreciation and amortization	−309	−278
Other operating expenses	−2,197	−2,215
Operating profit	**2,514**	**2,088**
Finance income	**825**	**1,144**
Income from ordinary activities	3,339	3,232
Income taxes	−834	−721
Net income	**2,505**	**2,511**

The total revenue of SAP AG in 2013 was €8,413 million (2012: €7,812 million), an increase of 8%. Product revenue increased 4% to €6,543 million (2012: €6,295 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 2013 was therefore principally the result of the increase in software and software-related service revenue achieved by the SAP Group.

Other operating income increased €97 million to €893 million (2012: €796 million). The year-over-year increase is due primarily to a rise in gains from currency effects.

SAP AG operating profit increased 20% to €2,514 million (2012: €2,088 million). SAP AG cost of services and materials increased 11% to €2,896 million (2012: €2,610 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, decreased slightly by 2% to €1,390 million (2012: €1,417 million) in spite of headcount increase, primarily because of a significant decrease in share-based payment related expenses. Other operating expenses decreased 1% to €2,197 million, mainly due to lower currency losses that declined €39 million compared to the previous year.

Finance income was €825 million (2012: €1,144 million), a decrease of €319 million compared with the previous year, mainly caused by a €322 million decrease in income from securities classified as financial assets and €108 million decrease in investment income. This decrease in finance income was offset by increases of €10 million in income from profit transfer agreements and €26 million in net interest income, as well as a decrease of €76 million in write-downs of financial assets.

SAP AG income from ordinary activities, which is the sum of operating profit and finance income, increased 3% to €3,339 million (2012: €3,232 million). Income tax increased 19% to €831 million (2012: €701 million). The primary cause was a large reduction in income from securities classified as financial assets, much of which is non-taxable. After deducting taxes, the resultant net income decreased €6 million year over year to €2,505 million (2012: €2,511 million).

ASSETS AND FINANCIAL POSITION

In 2013, SAP AG total assets closed at €22,055 million (2012: €21,037 million).

SAP AG Balance Sheet – German Commercial Code Short Version

€ millions

	12/31/2013	12/31/2012
Assets		
Intangible assets	289	406
Property, plant, and equipment	965	917
Financial assets	16,857	16,664
Fixed assets	**18,111**	**17,987**
Inventories	2	4
Accounts receivable	2,857	2,541
Liquid assets	884	307
Short-term assets	**3,743**	**2,852**
Prepaid expenses and deferred charges	**113**	**115**
Deferred taxes	**63**	**74**
Surplus arising from offsetting	**25**	**9**
Total assets	**22,055**	**21,037**
Equity and liabilities		
Shareholders' equity	11,295	9,717
Provisions	1,203	1,251
Other liabilities	9,549	10,063
Deferred income	8	6
Total shareholders' equity and liabilities	**22,055**	**21,037**

Financial assets increased 1% compared with the previous year to €16,857 million, primarily caused by the increase in contributions to subsidiaries. Short-term assets stood at €3,743 million (2012: €2,852 million), a year-over-year increase of €891 million. €316 million of the increase is attributable to accounts receivable and €577 million to liquid assets.

SAP AG shareholders' equity rose 16% to €11,295 million (2012: €9,717 million). Against outflows of €1,013 million associated with the payment of the 2012 dividend, there was a €2,505 million increase in net income and an inflow of €86 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 46% in 2012 to 51% in 2013.

Provisions decreased €48 million to €1,203 million. While the other provisions decreased €107 million to €662 million, mainly due to lower share-based payment related provisions, the reserves for tax increased €58 million to €539 million.

Other liabilities decreased €514 million to €9,549 million (2012: €10,063 million). This decrease is mainly attributable to contrasting effects: On the one hand, SAP AG made a scheduled repayment of a bond in the amount of €600 million; on the other, SAP AG liabilities to affiliated companies decreased €95 million, mainly due to increased cash contribution by subsidiaries through SAP AG's centralized management of finance and liquidity.

SAP AG Cash Flow Statement – German Commercial Code Short Version

€ millions

	2013	2012
Net cash flows from operating activities	2,987	2,334
Net cash flows from investing activities	–485	–4,598
Net cash flows from financing activities	–1,975	–271
Net decrease/increase in cash and cash equivalents	527	–2,535
Cash and cash equivalents at the beginning of the year	**307**	**2,842**
Cash and cash equivalents at the end of the year	**834**	**307**

Mainly due to the mentioned cash contributions by subsidiaries through SAP AG's centralized management of finance and liquidity as well as to positive business performance, the cash flow from operating activities increased €653 million to €2,987 million in 2013 (2012: €2,334 million).

SAP AG used net cash flows from investing activities of €485 million in 2013 (2012: €4,598 million), a year-over-year decrease of €4,113 million. The outflows were €500 million for property, plant and equipment and financial assets and €50 million for long-term investments. They were in part offset by inflows of €66 million from sales of property, plant and equipment and financial assets. In the prior year, contributions to subsidiaries' capital related to the acquisition of SuccessFactors and Ariba occasioned outflows of €4,830 million.

Net cash flows from financing activities were €1,975 million in 2013 compared to €271 million in 2012. In 2013, SAP AG outflows included the dividend of €1,013 million (2012: €1,310 million and repayments of financial liabilities of €1,015 million. On the other hand, SAP AG generated inflows of €53 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 €834 million in short-term liquid assets (2012: €307 million), a year-over-year decrease of €527 million.

OPPORTUNITIES AND RISKS

SAP AG is subject to materially the same opportunities and risks 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 strong revenue and profit growth in 2013. SAP HANA, our platform for real-time business applications, was a major growth engine in 2013. SAP Business Suite powered by SAP HANA is becoming a leading platform for high-performance applications.

Our stable, highly profitable core business and our fast-growing cloud business can together deliver continued growth and an expanding margin. We still aim to increase total revenue growth, both for the near term and for the medium term. At the same time, we want to build still greater profitability for our business. All in all, SAP remains in good financial shape.

INFLUENCE OF ACCOUNTING POLICIES ON OUR FINANCIAL POSITION
For more 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 structured entities, that are not disclosed in our Consolidated Financial Statements.

Corporate Governance

CORPORATE GOVERNANCE STATEMENT

The German Commercial Code, section 289a, requires that listed stock corporations 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 19, 2014, and published it on our public Web site at www.sap.com/corporate-en/investors/governance.

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

PLANNED CONVERSION TO A EUROPEAN COMPANY

In March 2013, the Executive Board and Supervisory Board of SAP AG agreed to convert SAP AG to a European Company (SE). SAP has begun working on the conversion process. The Executive Board and the Supervisory Board believe that the planned change of legal form reflects SAP's position as a global company with European roots. The European Company legal form also reflects SAP's European and international business activities. The European Company legal form will allow SAP to optimize its corporate governance structure and the work of its Supervisory Board and Executive Board.

As invited by management, SAP employees and their representatives in the European Union (EU) and European Economic Area (EEA) countries elected their delegates to a Special Negotiating Body (SNB). Negotiations between SAP management and the SNB regarding the European employees' involvement in the SE began in September 2013, are ongoing, and are expected to last six months. SAP intends to seek the required approval of the shareholders for the conversion of legal form at the 2014 Annual General Meeting of Shareholders. If approved, the change of legal form would take effect upon entry in the commercial register. With the conversion to an SE, its shareholders automatically become shareholders of SAP SE. Shareholders' rights remain unchanged.

CHANGES IN MANAGEMENT

Lars Dalgaard stepped down from the Executive Board and left the Company on June 1, 2013, to join a private equity firm. He continues to play an active role as an advisor to the SAP Cloud business in the Cloud Governance Board.

We have consolidated all responsibility for innovation and product development under Vishal Sikka, a member of the Executive Board. With effect from June 1, 2013, all on-premise delivery, network (Ariba), and Cloud unit development leaders report directly to Vishal Sikka. Additionally, the Executive Board nominated Bernd Leukert, executive vice president for application innovation, to the Global Managing Board with effect from July 1, 2013. In this capacity, Leukert reports directly to Vishal Sikka.

Luisa Deplazes Delgado, member of the Executive Board of SAP AG, Human Resources, and Labor Relations Director decided to leave SAP with effect from June 30, 2013, to become the CEO of another company.

In addition to his role as our chief financial officer, Werner Brandt took on Executive Board responsibility for human resources and became the labor relations director in Germany. In this context, Luka Mucic became the head of global finance to support Brandt in his expanded responsibilities. The Executive Board nominated Mucic to the Global Managing Board with effect from July 1, 2013. In October 2013, the Supervisory Board of SAP AG appointed Luka Mucic chief financial officer, effective July 1, 2014. Luka Mucic is the successor of Werner Brandt, who will, as planned, withdraw from the Executive Board by that time.

On July 21, 2013, the SAP Supervisory Board agreed to propose that co-CEO Jim Hagemann Snabe be elected to the SAP Supervisory Board at the SAP Annual General Meeting of Shareholders in May 2014. This proposal is subject to support by at least 25% of the shareholders. Jim Hagemann Snabe will conclude his current role as co-CEO and member of the SAP Executive Board upon the conclusion of the Annual General Meeting of Shareholders in May 2014.

Bob Calderoni, president of Ariba, an SAP company, and a member of our Global Managing Board, decided to leave SAP with effect from January 15, 2014.

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, 2013, 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 New York Stock Exchange 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 34,795,554 treasury shares on December 31, 2013. Treasury shares did not entitle us to any rights, and hence to any voting rights or dividend. Shares issued in 2013 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 4, 2013, 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 3, 2018, 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 (but not in 2013), and on December 31, 2013, 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 €2 billion revolving 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 €86 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 €487 million on December 31, 2013, we have agreed 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. 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 material adverse effect, at least in the near term.

- 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. In 2013, a new €4 billion Debt Issuance Program was set up under which no bonds were issued until December 31, 2013. 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 that is an integral part of this management report. We have no analogous compensation agreements with other employees.

Opportunity Report

Market dynamics are shifting rapidly as in-memory and cloud computing are being adopted in enterprise IT. Our customers rely on SAP as the trusted advisor to successfully lead this transition not only towards in-memory computing and the cloud, but also towards driving new business outcomes and enabling business model innovations. To meet these expectations we must grow consistently and accelerate the pace of our business transformation by leveraging the right innovation and exploiting new opportunities.

We have established a framework for opportunity management by evaluating and analyzing four key areas: current markets, competitive landscapes, external scenarios, and technological trends. Furthermore, we have delved into customer product segmentation, growth drivers and industry-specific success factors. These combined insights help the Executive Board define market strategies for future consideration.

Our shareholder value relies heavily upon a fine balance of awareness between risk mitigation and value-driven opportunities. Therefore, our strong governance model ensures that decisions are based on return, investment required, and risk mitigation. More importantly, these decisions rely on the talent and resources within SAP's entire ecosystem, extending even to our partner relationships. Without these core assets, it would not be possible to successfully deliver innovation to our customers in a consumable, inspiring, and sustainable way.

As far as opportunities are likely to occur, we have incorporated them into our business plans, our outlook for 2014, 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.

SAP AG is the parent company of the Group and earns most of its revenue from software license fees and dividends paid by affiliates. Consequently, the opportunities described below also apply – directly or indirectly – to SAP AG. Insights and conclusions apply to segments and portfolio.

OPPORTUNITIES

Opportunities from Positive Development of Economic Conditions

Economic conditions have a clear influence on our business, financial position, profit, and cash flows. Our outlook for 2014 and medium-term prospects are based on future economic conditions and trends, aligned to our corporate growth strategies. Consequently, should the global economy experience a more sustained recovery than is reflected in our outlook, our revenue and profit may exceed our current outlook and medium-term prospects.

We expect strong growth in emerging markets (Brazil, China, the Middle East, and Africa). These markets are prime opportunities for both our established enterprise applications and new offerings. Africa, for example, is on its way to becoming one of the new global economic powerhouses. Stable GDP growth rates are fueled by the continent's vast natural resources and increasing foreign and African investment in public infrastructure. Software demand is increasing and we expect double-digit growth rates. SAP Africa's current business performance gives evidence of solid market opportunity and execution capabilities. In addition, customers and partners are actively targeting Africa and demand a stronger SAP presence in the region. As a result, the Board decided to build a targeted strategic growth plan for the continent to provide strategic answers to key opportunities and challenges. The expected impact of this strategy is reflected in our outlook. Additional revenue and profit opportunities may arise over the course of 2014.

In addition, we continue to acknowledge the growing demand for prudent management of resources and sustainable business models, both for our customers and for ourselves. In this context, SAP will progress to leverage the technological capabilities to solve more complex problems of humanity.

For more information about future trends in the global economy, the IT market outlook, and the potential influence on SAP, see the Report on Expected Developments section of this management report.

Opportunities from Research and Development Traction
Our continued growth through innovation is based on our ability to leverage R&D resources effectively. We continue to improve our development processes through design thinking and lean methodologies. We are accelerating innovation cycles and engaging more closely with our customers to ensure accuracy and success.

While speed is a key strength, we also focus on ease of adoption and providing compelling returns. This allows our customers to easily consume technologies and software applications with immediate benefits for their businesses. If we make innovations available faster than currently anticipated, or if customers adopt the innovations faster than currently expected, this could positively impact our revenue, 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 Report on Expected Developments sections of this management report.

Opportunities from Our Strategy for Profitable Growth
Our strategy influences our business, financial position, profit, and cash flows. Our mission is to deliver profitable growth across our portfolio of products, solutions, and services. We will continue to expand our addressable market to US$350 billion in 2020, compared to US$110 billion in 2010.

We see opportunities in new product and market areas, such as in-memory, cloud, mobile, digital marketing, social media, machine-to-machine, and predictive analytics. We are entering into these areas through organic development as well as acquisitions. We also seek to establish new business models and leverage our expanding ecosystem of partners to maximize these opportunities.

In addition, our core business applications continue to offer solid multi-year growth opportunities as we bring innovative technologies with simplified consumption to our installed base and continue to add net new customers.

Successful performance relies 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 add further business value and thus increase the share of our customers' IT spending.

Unexpected portfolio growth may positively impact our revenue, profit, and cash flows and result in exceeding our stated outlook and medium-term prospects. Specifically, SAP HANA and our cloud offerings could 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 Report on Expected Developments sections of this management report.

Opportunities from Our Partner Ecosystem
SAP continues to grow and develop a global partner ecosystem. In order to increase market coverage, we want to enhance our portfolio and spur innovation with the specified objective of increasing the partner revenue contribution to SAP's overall revenue target. In addition to strengthening our core, we will leverage our entire ecosystem to drive adoption of SAP HANA and cloud solutions as well. As a result, we are creating an ever-stronger setup, where we, along with our customers and partners, co-innovate and develop new innovative solutions on top of SAP HANA. Our unrivaled partner ecosystem is essential for making SAP HANA the industry's real-time in-memory platform of the future.

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. This may positively impact our revenue, profit, and cash flows and result in exceeding our stated medium-term prospects.

For more information about opportunities arising from our partner ecosystem, see the Partner Ecosystem and Report on Expected Developments sections of this management report.

Opportunities from Our Employees
Our employees drive our innovation, are the value to our customers, and consistently promote our growth and profitability. In 2013, we increased the number of full-time employees, especially in sales roles to capture growth opportunities. We anticipate improvements in employee productivity as a result of our continued endeavors in design-thinking principles. As described in the Employees section, we also run programs that aim to increase engagement, collaboration, and social innovation.

To ensure continuous innovation and sustained business success, we need to continuously bring the best and brightest talent to SAP. To do so, we will further strengthen our brand perception in the market and optimize our recruiting experience to emphasize our focus on improving people's lives. Furthermore, we will maximize mobile channels and innovative talent strategies to tap into new talent pools.

Our outlook and medium-term prospects are based on certain assumptions regarding employee productivity and engagement. If the actual employee productivity exceeds these assumptions, it would positively impact our revenue, profit, and cash flows and result in exceeding our stated 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 segments, line of business, and industry. We evolve and invest in our go-to-market coverage model to effectively sell industry-specific solutions while increasing our engagement with customers. We focus on the dynamic and fast-changing landscape each industry faces as technology evolves.

We offer unique services that significantly drive a return on investment, and continue to actively look at new opportunities to increase the value we deliver to our customers. Our outlook and medium-term prospects are based on certain assumptions regarding the success of our go-to-market approaches. If the actual go-to-market success exceeds these assumptions, this would positively impact our revenue, profit, and cash flows, and result in exceeding our stated medium-term prospects.

Risk Report

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM
As a global company, SAP is exposed to a wide variety of risks across our range of business operations. As a consequence, the Executive Board has put comprehensive risk management and internal control structures into place that enable SAP to identify and analyze risks early on and take appropriate action. Our risk management and internal control system is designed to identify potential events that could negatively impact the Company and to provide reasonable assurance regarding the achievement of the Company objectives, specifically our ability to achieve our financial, operational, or strategic goals as planned.

This system comprises multiple control mechanisms and is an important element of the corporate decision-making process; it is therefore implemented as an integral part of SAP's business processes across the entire Group. Ensuring that our global risk management efforts are effective and enable us to aggregate risks and report on them transparently, we have adopted an integrated risk management and internal control approach.

SAP AG is a stock corporation domiciled in Germany and issues securities that are listed on the stock exchanges in Frankfurt, Berlin, and Stuttgart, in Germany, as well as on the New York Stock Exchange, in the United States. We are therefore subject to both German and U.S. regulatory requirements that relate to risk management and internal controls over financial reporting, such as provisions in the German Stock Corporation Act, section 91 (2), and the U.S. Sarbanes-Oxley Act (SOX) of 2002, section 404. The 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 risk management system is based on five pillars, comprising a dedicated risk management policy and a standardized risk management methodology followed by a global risk management organization. The internal control system comprises the internal control and risk management system for financial reporting (ICRMFR) that also covers the broader business environment. In 2013, we implemented continuous control monitoring and continuous auditing in selected areas. Using the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, we define and cover 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. In addition, we have a governance model in place across risk management and the internal control system to ensure both systems are effective, as well as a central software solution to store, maintain, and report all risk-relevant information.

RISK MANAGEMENT POLICY AND FRAMEWORK
The risk management policy issued by the Executive Board governs how we handle risk in line with the Company's risk appetite and defines a methodology that is applied uniformly across all parts of the 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. Our global corporate audit function conducts regular audits to assess the effectiveness of our risk management system. Every year, SAP's external auditor assesses if the early risk identification system is adequate to identify risks that may endanger the Group's ability to continue 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. As of today, the risk management system analyzes risks and only assesses or analyzes opportunities where deemed appropriate.

RISK MANAGEMENT METHODOLOGY AND REPORTING

The following sections describe the key content elements of the risk management process as part of SAP policy: risk planning, identification, analysis, response, and monitoring. Risk planning and risk identification for both internal and external risks are conducted in cooperation between risk managers and the business units or subsidiaries across the Group. 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 product 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. We apply both qualitative and quantitative risk analysis as well as other risk analysis methods such as sensitivity analyses and simulation techniques.

To determine which risks pose the highest threat to the viability of the Group, we classify them 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 SAP's business objectives if it were realized. The scales for measuring these two indicators are given in the following tables.

Probability/Likelihood of Occurrence	Description
1 to 19 %	Remote
20 to 39 %	Unlikely
40 to 59 %	Likely
60 to 79 %	Highly Likely
80 to 99 %	Near Certainty

In 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. The period for analyzing our risks is at least the used forecast period. The period for analyzing our risks that could be possible threats to the Group's ability to continue as a going concern, is eight rolling quarters.

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 SAP's reputation, business, financial position, profit, and cash flow leads us to classify the risks as "high," "medium," or "low."

Probability	Insignificant	Minor	Moderate	Major	Business-Critical
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

Impact

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

Risk analysis is followed by risk response and risk monitoring. Our risk managers work in close cooperation with the business owners, ensuring that effective strategies are implemented to address risks. Risks may be reduced by taking active steps based on risk approval. Business owners are responsible for continuously monitoring the risks and the effectiveness of mitigation strategies, with support from the respective risk managers. To provide greater risk transparency and enable appropriate decision making for business owners, we have established a risk delegation of authority (RDOA) for relevant parts of the organization as deemed appropriate. RDOA is a risk management decision-making hierarchy that helps business owners gain timely insight into SAP's riskiest projects and processes, so they are better able to review the relevant 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.

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 established executive risk councils that regularly discuss risks and countermeasures and that monitor the success of risk mitigation. In addition, the Executive Board and Global Managing Board are informed quarterly about individual risks based on clearly defined reporting criteria. 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. This includes any potential going concern risks.

We also have a process in place that analyzes those risks with respect to potential effects on liquidity, excessive indebtedness, and insolvency, which could be possible threats to the Group's ability to continue as a going concern.

RISK MANAGEMENT ORGANIZATION

Our risk management organization ensures the coverage of the functions of risk management governance, strategic, operational, financial, and compliance risk management, with regard to SAP targets. The Global Governance, Risk & Compliance (GRC) organization comprises a group-wide governance function, which includes regular maintenance and implementation of our risk management policy. The uniform process model comprises all essential elements of risk management: risk planning, risk identification, risk analysis, risk response, and risk monitoring. This function is also responsible for standardized risk reporting to risk committees at different levels of the Company, including the Executive Board and Global Managing Board as well as the chairpersons of the Supervisory Board and the Audit Committee.

Our strategic risk management function is responsible for enabling early identification and mitigation of risks that could threaten the successful execution of SAP's strategic objectives. It also supports the successful execution of our corporate strategy by creating transparency regarding risks that could threaten commercial interests or intangible assets such as corporate or product reputation and brand image.

Operational and financial risk management is uniformly implemented at SAP. GRC risk managers independent of the business are assigned to each of SAP's important business units and business activities and to selected strategic initiatives. All GRC 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. Further financial risk management activities are performed by our Global Treasury function.

For hybris, risk management activities are performed by the chief financial officer and the head of internal controls, internal audit, and risk management based on their particular area. GRC risk managers are responsible for supporting and monitoring the implementation of risk management across the Group that is both effective and compliant with regulatory requirements and SAP's global risk management policy. Based on SAP's risk management policy, all risks and risk-related matters have to be reported to the Global GRC organization, and from an organizational perspective, all risk managers (except for hybris) report to the Global GRC organization.

The head of Global GRC, together with the corresponding function within SAP's acquired companies (such as hybris), is responsible for SAP's internal control and risk management program, and provides regular updates to the Audit Committee of the Supervisory Board. The overall risk profile of the Group is consolidated by the head of Global GRC, who reports to the head of Global Finance, who is a member of the Global Managing Board and reports to the CFO.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM FOR FINANCIAL REPORTING BY THE GROUP

The purpose of a company's system of 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.

SAP's 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 is 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 subsidiaries according to local GAAP.

Our ICRMSFR also includes policies, procedures, and measures designed to ensure compliance of SAP's 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. Finally, the ICRMSFR has both preventive and detective controls, including, for example, automated and non-automated reconciliations, segregated duties with two-person responsibility, authorization concepts in our software systems, and monitoring.

Our Corporate Financial Reporting department codifies all accounting policies in the Group Accounting and Global Revenue Recognition Guidelines. These policies and the corporate closing schedule together define the closing process. Under this closing process all affiliates prepare, partly supported by centralized and outsourced services, their financial statements for consolidation by our Corporate Financial Reporting office. The corporate financial reporting department and other corporate departments assist the local subsidiaries' efforts to comply with Group accounting policies and monitor their work. Our corporate audit function and Corporate Financial Reporting department conduct financial statement audits of SAP subsidiaries.

The Corporate Financial Reporting department conducts all of SAP's financial consolidation. We outsource some work, such as valuing projected benefit obligations and share-based payment obligations, as well as purchase price allocations in the context of asset acquisitions and business combinations. The employees who work on SAP's financial reporting receive training in the policies and processes.

A committee chaired by the head of Global Finance and member of the Global Managing Board, proposes the assessment results on the effectiveness of the ICRMSFR each year as of December 31 to the Group CFO based on an analysis of the design and operating effectiveness of our internal controls over financial reporting. The committee meets regularly to set the annual scope for the test of effectiveness, to evaluate any possible weaknesses in the controls, and to determine measures to address them adequately. During its own meetings, the Audit Committee of the Supervisory Board regularly scrutinizes the resulting assessments of the effectiveness of the internal controls with respect to the IFRS Consolidated Financial Statements.

Its assessment of the effectiveness of SAP's internal controls over financial reporting was that on December 31, 2013, the Group has an effective internal control system over financial reporting.

RISK MANAGEMENT AND INTERNAL CONTROL GOVERNANCE

The Executive Board is responsible for ensuring the effectiveness of the risk management and internal control system. The effectiveness of both systems and their implementation in the different Executive Board areas is monitored by each board member. Our Group CFO regularly provides a status on the risk management and the internal control system to the Audit Committee. Key risks are reported quarterly to the chairpersons of the Supervisory Board and the Audit Committee. The Audit Committee of the Supervisory Board regularly monitors the effectiveness of SAP's risk management and internal control system. In this regard, they requested the Corporate Audit department to regularly audit various aspects of the risk management system and its effectiveness. Additional reassurance will be obtained through the external audit of the effectiveness of our internal control system over financial reporting and the internal warning system.

SOFTWARE SOLUTION
We use our own risk management software (SAP solutions for GRC) to effectively support the governance process. Risk managers record and address identified risks using our risk management software to create transparency across all known risks that exist in the Group, as well as to facilitate risk management and the associated risk reporting. This information is available to managers through a mobile app as well as regularly issued reports, and is consolidated and aggregated for the quarterly report to the Executive Board and the Global Managing Board. The solution also supports the risk-based approach of SAP's internal control and risk management system for financial reporting (ICRMSFR).

RISK FACTORS

The following sections outline risk factors that we identify and track using our risk management software (SAP solutions for GRC). 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. 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.

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

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

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

– Delays in purchases, decreased deal size, or cancelations of proposed investments
– Higher credit barriers for customers, reducing their ability to finance software purchases
– Increased number of bankruptcies among customers, business partners, and key suppliers
– Increased default risk, which may lead to significant impairment charges in the future
– Market disruption from aggressive competitive behavior, acquisitions, or business practices
– Increased price competition and demand for cheaper product and services

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

SAP has established measures and dedicated task forces to address and mitigate the described risks and adverse effects 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 our organizational structure and processes to increase efficiency.

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. This could exacerbate the other risks we describe in this report or cause 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 sometimes even conflicting regulatory requirements, and to risks that could harm our business, financial position, profit, and cash flows.

We are a global company and currently market our products and services in more than 180 countries and territories in the Americas (including Latin America and North America), APJ, and EMEA regions. Our business in these countries is subject to numerous risks inherent in international business operations. Among others, these risks include:
– Conflict and overlap among tax regimes
– Possible tax constraints impeding business operations in certain countries
– Expenses associated with the localization of our products and compliance with local regulatory requirements
– Discriminatory or conflicting fiscal policies
– Operational difficulties in countries with a high corruption perception index
– Protectionist trade policies and regulations for import and export
– Works councils, labor unions, and immigration laws in different countries
– Data protection and privacy in regard to access by government authorities to customer, partner, or employee data
– Difficulties enforcing intellectual property and contractual rights in certain jurisdictions
– Country-specific software certification requirements

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

We address these risks with various measures depending on the circumstances, including, for example, a strong legal and compliance office presence in the main countries, maintaining an effective 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 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 medium risk.

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

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

Our mitigation measures have been designed and implemented to minimize such adverse effects. To ensure continuous operations of all critical business processes, we have been implementing and operating a worldwide business continuity management and crisis 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 Americas (including Latin America and North America), APJ, and EMEA regions, and a global crisis management team.

To protect our key IT infrastructure, critical business systems, and processes from material adverse effects in crisis situations, disaster recovery and business continuity plans have been developed that include implementation of data redundancies and daily data backup strategies. To verify and improve our approach, our Global IT organization has been certified to the internationally recognized ISO 22301:2013 (Business Continuity Management) standard. In addition, our corporate headquarters, which includes certain critical business functions, is located in the German state of Baden-Wuerttemberg. This area has historically been free of natural disasters.

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 and operating profit target. 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 2013, we offered a wide range of support services including SAP MaxAttention, SAP Enterprise Support, and SAP Product Support for Large Enterprises. We continue to depend materially on the success of our support portfolio and on our ability to deliver high-quality services. Traditionally, our large installed customer base generates additional new software, maintenance, consulting, and training revenue. Existing customers might cancel or not renew their maintenance contracts, decide not to buy additional products and services, switch to subscription models, or accept alternative offerings from other vendors, which could have an adverse effect on our maintenance business, financial position, profit, and cash flows.

Working closely with SAP user groups, we continuously monitor the performance and the perceived value of our support and the satisfaction of our customers. We implement mitigating steps where required.

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. Overall, we classify this risk as medium risk. This risk factor relates only to our On-Premise Product and On-Premise Services segments.

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

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

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

If organizations do not perceive the benefits of cloud computing, the market for cloud business might not develop further, or it may develop more slowly than we expect, either of which could have an adverse effect on our business, financial position, profit, reputation and cash flows.

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

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 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 the Cloud Applications and Ariba segments.

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

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

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

We believe we will be able to protect our leadership in the market if we continue to execute successfully on our customer-centric innovation strategy, which is driven by a mix of organic growth, targeted acquisitions, and attractive cloud solution offerings. To compete successfully in the market, we continuously enhance our global processes and adjust our organizational structures.

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 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.

Business Strategy Risks

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

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

To mitigate this risk, SAP is balancing the distribution of its strategic investments by evolving and protecting its core businesses and simultaneously developing new solutions, technologies, and business models for markets, such as mobile, cloud, database and technology, and social media. Furthermore, we focus on the design and provision of attractive solution offers to our customers as well as the provision of support excellence to ensure customer satisfaction with and after the implementation of our solution.

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 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 user licenses from SAP as a cloud provider. Also, any downturns or upturns in cloud sales may not be immediately reflected in our operating results, and any decline in our customer renewals would harm the future operating results of the cloud business.

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

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

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

In order to continuously improve our services we closely monitor any issue and work together with customers to perform a root cause analysis and provide a solution. Furthermore, we are adapting cloud service delivery to local and/or specific market requirements such as local or regional data centers.

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 major 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 Applications and Ariba segments.

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

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

If partners consider our products less strategic and/or financially less attractive or if SAP fails to establish a network of qualified partners that meet our quality requirements and the requirements of our customers, then, among other things, partners might not:
– Develop a sufficient number of new solutions and content on our platforms
– Provide high-quality products and services to our customers
– Drive growth of references by creating customer use cases and demo systems
– Sufficiently embed our solutions to profitably drive product adoption, especially with new innovations like SAP HANA
– Enable and train sufficient resources to promote sell and support to scale into targeted markets
– Comply with applicable laws and regulations, resulting in delayed, disrupted, or terminated sales and services
– Renew their existing agreements with us or enter into new agreements on terms acceptable to us or at all.

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

SAP continues to invest in long-term, mutually beneficial relationships and agreements with partners. We continue to develop and enhance a wide range of partner programs to retain existing and attract new partners of all types. 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 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. This applies to the management of our internal as well as our external workforce. Changes in headcount and infrastructure needs could result in a mismatch between our expenses and revenue. Failure to manage our geographically dispersed workforce effectively could hinder our ability to run our business efficiently and successfully and could have an adverse effect on our business, financial position, profit, and cash flows.

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.

We estimate this risk to be a remote possibility, but we cannot underestimate its potential to have a major 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 diversity and inclusion objectives, we might not be able to manage our operations effectively and successfully, or develop successful new solutions and services.

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

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. We address the risk of an adverse effect on our business operations from a failure to recruit the employees we need or from 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, a gender diversity program, and a special focus on accelerated high-potential employee development that aims to develop talent as well as leadership talent, in particular. A strong focus on succession planning for leadership and key positions seeks for sustainable leadership and to safeguard the business from disruption caused by staff turnover.

Although the risks related to failure to attract, develop, and retain talent could materialize, we believe that this is unlikely and that the 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. Changes in laws and regulations and related interpretations, including changes in accounting standards and taxation requirements and increased enforcement actions and penalties may alter the business environment in which we operate. Regulatory requirements have become significantly more stringent in recent years, and some legislation, such as the anticorruption legislation in Germany, the U.S. Foreign Corrupt Practices Act, the UK Bribery Act, and other local laws prohibiting corrupt payments by employees, vendors, distributors, or agents, is being applied more rigorously. Emerging markets are a significant focus of our international growth strategy. The nature of these markets presents a number of inherent risks. A failure by us to comply with applicable laws and regulations, or any related allegations of wrongdoing against us, whether merited or not, could have an adverse effect on our business, financial position, profit, cash flows and reputation.

It is difficult to assess the precise potential risk, because there is 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 continuously monitor new regulatory requirements, updated or new enforcement trends, and publicly available information on compliance issues in the computer software industry, the emerging markets where we invest our resources, and in the business environment in general. Based on this information and any other available sources, we continuously update and refresh our compliance programs to achieve the most effective approach possible and to ensure that our employees understand and comply with the SAP Code of Business Conduct. This process is coordinated by our Global Compliance Office, a team of dedicated resources that 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 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 customers must fulfill and which we must consequently address with our products and services.

Failure to comply with applicable laws or to adequately address privacy concerns of customers, even if unfounded, could lead to investigations by supervisory authorities, civil liability, fines, (in the future, potentially calculated based on the Company's annual turnover), loss of customers, damage to our reputation, and could have an adverse effect on our business, financial position, profit, and cash flows.

To mitigate these risks, SAP actively monitors changes to laws and regulations so we can take adequate measures and certify our existing standards and policies on an ongoing basis. We have implemented a wide range of measures to protect data controlled by SAP and our customers from unauthorized access and processing, as well as from accidental loss or destruction. We have implemented a certified Data Protection Management System in data protection critical areas including support, HR, global services, marketing, application innovation, and custom development, whereby 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.

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 are an integral component of our holistic management of social, environmental, and economic risks and opportunities. We have identified risks in these major areas:
– Our solutions and green IT
– Our own operations – energy management and other environmental issues such as carbon management, water use, and waste

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

In recent years, SAP has shown 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 Indexes and the Sustainability Leadership Report by Brandlogic. As we did not meet our greenhouse gas emissions target of 460 kilotons for 2013, we might fail to meet expectations regarding our energy and emission performance.

However, we believe that the risk of failing to meet expectations regarding our energy and emission strategy is unlikely to occur and that if the risk were to occur, it would only have a moderate impact on our reputation, business, financial position, profit, and cash flows, as well as on the achievement of our revenue and operating profit target. We classify this risk as a low risk.

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

SAP's leadership position in the global market is founded on the long-term and sustainable trust of our stakeholders worldwide. Our heritage is one of corporate transparency, open communication with financial markets, and adherence to recognized standards of business integrity. The SAP Code of Business Conduct, adopted by the Executive Board on January 29, 2003, put into words the already existing guidelines and expectations for the business behavior practiced at SAP. However, we may encounter unethical behavior and non-compliance with our integrity standards due to intentional and fraudulent behavior of individual employees, possibly in collusion with external third parties. In addition to intentional behavior, problems could also arise due to negligence in the adherence to rules and regulations. Unethical behavior and misconduct attributable to SAP could not only lead to criminal charges, fines and claims by injured parties, but also to financial loss, and severe reputational damage. This could have an adverse effect on our business, financial position, profit, and cash flows.

To help prevent this, we instituted a comprehensive compliance management system (CMS), which is based on the three pillars of prevention, detection, and reaction. Our CMS program comprises several educational, counseling, control, and investigative instruments. The objective is to minimize and mitigate the risk of unethical behavior, whether intentional or negligent. The SAP Code of Business Conduct is mandatory and applies to every employee. It provides legal compliance guidance on how to avoid unethical behavior and solve dilemma situations. On a yearly basis, the SAP Code of Business Conduct is re-confirmed by SAP's workforce (except where disallowed by local legal regulations). We also rolled out and enforce various additional compliance policies aimed at managing third parties and preventing misuse of third-party payments for illegal purposes; ensuring controls around travel, entertainment, gift, and expense policies; and pushing out a commitment to business with integrity through our partner and vendor ecosystems. These efforts are flanked by continuous education including e-learning and classroom training to target audiences as identified by compliance risk assessment. The overall CMS approach by SAP is continuously monitored internally and externally, and adapted accordingly, if needed.

Although we estimate the probability of occurrence of intentional or negligent major unethical conduct to be remote, we cannot exclude the possibility that this risk could materialize. In that event, this risk could have a major impact on our reputation, business, financial position, profit, and cash flows and could cause a negative deviation from our operating profit target. 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.

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

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 in our IT hardware and communication channels, such as 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 an adverse effect on related maintenance and services revenue
– The timing, size, and length of a customer's services projects
– Deployment models that require the recognition of revenue over an extended period of time
– Seasonality of a customer's technology purchases
– Limited visibility into the ability of acquired companies to accurately predict their sales pipelines and the likelihood that the projected pipeline will convert favorably into sales
– Other general economic, social, environmental, and market conditions, such as the global economic crisis and the current difficulties for countries with large debt

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

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. This could have an adverse effect 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 an adverse effect 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 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.

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

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

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

We have a number of control procedures in place to make sure that our estimates and judgments are appropriate. For example, we apply two-person verification to significant estimating.

Although we estimate the probability of occurrence of the risk to be unlikely, we cannot completely exclude the possibility of a major impact on our business, financial position, profit, and cash flows, or a negative deviation from our revenue and operating profit target. 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 of new standards, changes to existing standards, and changes in their interpretation, we might be required to change our accounting policies, particularly concerning revenue recognition, to alter our operational policies so that they reflect new or amended financial reporting standards, or to restate our published financial statements. Such changes may have an adverse effect on our reputation, business, financial position, and profit, or cause an adverse deviation from our revenue and operating profit target.

Although we estimate the probability of occurrence of the risk to be unlikely, we cannot completely exclude the possibility of a major impact. 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 71% of our revenue in 2013 was attributable to operations outside the euro area and was translated into euros. Consequently, period-over-period changes in the euro rates for particular currencies can significantly affect our reported revenue and income. In general, appreciation of the euro relative to another currency has an adverse effect while depreciation of the euro relative to another currency has a positive effect. Variable interest balance-sheet items are also subject to changes in interest rates. Such changes may have an adverse effect on our business, financial position, profit and cash flows or cause an adverse deviation from our revenue and operating profit target.

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

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. With regard to our financial debt, we have a very balanced maturity profile and mixture of fixed and floating interest rate arrangements in place.

We believe that the likelihood of this risk of significant currency and interest rate fluctuations materializing is remote and that if the risk were to occur, its impact on our business, financial position, profit, and cash flows could be major, or cause a negative deviation from our revenue and operating profit target. We classify this risk as a low risk.

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 (25).

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

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

We believe that the likelihood of this risk materializing is remote and that if the risk were to occur, its potential 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 and integration needs or the resources required, SAP faces a number of different risks. For example, functional requirement changes, delays in timeline, or deviation from recommended best practices may occur during the course of a project. These scenarios have a direct impact on the project resource model and on securing adequate internal personnel or consultants in a timely manner and could therefore prove challenging.

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

Our customers continue to follow project approaches to optimize their IT solutions in a non-disruptive manner. Our projects also 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. This risk factor relates only to our On-Premise Services, Ariba, and Cloud Applications segments.

Product and Technology Risks

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

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

SAP has implemented a software security development lifecycle as a mandatory integral part of our software development process. We systematically use 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, patches, and services before shipment.

SAP has a software security response process in place to rapidly react to detected vulnerabilities and provide fixes. We have also improved the roll-out procedures for security-relevant notes, patches, and service packs to ensure easy and fast consumption on the customer side.

We cannot completely exclude the possibility of a negative impact on our customers' or our own operations globally or in one or more countries or regions. We estimate the probability of occurrence of the risk of severe customer and SAP damages 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 as well as on the achievement of our revenue and operating profit target. We classify this risk as a medium risk.

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

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

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

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

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

We counter these risks using a broad range of techniques, including project management, project monitoring, product standards and governance, 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 and support index and confirmed by our constantly high customer satisfaction ratings as measured by customer quality perception reporting.

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 slow down time to market and influence our license pricing and therefore the competitiveness with other software vendors. Furthermore, it could diminish our software's functional capabilities and therefore could jeopardize the stability of our solution portfolio offering.

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

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 likely and we cannot exclude the possibility of a major 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 changing market expectations, we might not be able to compete effectively.

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

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

We will continue to align our organization, processes, products, delivery model, and services to changing markets and customer and partner demands. We invent new technology or adopt the latest technology if there is a clear business opportunity for SAP and if it provides value to our customers. To ensure that we remain competitive in the future, we still conduct wide-ranging market and technology analyses and research projects, often in close cooperation with our customers and partners. We strive for strategic acquisitions with the potential to drive innovation and contribute to achieving our growth target.

We believe that the likelihood of this risk materializing is remote; however, we cannot exclude the 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 and/or product strategy may not be successful or our customers and partners might not adopt our technology platforms and other innovations accordingly.

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

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

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 technology platform offerings, enable our current product portfolio for SAP HANA, develop new solutions based on SAP HANA, and offer comprehensive cloud-based services. We enable and encourage 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.

We believe that the likelihood of this risk materializing is remote and that if this risk were to occur, its impact on our reputation, business, financial position, profit, cash flows, and revenue and operating profit target would 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, system stability, or data center operations that cause interruptions in the availability of our application suite could result in the following:

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

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

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

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

Our mitigation measures have been designed and implemented to minimize such adverse effects. We continuously invest in protecting the integrity and security of our products and services as well as internal and external data that is managed within our data centers. We are consolidating and harmonizing our data centers including data protection measures to run a homogeneous landscape that supports the complex infrastructure, application, and security 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 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 believe that we will increasingly be subject to intellectual property infringement claims as the number of products in our industry segment grows, as we acquire companies with increased use of third-party code including open source code, as we expand into new industry segments with our products, resulting in greater overlap in the functional scope of products, and as non-practicing entities that do not design, manufacture, or distribute products increasingly assert intellectual property infringement claims.

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

Software includes many components or modules that provide different features and perform different functions. Some of these features or functions may be subject to third-party intellectual property rights. The rights of another party could encompass technical aspects that are similar to one or more technologies in one or more of our products. Intellectual property rights of third parties could preclude us from using certain technologies in our products or require us to enter into royalty and licensing arrangements on unfavorable or expensive terms.

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

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 GRC organization. The Global Compliance Office investigates the way we handle intellectual property, sets internal policies, and monitors compliance with these policies.

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 have a business-critical impact on our business, financial position, profit, cash flows and reputation, as well as on the achievement of our 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.

We are named as a defendant in various legal proceedings for alleged intellectual property infringements. For more information and a more detailed discussion relating to certain of these legal proceedings, see the Notes to the Consolidated Financial Statements, Note (23).

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

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

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

We consider the probability of occurrence of this risk to be likely, and cannot exclude its 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.

For more information and more detailed discussion relating to certain of these legal proceedings, see the Notes to the Consolidated Financial Statements, Note (23).

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

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

- The selection of the wrong integration model for the acquired company
- The failure to integrate the acquired business and its different business and licensing models
- The failure to integrate the acquired technologies or products with our current products and technologies
- The failure to integrate the acquired company's operations across SAP's different cultures, languages, and local protocols, all within the constraints of applicable local laws
- The failure to meet the needs of the acquired company's customers and partners in the combined company
- The diversion of management's time and attention from daily operations
- The loss of key personnel of the acquired business
- Material unknown liabilities and contingent liabilities of acquired companies, including legal, tax, accounting intellectual property, or other significant liabilities that may not be detected through the due diligence process
- Legal and regulatory constraints (such as contract obligations, privacy frameworks and agreements, and so on)
- Difficulties in implementing, restoring, or maintaining internal controls, procedures, and policies
- Practices or policies of the acquired company that may be incompatible with our compliance requirements
- An adverse effect on relationships with existing customers, partners, or third-party providers of technology or products
- Difficulties in integrating the acquired company's accounting, HR, and other administrative systems and coordination of the acquired company's research and development (R&D), sales, and marketing functions
- Debt incurrence or significant cash expenditures

In addition, acquired businesses might not perform as anticipated, resulting in charges for the impairment of goodwill and other intangible assets on our statements of financial position. Such charges may have an adverse effect on our business, financial position, profit, and cash flows. We have entered into, and expect to continue to enter into, alliance arrangements for a variety of purposes, including the development of new products and services. There can be no assurance that any such products or services will be successfully developed or that we will not incur significant unanticipated liabilities in connection with such arrangements. We may not be successful in overcoming these risks and we may therefore not benefit as anticipated from acquisitions or alliances.

We 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 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. Third parties might independently develop technologies that are substantially equivalent or superior to our technology. Finally, third parties might reverse-engineer or otherwise obtain and use technology and information that we regard as proprietary. Accordingly, we might not be able to protect our proprietary rights against unauthorized third-party copying or utilization, which could have an adverse effect on our competitive position and our financial position, and result in reduced sales. Any legal action we bring to enforce our proprietary rights could also involve enforcement against a partner or other third party, which may have an adverse effect on our ability, and our customers' ability, to use that partner's or other third parties' products. In addition, the laws and courts of certain countries may not offer effective means to enforce our intellectual property rights. This could have an adverse effect on our reputation, business, financial position, profit, and cash flows.

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 in 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 third parties.

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 cybersecurity breach could have an adverse effect on our customers, our reputation, and our business.

The key cybersecurity risks currently applicable to SAP include state-driven economic espionage as well as competitor-driven industrial espionage, and criminal activities including, but not limited to cyber-attacks against on-premise software, hosted, and cloud services. This might result in, for example, leakage of confidential information and intellectual property, defective products, production downtimes, supply shortages, and compromised data (including personal data). A failure of our cybersecurity measures could expose our business operations and service delivery to the described risks, for example, virtual attack, disruption, damage, and/or unauthorized access. Additionally, we could be subject to recovery costs, for example, as well as significant contractual and legal claims by customers, partners, authorities, and third-party service providers for damages against us, which could have an adverse effect on our reputation, business, financial position, profit, and cash flows.

To address the increasing cybersecurity 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 mandatory security and compliance trainings. In addition, our security governance model clearly defines security management accountabilities for all security areas regarding product security and corporate security that enables us to respond quickly to identified cybersecurity risks.

Although we still consider the occurrence of this risk to be unlikely, we cannot completely exclude the possibility that this risk could have a business-critical impact on our business, financial position, profit, cash flows, and reputation as well as revenue and operating profit target. 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. With regard to our physical environment, we face several key security risks such as industrial and/or economic espionage, serious and organized crime, and other illegal activities, as well as violent extremism and terrorism. We might be endangered by threats including, but not limited, to social engineering, misuse, or theft of information or assets, or damage to assets by trespassers in our facilities or by people who have gained unauthorized physical access to our facilities, systems, or information, which could have an adverse effect on our business, financial profile, profit, and cash flows.

To minimize these risks, we have implemented several technical and organizational measures designed to safeguard our information, IT and facility infrastructure, and other assets. These measures 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 mandatory security and compliance trainings. 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 impact on our business, financial position, profit, and cash flows as well as on our revenue and operating profit target. 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 range of risks, at levels we believe are appropriate and consistent with current industry practice. Our objective is to exclude or minimize risk of financial loss at reasonable cost. However, we may incur losses that are beyond the limits, or outside the scope, of coverage of our insurance and that may limit or prevent indemnification under our insurance policies. In addition, we might not be able to maintain adequate insurance coverage on commercially reasonable terms in the future. Further, certain categories of risks are currently not insurable at reasonable cost, which could have an adverse effect on our business, financial position, profit, and cash flows. Finally, there can be no assurance of the financial ability of the insurance companies to meet their claim payment obligations.

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.

We cannot exclude the possibility of a 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 losses in connection with venture capital investments.

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

To address this risk, SAP Ventures diversifies its portfolio and manages our investments actively. In addition, our venture capital activities have a limited scope.

We believe that the likelihood of this risk materializing is remote and that if the risk were to occur, its potential impact on our business, financial position, profit, cash flows, and operating profit target would be minor. 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, in 2013 we recognized only minor changes in 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 12% (2012: 9%) of all identified risks, while the risks categorized as "medium" accounted for 39% (2012: 34%) 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 2014.

Supplementary Report

Bob Calderoni, president of Ariba, an SAP company, and a member of our Global Managing Board, decided to leave SAP with effect from January 15, 2014.

Report on Expected Developments

FUTURE TRENDS IN THE GLOBAL ECONOMY

The experts at the European Central Bank (ECB[1]) expect the global economy to expand gradually in response to factors such as more stable credit conditions around the world. The ECB bases this expectation on the assumption that, as in 2013, prospects will improve in the industrialized economies but will remain subdued in some of the emerging economies compared to past years.

According to these expectations, the outlook in the Europe, Middle East, and Africa (EMEA) region has improved: The ECB expects a slow recovery in the euro area in 2014 and 2015, supported by a slight recovery of domestic and export demand. Companies in particular will increase their investments in 2014, encouraged by the very low interest rates and by a high demand for modernization after several years of restrained investments. The ECB currently expects GDP in the euro area to grow about 1% in 2014 and 1.5% in 2015. That would bring GDP back to first-quarter 2008 "pre-crisis" levels by the end of 2015. The ECB also expects the economies of Central and Eastern Europe to gain traction beginning in 2014.

The ECB is also optimistic about the Americas region. It believes the economic upturn in the United States will gradually gain momentum as the residential real-estate and labor markets continue to brighten up. However, it believes uncertainty regarding financial policy will continue, with new legislation on debt capping and public finance under continued discussion.

Future trends in the Asia Pacific Japan (APJ) region are difficult to estimate, according to the ECB. In Japan, a consumption tax rise is due in April 2014. That could cause the economy to pick up in the first quarter, as consumers bring forward spending. As a result, subsequent quarters may see an economic slowdown. It remains to be seen what effect the wide-ranging agenda for reform announced by the Communist Party of China in November 2013 will have. The goal is to set China on a more sustainable path to economic growth. The ECB believes the reforms will strengthen the market and the economy outside the public sector.

Economic Trends – Year-Over-Year GDP Growth
Percent

	2012e	2013p	2014p
World	**3.1**	**3.0**	**3.7**
Advanced economies	1.4	1.3	2.2
Developing and emerging economies	4.9	4.7	5.1
Europe, the Middle East, and Africa (EMEA)			
Euro area	– 0.7	– 0.4	1.0
Germany	0.9	0.5	1.6
Central and Eastern Europe	1.4	2.5	2.8
Middle East and North Africa	4.1	2.4	3.3
Sub Saharan Africa	4.8	5.1	6.1
Americas			
United States	2.8	1.9	2.8
Canada	1.7	1.7	2.2
Central and South America, Caribbean	3.0	2.6	3.0
Asia Pacific Japan (APJ)			
Japan	1.4	1.7	1.7
Asian developing economies	6.4	6.5	6.7
China	7.7	7.7	7.5

e = estimate; p = projection
Source: International Monetary Fund (IMF), World Economic Outlook Update January 2014, "Is the Tide Rising?" As of January 21, 2014, p. 2.

IT MARKET: THE OUTLOOK FOR 2014

According to International Data Corporation (IDC), a market research firm based in the United States, economic recovery in 2014 will lead to a greater increase in spending on IT than occurred in 2013. That increase is expected to continue to be higher than the growth in the overall economy. IDC expects businesses will revert to normal IT upgrade cycles in 2014 as liquidity bottlenecks are resolved by the return of economic stability, so companies in particular will increase investment in IT. In the emerging economies, IDC expects IT markets to recover from the setbacks of the previous year, because basically demand for IT products is high and conditions are stable.

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

According to IDC, software sales should again outpace the IT market as a whole in 2014. Spending on PCs and tablets should grow by a percentage in the low single digits: the PC market has bottomed out and the tablet market should see growth well into the double digits. Investments in servers and data storage devices could grow by a percentage in the low single digits again, and IDC forecasts slightly more growth in the IT services market in 2014 than in 2013.

The outlook IDC describes for 2014 in the Europe, Middle East, and Africa (EMEA) region is positive: It believes Western Europe will almost sustain the slightly improved growth it achieved at the end of 2013, showing significant positive growth rates for the full year. The IT markets of Central and Eastern Europe, the Middle East, and Africa could see growth in the high single digits, and the IT market in Russia may even approach double-digit growth, IDC says.

IDC is more cautious about the Americas region: It believes 2014 IT market growth in the United States may fall short of the 2013 level as demand for smartphones declines. Despite the uncertainty concerning government policy, IDC predicts IT investment in the United States will be largely stable. IDC believes growth in the Latin America IT markets will slow to single digits.

IDC forecasts that the IT market in the Asia Pacific Japan (APJ) region will grow by a percentage in the middle of the single-digit range. However, it believes the market in Japan will decline slightly. In contrast, IDC predicts the IT market in China, which was weak in the previous year, should recover well into double-digit growth in 2014.

Trends in the IT Market – Increased IT Spending Year over Year
Percent

	2012e	2013p	2014p
World			
Total IT	5.3	4.4	5.1
Hardware	6.3	4.8	5.4
Packaged software	6.2	5.6	6.2
Applications	6.0	5.6	6.0
IT services	3.2	3.2	3.9
Europe, Middle East, and Africa (EMEA)			
Total IT	5.2	2.3	4.4
Packaged software	4.7	4.6	5.2
Applications	4.4	4.5	5.0
IT services	1.4	2.0	3.6
Americas			
Total IT	4.2	5.9	4.5
Packaged software	6.8	6.0	6.7
Applications	6.9	6.2	6.5
IT services	4.2	3.7	3.6
Asia Pacific Japan (APJ)			
Total IT	6.9	4.6	6.7
Packaged software	6.9	5.9	6.4
Applications	6.0	5.7	6.4
IT services	4.5	4.3	5.1

e = estimate, p = projection
Source: IDC Worldwide Black Book Q3 2013

IMPACT ON SAP

SAP expects to outperform the global economy and the IT industry again in 2014. Four years of growth momentum underscore our leadership in the transformation of the industry. We are gaining market share in all regions. We have reinvented the database and developed the next-generation real time in-memory platform SAP HANA. We are managing the transition to the cloud successfully, while growing our core business and expanding our operating margin.

Thanks to our great progress in strategy and technology since 2010, we have increased the importance of SAP to our customers. We are well-positioned to expand our core business and to accelerate our cloud businesses. We are therefore confident we can achieve our medium-term targets for 2015 and 2017, assuming that the economic environment and IT industry develop as currently forecast. Balanced in terms of regions as well as industries, we are well-positioned to offset smaller individual fluctuations in the global economy and IT market.

A comparison of our business outlook with forecasts for the global economy and IT industry shows that, with our customer-centered innovation strategy, we can be successful even in a tough economic environment. Our market and the demands of our customers are changing rapidly. We anticipated these changes early.

We plan to 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 the Middle East and Africa. We therefore expect to see further future growth potential helping us reach our ambitious 2014 outlook targets and medium-term aspirations for 2015 and 2017. For more information, see the Operational Targets for 2014 (Non-IFRS) section.

FORECAST FOR SAP

Strategy for Profitable Growth
SAP seeks to maintain profitable growth across its portfolio of products and services. Our goal is to expand our addressable market to US$350 billion in 2020, compared to US$110 billion in 2010. Our ability to deliver software-based innovation and value in target growth areas positions us favorably in the enterprise software market.

SAP's continued growth depends on our ability to deliver innovative solutions and provide significant value to our customers. We continue to improve our research and development effectiveness, creating efficiencies and accelerating innovation cycles to engage more closely with our customers. We are also investing in our go-to-market channels to expand capacity and drive greater volume sales. At the same time, we are 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 stronger than ever. We will continue to execute our people strategy to set us apart in vital areas such as workforce diversity and talent management. Our ambitious growth strategy and our ability to innovate depends on creating an environment for our employees that drives them to unleash their full potential.

Go-to-Market Investment Delivers Customer Value
SAP goes to market by region, customer segment, line of business and industry. In each region, we seek to concentrate our sales efforts on the fastest-growing markets with the greatest 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. We continue to provide companies of any size – small, midsize, and large – with tailored offerings 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 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 portfolio, and monetize new technology breakthroughs.

Organic Growth and Targeted Acquisitions
Organic growth remains the primary driver of SAP's strategy. We will continue to invest in our own product development and technology innovation, improving the speed, number of projects, and innovations brought to market. Our 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.

OPERATIONAL TARGETS FOR 2014 (NON-IFRS)

Revenue and Operating Profit Outlook
The Executive Board is providing the following outlook for the full year 2014:
– SAP expects full-year 2014 non-IFRS cloud subscription and support revenue to be in a range of €950 to €1,000 million at constant currencies (2013: €757 million). The upper end of this range represents a growth rate of 32% that is similar to the respective 2013 growth rate after adjusting for acquisitions.
– SAP expects full-year 2014 non-IFRS software and software-related service revenue to increase by 6% to 8% at constant currencies (2013: €14,032 million).
– SAP expects full-year 2014 non-IFRS operating profit to be in a range of €5.8 billion to €6.0 billion at constant currencies (2013: €5,514 million).

We expect that total revenue growth (non-IFRS) will continue to depend largely on the revenue from the On-Premise Products segment. However, the revenue growth we expect from this segment is below the outlook provided for cloud subscription revenue (non-IFRS). In light of the rate at which professional services and other service revenue is growing, we do not expect strong growth in the On-Premise Services segment.

We expect an increase in segment profit in our On-Premise division, with On-Premise Products segment profit growing faster than On-Premise Services segment profit. We expect only a slight improvement in On-Premise Services segment profit. The Cloud division is expected to continue with increasingly positive segment profit in 2014.

In light of the rate at which cloud subscriptions are growing in our cloud segments, we expect strong revenue growth in those segments.

We present the following reconciliation from our 2013 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 2014 outlook:

Reconciliations of IFRS to Non-IFRS Financial Measures for 2013

€ millions, unless otherwise stated

	IFRS Financial Measure	Recurring Revenue Not Recorded Under IFRS	Adjustments Operating[1]	Discontinued Activities[3]	Non-IFRS Financial Measure
Cloud subscriptions and support	696	61	n.a.	n.a.	757
Software and cloud subscription revenue	5,212	63	n.a.	n.a.	5,275
Software and software-related service revenue	13,950	82	n.a.	n.a.	14,032
Total revenue[2]	16,815	82	n.a.	n.a.	16,897
Total operating expenses	−12,336	0	953	0	−11,383
Operating profit[2]	4,479	82	953	0	5,514

[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.

The following table shows the estimates of the items that represent the differences between our non-IFRS financial measures and our IFRS financial measures.

Non-IFRS Measures

€ millions

	Estimated Amounts for 2014	**Actual Amounts for 2013**
Deferred revenue write-down	< 20	82
Discontinued activities	< 10	1
Share-based payment expenses	470 to 510	327
Acquisition-related charges	520 to 560	555
Restructuring charges	50 to 150	70

The company expects a full-year 2014 effective tax rate (IFRS) of 26.0% to 27.0% (2013: 24.4%) and an effective tax rate (non-IFRS) of 27.5% to 28.5% (2013: 25.9%).

Goals for Liquidity and Finance

On December 31, 2013, our net liquidity was negative, but we have additional liquidity reserves. We believe that our liquid assets combined with our undrawn credit facilities are sufficient to meet our present operating financing needs also in 2014 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 effect a substantial planned reduction of our financial debt in 2014 and, at the time of this report, we expect to make repayments of €586 million over the year. 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. By the time of this report, we have no concrete plans for future share buybacks.

Investment Goals

Excepting acquisitions, our planned capital expenditures for 2014 and 2015 mainly comprise the construction activities described earlier in this report. We expect investments of approximately €194 million during the next three years. These investments can be covered in full by operating cash flow.

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 on the assumption that there will be no effects 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 2014. Assuming there are no special effects relating to acquisitions or internal corporate restructuring measures in 2014, 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
With SAP HANA as the single platform for our entire solution portfolio, delivered on-premise or in the cloud, SAP will drive simplicity and business outcomes for our customers.

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 financial and non-financial indicators: revenue, margin, customer loyalty, and employee engagement.

We expect the combination of a stable, highly-profitable core and fast-growing cloud business to deliver continued growth and margin expansion. We continue to strive to increase our total revenue to more than €20 billion by 2015 and revenue from our cloud business, including cloud-related professional services, to approximately €2 billion by 2015.

Looking beyond 2015, we introduced new 2017 targets. We now aim to increase total revenue to at least €22 billion and revenue from our cloud business to €3.0 to €3.5 billion by 2017. We have retained our non-IFRS operating margin goal of 35%. To capture the growth opportunities in the cloud, we now expect this target to be reached by 2017 rather than in 2015 as previously stated. We anticipate the fast-growing cloud business along with growth in support revenue will drive a higher proportion of more predictable, recurring revenue in the future.

In addition to our financial goals, we also focus on two non-financial targets: Customer loyalty and employee engagement. We believe it is essential that our employees are engaged, drive our success, and support our strategy. Therefore, we plan to increase our employee engagement index score to 82% by 2015 (2013: 77%). Further, our customers' satisfaction with the solutions we offer is very important to us. We want our customers to not only be satisfied, but also see us as a trusted partner for innovation. We measure this customer loyalty metric using the Net Promoter Score (NPS). For 2014, we have set a target for increasing the NPS by four percentage points (2013: 12.1%).

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 roadmap, 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 through business software and services that drive simplicity, efficiency, and a more sustainable business transformation.