

SAP AG  
Form 20-F  
March 23, 2012  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

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

**OR**

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2011

**OR**

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

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

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

Commission file number: 1-14251

**SAP AG**

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

**SAP CORPORATION**

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

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Federal Republic of Germany

(Jurisdiction of incorporation or organization)

Dietmar-Hopp-Allee 16

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Federal Republic of Germany

(Address of principal executive offices)

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

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

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

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

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

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

Ordinary Shares, without nominal value: 1,228,083,382 (as of December 31, 2011)\*\*

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

Yes  No

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

Yes  No

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

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

Yes  No

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

Yes  No

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

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

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

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

Item 17  Item 18

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

Yes  No

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

\*\* Including 37,765,849 treasury shares.

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**INTRODUCTION**

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

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

Unless otherwise specified herein, euro financial data have been converted into dollars at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on December 30, 2011, which was US\$1.2973 per 1.00. No representation is made that such euro amounts actually represent such dollar amounts or that such euro amounts could have been or can be converted into dollars at that or any other exchange rate on such date or on any other date. The rate used for the convenience translations also differs from the currency exchange rates used for the preparation of the Consolidated Financial Statements. This convenience translation is not a requirement under IFRS and, accordingly, our independent registered public accounting firm has not audited these US\$ amounts. For information regarding recent rates of exchange between euro and dollars, see Item 3. Key Information Exchange Rates. On March 8, 2012, the Noon Buying Rate for converting euro to dollars was US\$1.3256 per 1.00.

Unless the context otherwise requires, references in this report to ordinary shares are to

SAP AG's ordinary shares, without nominal value. References in this report to ADRs are to SAP AG's American Depositary Receipts, each representing one SAP ordinary share.

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

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

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### **FORWARD-LOOKING STATEMENTS**

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

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

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 utilize certain technologies in the future and could have a material negative impact on our business, financial position, profit, or cash flows.

Undetected security flaws in our software or our proprietary systems or those of our third-party service and software providers may be exploited by other persons, which could damage SAP or our customers and significantly impact our financial position, profit, cash flows, and reputation.

If our established customers do not buy additional software products, renew maintenance agreements, or purchase additional professional services, this could have a material adverse impact on our business, financial position, profit, and cash flows.

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

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

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

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

## **FINANCIAL MEASURES CITED IN THIS REPORT**

### **Measures we Use to Manage Operating Performance**

We use various performance measures to help promote our primary goal of sustained growth in corporate value and our ancillary goal of profitable revenue growth. The following are the key measures we used in 2011:

*Non-IFRS SSRS revenue:* Our software and software-related service (SSRS) revenue includes software and support revenue plus subscription and other software-related service revenue. The principal source of software revenue is the fees customers pay for software licenses. Software revenue is our key revenue driver because it tends 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. We generate subscription and software-related service revenue when we provide software on subscription or in a cloud mode, that is, with obligatory hosting terms. Software revenue also tends to stimulate service revenue from consulting and training sales.

*Non-IFRS operating profit/non-IFRS operating margin:* In 2011, we used non-IFRS operating profit/non-IFRS operating margin and constant currency non-IFRS operating profit/non-IFRS operating margin to measure our overall operational process efficiency and overall business performance. Non-IFRS operating margin is the ratio of our non-IFRS operating profit to total non-IFRS revenue, expressed as a percentage. See below for a discussion of the IFRS and non-IFRS measures we use.

### **Measures we Use to Manage Non-Operating Performance**

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

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

*DSO and 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 Performance**

For managing our overall performance we use the following measures:

*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

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outstanding over the reporting period). EPS is influenced not only by our operating and non-operating business, and income taxes, but also by the weighted average number of shares outstanding. We believe that stock repurchases and dividend distributions are a good means to return value to shareholders in accordance with the authorizations granted by them.

*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.

## **Value-Based Management**

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

SAP's long-term strategic plans are the point of reference for our other planning and controlling processes, including creating a multi-year plan until 2015. We identify future growth and profitability drivers at a highly aggregated level. This process is intended to identify the best areas in which to target sustained investment. Next, we evaluate our multi-year

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.

## **Measures Used in this Report**

Like in prior years, we provided our 2011 outlook on the basis of certain non-IFRS measures as described above. Therefore, this report contains a non-IFRS based comparison of our actual performance in 2011 against that outlook.

This introductory section provides:

A reconciliation of IFRS measures to the respective and most comparable non-IFRS measures

An explanation of the non-IFRS measures we disclose in this report including an explanation of changes we made effective from January 1, 2012

The reasons why management believes these non-IFRS measures are useful to investors and the limitations of these measures

An explanation of our constant currency information

**Table of Contents****Reconciliations of IFRS to Non-IFRS Numbers for 2011 and 2010**

The following tables reconcile our IFRS numbers to the respective and most comparable non-IFRS numbers for each of 2011 and 2010. Our 2010 non-IFRS comparative amounts have been adjusted to conform to the amended non-IFRS definitions introduced in 2011 that also exclude expenses for share-based compensation and restructuring. Due to rounding, the sum of the numbers presented in these tables might not precisely equal the totals we provide.

**Reconciliations of IFRS to Non-IFRS Numbers for 2011 and 2010**

| millions, unless otherwise stated                       | for the years ended December 31, |            |               |                 |                            | 2010          |              |               |
|---|----------------------------------|------------|---------------|-----------------|----------------------------|---------------|--------------|---------------|
|   | IFRS                             | Adj.       | Non-IFRS      | Currency Impact | Non-IFRS Constant Currency | IFRS          | Adj.         | Non-IFRS      |
| <b>Revenue</b>  |                                  |            |               |                 |                            |               |              |               |
| Software revenue  | 3,971                            | 0          | 3,971         | 96              | 4,067                      | 3,265         | 0            | 3,265         |
| Support revenue   | 6,967                            | 27         | 6,994         | 58              | 7,052                      | 6,133         | 74           | 6,207         |
| Subscription and other software-related service revenue | 381                              | 0          | 381           | 1               | 380                        | 396           | 0            | 396           |
| <b>Software and software-related service revenue</b>    | <b>11,319</b>                    | <b>27</b>  | <b>11,346</b> | <b>153</b>      | <b>11,499</b>              | <b>9,794</b>  | <b>74</b>    | <b>9,868</b>  |
| Consulting revenue                                      | 2,341                            | 0          | 2,341         | 35              | 2,376                      | 2,197         | 0            | 2,197         |
| Other service revenue                                   | 573                              | 0          | 573           | 8               | 581                        | 473           | 0            | 473           |
| <b>Professional services and other service revenue</b>  | <b>2,914</b>                     | <b>0</b>   | <b>2,914</b>  | <b>43</b>       | <b>2,957</b>               | <b>2,670</b>  | <b>0</b>     | <b>2,670</b>  |
| <b>Total revenue</b>                                    | <b>14,233</b>                    | <b>27</b>  | <b>14,260</b> | <b>196</b>      | <b>14,456</b>              | <b>12,464</b> | <b>74</b>    | <b>12,538</b> |
| <b>Total operating expenses</b>                         |                                  |            |               |                 |                            |               |              |               |
| Cost of software and software-related services          | 2,107                            | 285        | 1,822         |                 |                            | 1,823         | 202          | 1,621         |
| Cost of professional services and other services        | 2,248                            | 32         | 2,216         |                 |                            | 2,071         | 18           | 2,053         |
| Research and development                                | 1,939                            | 41         | 1,898         |                 |                            | 1,729         | 23           | 1,706         |
| Sales and marketing                                     | 3,081                            | 127        | 2,954         |                 |                            | 2,645         | 95           | 2,550         |
| General and administration                              | 715                              | 30         | 685           |                 |                            | 636           | 26           | 610           |
| Restructuring   | 4                                | 4          | 0             |                 |                            | 3             | 3            | 0             |
| TomorrowNow litigation                                  | 717                              | 717        | 0             |                 |                            | 981           | 981          | 0             |
| Other operating income/expense, net                     | 25                               | 0          | 25            |                 |                            | 9             | 0            | 9             |
| <b>Total operating expenses</b>                         | <b>9,352</b>                     | <b>198</b> | <b>9,550</b>  | <b>127</b>      | <b>9,677</b>               | <b>9,873</b>  | <b>1,342</b> | <b>8,531</b>  |
| <b>Operating profit and margin</b>                      |                                  |            |               |                 |                            |               |              |               |
| <b>Operating profit</b>                                 | <b>4,881</b>                     | <b>171</b> | <b>4,710</b>  | <b>69</b>       | <b>4,779</b>               | <b>2,591</b>  | <b>1,416</b> | <b>4,007</b>  |
| <b>Operating margin in %</b>                            | <b>34.3</b>                      |            | <b>33.0</b>   |                 | <b>33.1</b>                | <b>20.8</b>   |              | <b>32.0</b>   |

**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

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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 2011, 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 numbers.

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

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 numbers.

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 numbers by including the full amount of support revenue that would have been recorded by entities acquired by SAP had they remained stand-alone entities but which we are not permitted to record as revenue under IFRS due to fair value accounting for the support contracts in effect at the time of the respective acquisitions.

Under IFRS, we record at fair value the support contracts in effect at the time entities were acquired. Consequently, our IFRS support 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 support revenue that would have been recorded for these support contracts absent these acquisitions by SAP. Adjusting revenue numbers for this revenue impact provides additional insight into the comparability across periods of our ongoing performance.

In light of our continuing focus on the cloud business and considering our recent acquisition of SuccessFactors, we are widening the range of revenues for which acquisition-related deferred revenue write downs are adjusted for in determining our non-IFRS revenue and profit numbers. We continue to adjust for deferred revenue write downs, that is for revenues that would have been recognized had the acquired entities remained stand-alone entities but that we are not permitted to recognize as revenue under IFRS as a result of business combination accounting rules. However, in the definitions of our non-IFRS measures used through 2011, such adjustments for deferred revenue write downs were limited to support revenue. From 2012 onwards, we will also make such deferred revenue write down adjustments for cloud subscription revenue and other similarly recurring revenues. All other

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non-IFRS measures will remain unchanged. As the deferred revenue write-down adjustments for recurring revenues other than support revenue from acquisitions that were executed through 2011 were immaterial, we do not restate prior period non-IFRS measures to align with the new definition.

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

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

#### Acquisition-related charges

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

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

Acquisition-related third-party expenses

Discontinued activities: Results of discontinued operations that qualify as such under IFRS in all respects except that they do not represent a major line of business. Under U.S. GAAP, which we reported under until 2009, we presented the results of operations of the TomorrowNow entities as discontinued operations. Under IFRS, results of discontinued operations may only be presented as discontinued operations if a separate major line of business or geographical area of operations is discontinued. Our TomorrowNow operations were separate, but were not a major line of business and thus did not qualify for separate presentation under IFRS.

Expenses from our share-based compensation plans

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 has no influence on 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 compensation 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, since 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

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most cases, our non-IFRS measures are more suitable for comparison with our competitors' corresponding non-IFRS and non-GAAP measures than are our IFRS measures.

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

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

By adjusting the non-IFRS numbers for the results from our discontinued TomorrowNow activities, the non-IFRS numbers are more comparable to the non-GAAP measures that SAP used through the end of 2009. That enhances the comparability of SAP's performance measures before and after the full IFRS migration.

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 may be material to us.

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

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

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

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

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

The revenue adjustment for the fair value accounting of the acquired entities' support 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

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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 compensation expense because most of our share-based compensation plans are to be settled in cash rather than shares.

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

We have in the past issued share-based compensation awards to our employees every year, and intend to continue doing so in the future. Thus our share-based compensation 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 relevant 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.

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

**Free Cash Flow**

| <b>millions</b>  | <b>2011</b>  | <b>2010</b>  | <b>Change</b> |
|--|--------------|--------------|---------------|
| Net cash flows from operating activities                         | 3,775        | 2,922        | 29%           |
| Purchase of intangible assets and property, plant, and equipment | 445          | 334          | 33%           |
| <b>Free cash flow</b>  | <b>3,330</b> | <b>2,588</b> | <b>29%</b>    |

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**PART I**

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

Not applicable.

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

Not applicable.

**ITEM 3. KEY INFORMATION**

**SELECTED FINANCIAL DATA**

The following table sets forth our selected consolidated financial data as of and for each of

the years in the five-year period ended December 31, 2011. The consolidated financial data has been derived from, and should be read in conjunction with, our Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS), presented in Item 18. Financial Statements of this report.

Our selected financial data and our Consolidated Financial Statements are presented in euros. Financial data as of and for the year ended December 31, 2011 has been translated into U.S. dollars for the convenience of the reader.

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**SELECTED FINANCIAL DATA: IFRS**

| millions, unless otherwise stated                            | 2011 <sup>(1)</sup><br>US\$ | 2011   | 2010   | 2009   | 2008   | 2007   |
|--|-----------------------------|--------|--------|--------|--------|--------|
| <b>Income Statement Data: Years ended December 31,</b>       |                             |        |        |        |        |        |
| Software and software-related service revenue                | 14,684                      | 11,319 | 9,794  | 8,198  | 8,457  | 7,427  |
| Total revenue  | 18,464                      | 14,233 | 12,464 | 10,672 | 11,575 | 10,256 |
| Operating profit   | 6,332                       | 4,881  | 2,591  | 2,588  | 2,701  | 2,698  |
| Operating margin in % <sup>(2)</sup>                         | 34.3                        | 34.3   | 20.8   | 24.3   | 23.3   | 26.3   |
| Profit after tax   | 4,461                       | 3,439  | 1,813  | 1,750  | 1,848  | 1,908  |
| Profit attributable to owners of parent                      | 4,460                       | 3,438  | 1,811  | 1,748  | 1,847  | 1,906  |
| Earnings per share <sup>(2)</sup>                            |                             |        |        |        |        |        |
| Basic in   | 3.75                        | 2.89   | 1.52   | 1.47   | 1.55   | 1.58   |
| Diluted in   | 3.75                        | 2.89   | 1.52   | 1.47   | 1.55   | 1.58   |
| <b>Other Data:</b>   |                             |        |        |        |        |        |
| Weighted-average number of shares outstanding                |                             |        |        |        |        |        |
| Basic  | 1,189                       | 1,189  | 1,188  | 1,188  | 1,190  | 1,207  |
| Diluted  | 1,190                       | 1,190  | 1,189  | 1,189  | 1,191  | 1,210  |
| <b>Statement of Financial Position Data: At December 31,</b> |                             |        |        |        |        |        |
| Cash and cash equivalents                                    | 6,441                       | 4,965  | 3,518  | 1,884  | 1,280  | 1,608  |
| Total assets <sup>(3)</sup>                                  | 30,130                      | 23,225 | 20,839 | 13,374 | 13,900 | 10,161 |
| Current financial liabilities <sup>(4)</sup>                 | 1,727                       | 1,331  | 142    | 146    | 2,563  | 82     |
| Non-current financial liabilities <sup>(4)</sup>             | 3,795                       | 2,925  | 4,449  | 729    | 40     | 6      |
| Issued capital <sup>(5)</sup>                                | 1,593                       | 1,228  | 1,227  | 1,226  | 1,226  | 1,246  |
| Total equity   | 16,485                      | 12,707 | 9,824  | 8,491  | 7,171  | 6,478  |

<sup>(1)</sup> Amounts presented in US\$ have been translated for the convenience of the reader at 1.00 to US\$1.2973, the Noon Buying Rate for converting 1.00 into dollars on December 30, 2011. See Item 3. Key Information Exchange Rates for recent exchange rates between the Euro and the dollar.

<sup>(2)</sup> Operating profit is the numerator and total revenue is the denominator in the calculation of operating margin. Profit attributable to owners of parent is the numerator and weighted average number of shares outstanding is the denominator in the calculation of earnings per share.

<sup>(3)</sup> The large increase in total assets from 2009 to 2010 was mainly due to the acquisition of Sybase in 2010 and the large increase in total assets from 2007 to 2008 was due to the acquisition of Business Objects in 2008. See Note (4) to our Consolidated Financial Statements for more information on acquisitions.

<sup>(4)</sup> The balances include primarily bonds, private placements and bank loans. Current is defined as

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having a remaining life of one year or less; non-current is defined as having a remaining term exceeding one year. The significant increase in current financial liabilities during 2008 was due to financial debt incurred to finance the acquisition of Business Objects. The significant increase in non-financial liabilities in 2010 was due to an acquisition-term loan used to finance the acquisition of Sybase. In addition, we issued two bonds and a U.S. private placement transaction, of which, the proceeds were primarily used to finance the acquisition of Sybase. See Note (18b) to our Consolidated Financial Statements for more information on our liabilities.

- <sup>(5)</sup> The 2007 and 2008 figures reflect cancellations of 23 million and 21 million treasury shares effective September 7, 2007 and September 4, 2008, respectively. See Item 9. The Offer and Listing General for more detail on the cancellation of shares.

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**EXCHANGE RATES**

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

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

The following table sets forth (i) the average, high and low Noon Buying Rates for the euro expressed as U.S. dollars per 1.00 for the past five years on an annual basis and (ii) the high and low Noon Buying Rates on a monthly basis from July 2011 through March 8, 2012.

| Year | Average <sup>(1)</sup> | High   | Low    |
|------|------------------------|--------|--------|
| 2007 | 1.3797                 | 1.4862 | 1.2904 |
| 2008 | 1.4695                 | 1.6010 | 1.2446 |
| 2009 | 1.3955                 | 1.5100 | 1.2547 |
| 2010 | 1.3216                 | 1.4536 | 1.1959 |
| 2011 | 1.4002                 | 1.4875 | 1.2926 |

| Month                         | High   | Low    |
|-------------------------------|--------|--------|
| 2011                          |        |        |
| July                          | 1.4508 | 1.4014 |
| August                        | 1.4510 | 1.4158 |
| September                     | 1.4283 | 1.3446 |
| October                       | 1.4172 | 1.3281 |
| November                      | 1.3803 | 1.3244 |
| December                      | 1.3487 | 1.2926 |
| 2012                          |        |        |
| January                       | 1.3192 | 1.2682 |
| February                      | 1.3463 | 1.3087 |
| March (through March 8, 2012) | 1.3320 | 1.3114 |

<sup>(1)</sup> The average of the applicable Noon Buying Rates on the last day of each month during the relevant period. The Noon Buying Rate on March 8, 2012 was US\$1.3256 per 1.00.

**DIVIDENDS**

**Dividend Distribution Policy**

Dividends are jointly proposed by SAP AG's Supervisory Board (Aufsichtsrat) and Executive Board (Vorstand) based on SAP AG's year-end stand-alone statutory financial statements, subject to approval by the shareholders. Dividends are officially declared for the prior year at SAP AG's Annual General Meeting of Shareholders. SAP AG's Annual General Meeting of Shareholders usually

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convenes during the second quarter of each year. Dividends are usually remitted to the custodian bank on behalf of the shareholder within one business day following the Annual General Meeting of Shareholders. Record holders of the ADRs on the dividend record date will be entitled to receive payment of the dividend declared in respect of the year for which it is declared. Cash dividends payable to such holders will be paid to the Depositary in euro and, subject to certain exceptions, will be converted by the Depositary into U.S. dollars.

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

**Annual Dividends Paid and Proposed**

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

| Year Ended December 31, | Dividend Paid<br>per Ordinary Share |                         |
|-------------------------|-------------------------------------|-------------------------|
|                         |                                     | US\$                    |
| 2007                    | 0.50                                | 0.77 <sup>(1)</sup>     |
| 2008                    | 0.50                                | 0.68 <sup>(1)</sup>     |
| 2009                    | 0.50                                | 0.60 <sup>(1)</sup>     |
| 2010                    | 0.60                                | 0.85 <sup>(1)</sup>     |
| 2011 (proposed)         | 1.10 <sup>(2),(4)</sup>             | 1.46 <sup>(2),(3)</sup> |

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

<sup>(2)</sup> Subject to approval at the Annual General Meeting of Shareholders of SAP AG currently scheduled to be held on May 23, 2012.

<sup>(3)</sup> Translated for the convenience of the reader from euro into U.S. dollars at the Noon Buying Rate for converting euro into U.S. dollars on March 8, 2012 of US\$1.3256 per 1.00. The dividend paid may differ due to changes in the exchange rate.

<sup>(4)</sup> Thereof a special dividend of 0.35 per share to celebrate our 40th anniversary.

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

**RISK FACTORS**

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

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

Our customers' willingness to invest in acquiring and implementing our products generally varies with economic and political conditions as well as any periods of disruption or volatility in global financial markets. A global economic crisis, a U.S. or euro area recession, or the current euro area debt crisis could have a negative impact on SAP. In the regions in which we do business and the industries in which our customers operate, economic uncertainty or

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volatility in financial markets could have negative effects, including:

General reluctance to invest in IT

Decreased customer demand for our software and services, including delayed, canceled, and smaller orders

Customers' inability to obtain credit on acceptable terms, or at all, to finance purchases of our software and services

Increased incidence of default and insolvency of customers, business partners, and key suppliers

Increased default risk, which may lead to significant write-downs in the future

Greater pressure on the prices of our products and services

Pressure on our operating margin

Economic, financial market, or political instability could have a material negative impact on our business, financial position, profit, and cash flows, and could also exacerbate the other risks we describe in this report.

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

We currently market our products and services in more than 120 countries in the Americas, APJ, and EMEA regions. Sales in these countries are subject to numerous risks inherent in international business operations. Among others, these risks include:

Conflict and overlap among different tax regimes

Possible tax constraints impeding business operations in certain countries

Expenses associated with the customization of our products on a local level and transacting business in compliance with local regulatory requirements

Operational difficulties in countries with a high corruption perception index

Protectionist trade policies

Demands of works councils and labor unions, and immigration law requirements, in different countries

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

As we expand further into new regions and markets, these risks could intensify. One or more of these factors could negatively impact our operations globally or in one or more countries or regions. This could result in significant negative impact to our reputation and our business, financial position, profit, and cash flows.

**Social and political instability caused, for example, by terrorist attacks, civil unrest, war or international hostilities, pandemic disease outbreaks, or natural disasters could have a significant negative impact on our business.**

Terrorist attacks and other acts of violence or war, civil and political unrest (such as that in the Middle East and North Africa), pandemic disease outbreaks, or natural disasters (such as the earthquakes in Japan) could have a significant negative impact on the related economy or beyond. An event that results, for example, in the loss of significant numbers of employees or in the disruption of operations at our headquarters or other key locations could affect our ability to provide normal business services and to generate the expected income. That could lead to a significant negative impact on our customers and their investment decisions. This could in turn lead to a significant negative impact on our reputation and on our business, financial position, profit, and cash flows.

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**Market Risks**

**If our established customers do not buy additional software products, renew maintenance agreements, or purchase additional professional services, this could have a material adverse impact on our business, financial position, profit, and cash flows.**

In 2011, we continued to offer a wide range of support services. 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. If existing customers cancel or do not renew their maintenance contracts, accept alternative offerings from other vendors, or decide not to buy additional products and services, this would have a material negative impact on our business, financial position, profit, and cash flows.

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

The software industry continues to evolve rapidly, due to competition, consolidation, and technological innovation. As a result, the market for our products and services is intensely competitive. Over the last decade, we have diversified from our large enterprise resource planning (ERP) offerings to new products and services, like on-device, cloud, and in-memory computing, which exposes us to competitors varying in size, geographic location, and specialty. New development models and new delivery and licensing models, such as software as a service (SaaS), platform as a service (PaaS), business process outsourcing (BPO), and cloud computing, enable competitors to offer integrated packaged solutions that compete with ours. SaaS providers and other participants in the growing SaaS ecosystem for applications also compete with SAP for segment share. Cloud

computing is driving fast adoption of Web-based business models. As a result, it is easier for new entrants to orchestrate or own end-to-end value chains and to impact our key growth markets. Aggressive tactics by mobile device platform providers and database providers could impact the market potential for our mobile apps and in-memory computing and could cut us off from potential revenue sources. In addition, competitors may gain market share because of acquisitions. Current and potential competitors are establishing or may in the future establish or extend cooperative relationships among themselves or with third parties to better address their customers' needs. This increased competition could result in increased price pressure, cost increases, and loss of market share and therefore have a significant negative impact on our business, financial position, profit, and cash flows.

**Business Strategy Risks**

**Demand for our new products may not develop as planned and our strategy for new markets, new business models, and new consumption models may not be successful.**

Our strategy centers on innovating on our stable core products and services, and developing on-premise, cloud, and mobile solutions. We focus on continuous innovation through new business and consumption models, by enhancing our technology, by expanding our partner ecosystem, and by creating the infrastructure for volume business. The demand for, and customers' acceptance of, new products, technologies, and services we introduce are subject to uncertainty. Despite our efforts, demand for our products, technologies, and services may fail to develop as planned, and this could have a material negative impact on our business, financial position, profit, or cash flows. In addition, entering new market segments exposes us to the risks associated with developing and launching new products and services. For more information, see the Product Risks section.

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**If we fail to develop new relationships and enhance existing relationships with channel partners, software suppliers, system integrators, value-added resellers, and independent software vendors (ISVs) that contribute to the success of our products and services, our business, financial position, profit, and cash flows may be adversely impacted.**

A fundamental pillar of our success is a solid partner ecosystem. We have entered into cooperation agreements with channel partners and leading software and hardware vendors. Most of these agreements are of relatively short duration and are nonexclusive. The parties concerned typically maintain similar arrangements with our competitors, and some are our competitors. Additionally, we maintain a network of ISVs that develop their own business applications for the SAP NetWeaver technology platform. We are still exposed to risks related to our third-party relationships, such as that the relevant counterparties might not:

Devote sufficient resources to promote, sell, support, and integrate their products within our portfolio

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

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

Provide high-quality products and services

If one or more of these risks materialize, the marketing of and demand for our products and services may be adversely impacted, and we may not be able to compete successfully with other software vendors. This could harm our reputation or adversely impact our business, financial position, profit, and cash flows.

**Human Capital Risks**

**If we do not effectively manage our geographically dispersed workforce, our business may not operate efficiently, and this could have a negative impact on our business, financial position, profit, and cash flows.**

Our success is dependent on appropriate alignment of our workforce planning process and location strategy with our general strategy. Changes in headcount and infrastructure needs could result in a mismatch between our expenses and revenue. It is critical that we manage our internationally dispersed workforce effectively, taking short and long term workforce and skill requirements into consideration. Our failure to do so could hinder our ability to operate our business efficiently, which could have a negative impact on our financial position, profit, and cash flows.

**If we are unable to attract and retain managers and employees with specialized knowledge and technology skills, we might not be able to manage our operations effectively or develop successful new products and services.**

Our highly qualified employees and managers provide the foundation for our continued success. Competition in our industry for highly skilled and specialized personnel and leaders is intense. In certain regions and specific technology and product areas, we have set ambitious growth targets (for example, in China). If we are unable to attract well-qualified personnel, or if our highly skilled and specialized personnel leave SAP and good replacements are not available, we may not be able to manage our operations effectively or develop successful new products 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. Hiring such personnel may also expose us to claims by other companies seeking to prevent their employees from working for

a competitor.

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**Organizational and Governance-Related Risks**

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

As a stock corporation domiciled in Germany with securities listed in Germany and the United States, we are subject to German, U.S., and other governance-related regulatory requirements. The regulatory requirements have become significantly more stringent in recent years, and some legislation, such as the U.S. Foreign Corrupt Practices Act, is being applied more rigorously. The rules are highly complex, and there can be no assurance that we will not be held in breach of regulatory requirements if, for example, one or more employees behave fraudulently or negligently, or if we fail to comply with certain formal documentation requirements. Any related allegations of wrongdoing against us, whether merited or not, could have a material negative impact on our reputation as well as on the trading price of our ordinary shares and American depositary receipts (ADRs).

**Failure on our part to implement our sustainability strategy in a way that meets customer, partner, or other stakeholder expectations or generally accepted sustainability standards could harm our reputation and have a negative impact on our results of operations and our business.**

For SAP, sustainability means the holistic management of environmental, social, and economic risks and opportunities. We have identified sustainability risks in three major areas:

Functionality of our software

Sustainability in our solutions and green IT

Accessibility and security of our products

Privacy and data protection in connection with the use of SAP products (For more information, see the Product Risks section.)

SAP's own sustainable operations

Energy management and other environmental issues like carbon management, water use, and waste

Business conduct

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Human capital management, including health, safety, diversity, employee satisfaction, and talent attraction and retention (For more information, see the Human Capital Risks section.)

The ethical behavior of suppliers and partners

Customer satisfaction

Social investment

Education

Role models

Economic opportunity

If our sustainability strategy and operations, which are described in our Sustainability Report at [www.sapsustainabilityreport.com](http://www.sapsustainabilityreport.com), are not sufficient to meet the expectations of our customers, investors, and partners, or generally accepted sustainability standards, this could harm our reputation and have an adverse impact on our business, financial position, profit, and cash flows.

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

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

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

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

**Communication and Information Risks**

**We may not be able to prevent unauthorized disclosure of information that is subject to regulatory requirements, or are trade secrets, and such disclosure may harm our business and reputation.**

Confidential communications and information about sensitive subjects, such as our future strategies, technologies, and products; mergers and acquisitions; unpublished financial results; or customer, employee, or other personal data could be inadvertently or prematurely disclosed. Such disclosure may require notification of multiple regulatory agencies and the data owner, where appropriate, which may damage our market position, reduce future revenue, or lead to fines and penalties, any of which could have a significant negative impact on our business, reputation, financial position, profit, and cash flows.

**Financial Risks**

**Our sales are subject to quarterly fluctuations and our sales forecasts may not be accurate, which could negatively impact our profit margin.**

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 and extended timing of individual license transactions

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

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

Changes in customer budgets

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

Licensing 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, and market conditions, such as the global economic crisis and the current difficulties for countries with large debt

Because 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 the fourth quarter, even a small delay in purchasing decisions could have a significant negative impact on our revenue results for a given year. Our dependence on large transactions has decreased in recent years with a trend towards an increased number of transactions coupled with a decrease in deal size. However, the loss or delay of one or a few large sales, which are still characteristic of

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the large enterprise segment, could have a significant negative impact on our results.

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. 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 results of operations 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, results of operations and cash flows to fall short of our expectations and public forecasts. That could have a significant negative impact on our stock price. To the extent any future expenditure fails to generate the anticipated increase in revenue, our quarterly or annual operating results may be subject to a significant negative impact and may vary significantly from preceding or subsequent periods.

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

An economic downturn could have a significant negative impact on our future liquidity. We use global centralized financial management to control liquid assets, interest, and currencies. The primary aim is to maintain liquidity in the Group at a level that is adequate to meet our obligations. Our total group liquidity was 5.6 billion on December 31, 2011. This position is supported by our strong operating cash flows, of which a large part is recurring, and by credit facilities on which we can draw if necessary.

However, an economic downturn could increase the default risk associated with our total group liquidity. That could have a significant negative impact on the valuation of our financial assets. 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 A- or better. The weighted average rating 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.

There can be no assurance that the prescribed measures will be successful or that uncertainty in global economic conditions will not have a significant negative impact on our business, financial position, and profit.

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

To comply with IFRS, management is required to make many judgments, estimates, and assumptions. The facts and circumstances on which management bases these estimates and judgments, and management's judgment regarding the facts and circumstances, may change from time to time and this could result in significant changes in the estimates, with a significant negative impact on our financial position, profit, or cash flows. For more information, see the Notes to the Consolidated Financial Statements section, Note (3c).

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

We regularly monitor our compliance with all of the financial reporting standards that are

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applicable to us and any new pronouncements that are relevant to us. As a result, we might be required to change our accounting policies, particularly concerning revenue recognition, to alter our business models so that it reflects new or amended financial reporting standards, or to restate our published financial statements. We cannot exclude the possibility that this may have a significant negative impact on our business, financial position, profit, and cash flows. For a summary of significant accounting policies, see the Notes to the Consolidated Financial Statements section, Note (3).

**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 69% of our revenue in 2011 was attributable to operations outside the euro area and was translated into euros. Consequently, period-over-period changes in the euro rates for particular currencies can significantly affect our reported revenue and income. In general, appreciation of the euro relative to another currency has a negative effect while depreciation of the euro relative to another currency has a positive effect. Variable-interest balance-sheet items are also subject to changes in interest rates, so there is a risk that these balance-sheet items may result in an adverse impact on our business, financial position, profit, and cash flows. For more information about our currency and interest-rate risks and our related hedging activity, see the Notes to the Consolidated Financial Statements section, Notes (25) and (26).

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

We use derivative instruments to reduce the impact of our share-based payment plans 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 payment plans could exceed the benefit achieved by hedging them or that a decision to leave the plans materially unhedged might prove disadvantageous.

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

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

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

technological innovation by us or our competitors;

quarterly variations in our results of operations or results that fail to meet our or our financial analysts' expectations;

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

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

changes in our externally communicated outlook or credit rating;

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

general market conditions specific to particular industries;

litigation to which we are a party;

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

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

general market conditions.

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

**Project Risks**

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

A core element of our business is the successful implementation of software solutions to enable our customers to make their business a best-run business. The implementation of SAP software is led by SAP, by partners, by customers, or by a combination thereof. Depending on various factors, such as the complexity of solutions, the customer's implementation needs or the resources required, SAP faces a number of different risks. For example, trained consultants might not be immediately available to assist customers in the implementation of our products, the features of the implemented software might not meet customers' expectations or the software might not fit the business model of the customer, customer-specific factors may destabilize the implementation of the software, or customers and partners might not implement the measures offered by SAP to safeguard against functional and technical risks.

As a result of these and other risks, some of our customers have incurred significant implementation costs in connection with the purchase and installation of SAP software products. Also, some customers' implementations have taken longer than planned. We cannot guarantee that we can reduce or eliminate protracted installation or significant third-party consulting costs, that shortages of trained consultants will not occur, or that our costs will not exceed the agreed-upon fees on fixed-price contracts. Unsuccessful customer implementation projects could result in claims from customers, harm SAP's reputation, and cause a loss of future revenues.

**Product Risks**

**We use technologies under license from third parties. The loss of the right to use technologies could delay implementation of our products or force us to pay higher license fees.**

We have taken numerous third-party technologies under license and incorporated them into our products and we depend on those technologies in the aggregate. There can be no assurance that the licenses for these third-party technologies will not be terminated, that the licenses will be available in the future on terms acceptable to us, or that we will be able to obtain third-party software licenses for future products. Changes to or the loss of third-party licenses could lead to a material increase in the cost of licensing, or that SAP software products may become unusable or materially reduced in their functional scope. As a result, we could incur additional development or license costs to ensure the continued functionality of our products. The risks increase where we acquire a company or a company's intellectual property assets that have been subject to third-party technology licensing and product standards less rigorous than our own.

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**If we are unable to keep up with rapid technological innovations and the expectations of our customers, we may not be able to compete as effectively as our competitors.**

Our future success continues to depend on our ability to enhance and expand our existing products, technology, and services and keep pace with technological developments (including evolving cybersecurity threats). It also depends on our ability to introduce new products, technologies, and services that are accepted in the market and that satisfy changing customer requirements.

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

**Undetected defects or delays in the introduction of new products and product enhancements may result in increased costs to us and reduced demand for our products.**

To achieve customer acceptance, our new products and product enhancements often require long development and testing periods. Development work is subject to various risks. For example, scheduled market launches could be delayed, or products might not completely satisfy our stringent quality standards, meet market needs or the expectations of customers, or comply with local standards and requirements. New products may contain undetected defects or they may not be mature enough to process large volumes of data. In

some circumstances, we might not be in a position to rectify such defects or entirely meet the expectations of customers. 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. Significant undetected defects or delays in introducing new products or product enhancements could affect market acceptance of SAP software products, and adversely impact our reputation, business, financial position, profit, and cash flows.

The use of SAP software products by customers in business-critical applications 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.

**Our technology strategy may not succeed or customers may not adopt our technology platform offering.**

Our technology strategy centers on the SAP NetWeaver technology platform, the Sybase Unwired Platform, and our on-demand platform. Its success depends on the convergence of our platforms and their

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integration with our in-memory database technology. It also relies on our ability to maintain a dynamic network of ISVs developing their own business applications using our platform technology. As with any open platform design, the greater flexibility provided to customers to use data generated by non-SAP software might reduce customer demand to select and use certain SAP software products. If our technology platform strategy is not well received by customers, if competitors develop superior technology, or if our solutions have significant defects, this could have an adverse impact on our business, financial position, profit, and cash flows.

#### **Cybersecurity Risks**

**Undetected security flaws in our software or our proprietary systems or those of our third-party service and software providers may be exploited by other persons, which could damage SAP or our customers and significantly impact our financial position, profit, cash flows, and reputation.**

Our core processes, such as software development, sales and marketing, customer service, financial transactions, and cloud services rely on our IT infrastructure and applications. Malicious software, sabotage, cyber incidents, natural disasters, or the failure of an underlying technology (such as the Internet) could cause an outage of our infrastructure, which could lead to a substantial denial of service and ultimately to production downtime, recovery costs, and customer claims. This could have a significant negative impact on our business, financial position, profit, or cash flows.

We are to a substantial extent dependent on the exchange of a wide range of information over our publicly available infrastructure. Specifically, our products and services, including our cloud offerings, rely on this infrastructure and our applications. We have implemented a number of measures designed to ensure the security of our information, IT

resources, and other assets. Nonetheless, unauthorized users could gain access to our systems through cyber-attacks and steal, use without authorization, and sabotage our intellectual property and confidential data. Any breach of our IT security, misuse, or theft could lead to loss of production, to recovery costs, or to litigation brought by customers or business partners, which could have a significant negative impact on our business, financial position, profit, cash flows, and reputation.

There is a danger of industrial espionage, cyber-attacks, misuse, or theft of information or assets, or damage to assets by trespassers in our facilities or by people who have gained authorized access to our facilities, systems, or information. Such cybersecurity breaches, misuse, or other disruptions could jeopardize the security of information stored in and transmitted through our computer systems as well as the computer systems of our customers, service providers, or business partners. Such misuse could potentially lead to the leakage of confidential information, improper use of our systems and networks, manipulation and destruction of data, defective products, production downtimes, and supply shortages. This could lead to significant claims for damages against us. Additionally, despite testing prior to their release, our products may contain security flaws, particularly when first introduced or when new versions are released. Because technologies used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Actual or alleged defects could expose us to product liability claims and warranty claims, and harm our reputation, and that could impact our future sales of products and services.

Our products include security features that are intended to protect the privacy and integrity of our customers' data. We devote significant resources to training our personnel and addressing security vulnerabilities through

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engineering more secure products, continuously enhancing security and reliability features in our products and systems, deploying security updates to address security vulnerabilities, and improving our incident response time. In addition, we have implemented a variety of defense mechanisms intended to safeguard our infrastructure. Examples are firewalls, antivirus software, intrusion detection systems, and high-availability landscapes including our development and quality infrastructures. We adhere to several best practices, many of which are regularly certified. However, we cannot guarantee that these measures will be adequate to prevent serious impairment of our business operations.

**A data security breach could have a significant negative impact on SAP and our customers.**

SAP products and services, including those used by our customers on the Internet, rely on our IT infrastructure and applications. Unauthorized users could gain access to our systems through cyber-attacks and introduce backdoors or steal, use without authorization, and sabotage our intellectual property and confidential data. A breach of our IT security could lead to loss of production, to recovery costs, or to litigation brought by customers or business partners, which could have a significant negative impact on our business, financial position, reputation, profit, and cash flows.

We continuously employ IT security programs to manage identified risks and monitor whether these measures, including firewalls, intrusion detection and anti-virus applications are adequate to prevent serious impairment of our business operations as the method and variety of cyber-attacks are rapidly escalating and changing. Additionally, as noted in the description of the previous risk, we adhere to several certified best practices.

**Other 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 utilize certain technologies in the future.**

We continue to believe that we will increasingly be subject to intellectual property infringement claims as the number of products in our industry segment grows, as we acquire companies, with increased use of third party code including open source code and as we expand into new industry segments with our products, resulting in greater overlap in the functional scope of products.

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

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

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

In addition to open source, SAP continues to expand its participation in standards organizations and increase the use of standards in its products. Participation in standards organizations may require licensing of SAP's intellectual property to contributors to the standard or to all standards implementers, including competitors, on a nondiscriminatory 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. This could further reduce our ability to use intellectual property related to standards. Use of patents inadvertently licensed through standards could expose SAP to third-party claims. Consequently, compliance with open source or certain standards could have a material negative impact on our business, financial position, profit, and cash flows.

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

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

The outcome of litigation and other claims or lawsuits is intrinsically uncertain. Management's view of the litigation may also change in the future. Actual outcomes of litigation and other claims or lawsuits could differ from the assessments made by management in prior periods, which could result in a material negative impact on our business, financial position, profit, cash flows, and reputation.

For more information, see the discussion of our legal liability risks in the Notes to the Consolidated Financial Statements section, Note (24).

**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 carry many additional risks. These 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 loss of key personnel of the acquired business

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

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Debt incurrence or significant cash expenditures

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

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

Difficulties in integrating the acquired company's accounting, human resource, and other administrative systems

Legal and regulatory constraints

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

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

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

Protecting and defending our intellectual property is key 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 and rights of authorship, taking certain action to stop copyright and trademark infringement, entering into licensing, confidentiality, and nondisclosure

agreements, and deploying protection technology. Despite our efforts, there can be no assurance that we can 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 may be vulnerable to disclosure or misappropriation by employees, partners, or other third parties. There can also be no assurance that third parties will not independently develop technologies that are substantially equivalent or superior to our technology. Also, it may be possible for third parties to reverse-engineer or otherwise obtain and use technology and information that we regard as proprietary. Accordingly, we might not be able to protect our proprietary rights against unauthorized third-party copying or utilization, which could have a significant negative impact on our competitive position and our financial position, and result in reduced sales. Any legal action we bring to enforce our proprietary rights could be costly, distract management from day-to-day operations, and lead to claims against us, which could have a significant negative impact on our business, financial position, profit, and cash flows. Such actions by us could also involve enforcement against a partner or other third party, which may have a significant negative effect on our ability, and our customers' ability, to use that partner's or other third parties' products. In addition, the laws and courts of certain countries may not offer effective means to enforce our intellectual property rights.

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

As a global software business, we are to a substantial extent dependent on the exchange of a wide range of information and on the availability of the infrastructure we use. In 2011, we implemented a number of additional measures designed to ensure the security of our



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information, IT resources, and other assets. Nonetheless, there is still a danger of industrial espionage, cyber-attacks, misuse, or theft of information or assets, or damage to assets by trespassers in our facilities or by people who have gained authorized access to our facilities, systems, or information. Any misuse, theft, or breach of security could have a significant negative impact on our business, financial position, profit, and cash flows.

**Our insurance coverage may not be sufficient to prevent claim settlements from adversely impacting our business, financial position, profit, and cash flows.**

We continue to maintain and manage insurance coverage against a diverse portfolio of risks. Our objective is to ensure that financial effects of occurrences are excluded or minimized to the extent practicable at reasonable cost. Despite these measures, certain categories of risks are still not currently insurable at reasonable cost. Even if we obtain insurance, our coverage may be subject to exclusions that limit or prevent our indemnification under the policies. Further, we cannot guarantee the ability of the insurance companies to meet their liabilities from claims. If these risks materialize, it may have a negative impact on our business, financial position, profit, and cash flows.

**We may incur losses in connection with venture capital investments.**

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

**ITEM 4. INFORMATION ABOUT SAP**

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

As part of our activities to reduce the number of legal entities in the SAP group, in 2011 we integrated certain subsidiaries into the following significant SAP subsidiaries: SAP America, Inc. and SAP (Schweiz) AG.

For a (i) description of our principal capital expenditures and divestitures and the amount invested (including interests in other companies) since January 1, 2009 until the date of this report and (ii) information concerning our principal capital expenditures and divestitures currently in progress, including the distribution of these investments geographically and the method of financing, see Item 4. Information About SAP Description of Property Capital Expenditures.

**THE SAP GROUP OF COMPANIES**

Celebrating its 40th year in business in 2012, SAP is the world leader in enterprise applications in terms of software and software-related service revenue, and the world's third-largest independent software manufacturer based on market capitalization. With more than 183,000 customers in over 130 countries, the SAP Group includes subsidiaries in every major country and employs more than 55,000 people.



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**Business Activity and Organizational Structure**

**Business Activity**

Our core business is selling licenses for software solutions and related services to help companies of all sizes better manage industry-specific and line-of-business processes. SAP core solutions, which cover standard business applications and technologies, provide customers with a stable, consistent solution suite that allows them to be more efficient and agile, make decisions in real time, and create new value for their own customers. SAP technologies—unwired by mobile apps, simplified by cloud solutions, and fueled by in-memory computing—are driving value and growth for customers, partners, and entire markets.

To meet customers' variety of preferences for delivery and adoption, SAP provides solutions from its portfolio on premise, in the cloud, and on device deployments—all underpinned by our SAP HANA. SAP solutions enable customers to orchestrate data and business processes across all operating environments.

**Organizational Structure**

Our legal corporate name is SAP AG. SAP is headquartered in Walldorf, Germany. Our company is structured along the following areas:

Technology and Innovation Platform

Products and Solutions

Global Customer Operations

Chief Operations Office

Global Finance and Administration

Human Resources

SAP markets and distributes its products and services primarily through a worldwide network of local subsidiaries, which are licensed to distribute SAP products to customers in defined territories. Under their respective license agreements, the subsidiaries pass on to the

licensor a certain percentage of the revenue generated by distributing the products. Distributorship agreements are in place with independent resellers in some countries.

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

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Our management reporting breaks our activities down into four segments: Product, Consulting, Training, and Sybase. For more information about our segments, see the Notes to the Consolidated Financial Statements section, Note (29).

### **Mission and Strategy**

#### **Market**

With customers in more than 24 industries, from small businesses and midsize companies to large enterprises, in countries across the world, SAP has traditionally served a global market for enterprise software and services that is subject to the same trends that drive the world economy. Despite ongoing macroeconomic uncertainty and volatility, numerous market forces are changing the business and technology landscape:

*Globalization:* Emerging economies that continue to experience fast growth, outpacing more established markets

*Internet of Things :* Increasing connectedness through mobile devices both people-to-people connectivity and machine-to-machine connectivity

*Consumerization of IT:* Increasing demand for enterprise IT to deliver the same user experience as consumer technology

*Big Data :* An increase in data produced and consumed in unprecedented volumes doubling every 18 months according to International Data Corporation (IDC)

*Business and social collaboration networks:* Increasingly distributed, yet

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highly networked workforces connected through social network technologies

To be successful in this climate, businesses must use technology and real-time analytics to better conduct business in real time, get closer to their customers, and innovate with more competitive and relevant products in each market and customer segment they serve.

**Business and Technology Trends**

Market dynamics require enterprises to evaluate their business models and opportunities for sustained growth and greater efficiency. SAP customer companies of all sizes continually evaluate, expanding into new geographies, approaches for engaging new customer segments in emerging markets and elsewhere, entering into adjacent vertical industries, and increasing networking at the enterprise level. Businesses and public sector organizations are also addressing customers and constituents needs for transparency and openness by empowering them with greater access to information.

Three major technology trends in-memory computing, enterprise mobility, and the cloud have triggered change in the world of IT and SAP is playing a crucial role in accelerating that change. Those trends are changing not only the way enterprises adopt and deploy business technology, but also fundamentally the way that work is done. The pervasiveness of the cloud and mobile devices, together with the power of in-memory computing, allow people to connect and collaborate wherever and whenever they choose. At the same time, they can access and analyze large amounts of data in seconds. We strongly believe that the convergence of these technologies has the potential to create enormous business value and power new business models both in developed countries and emerging markets. We further believe this will change cultures both within companies and externally among their customers, partners, and others across their business ecosystems.

Connectivity of people and devices through mobile technology is increasing at an

exponential rate. There are more than five billion mobile subscribers in the world today, and in the future, we will be able to connect hundreds of billions of objects automobiles, household appliances, machines in real time. This machine-to-machine connectivity or Internet of Things will drive enormous business value and we are already seeing examples of this in smart utility grids and smart buildings.

The explosion of Big Data in an increasingly connected world where people and devices exchange information continues at an unprecedented rate. Enterprise data volume is increasing by over 50% to 60% every year while IT budgets are growing at only 5%. Our customer businesses of all sizes and in all industries must increase their focus on analyzing volumes of data for new insights, greater customer intimacy, and competitive advantage. In this environment, in-memory computing delivers a dramatic change in computing, analytics, and data storage. It leverages advances in multicore processing and more affordable servers, storing information in the main memory rather than in relational databases, to greatly accelerate processing times. It will fundamentally disrupt the traditional IT stack comprised of hardware, middleware, and software, where the disk-based relational database is the bottleneck. We believe that advances in in-memory computing will become the new backbone of next-generation business applications and enterprise technology.

To increase efficiency and lower costs of ownership, enterprises are rapidly embracing cloud computing and virtualization, as well as changes in data storage through in-memory computing, to rethink the way they invest in information technology. These advances are simplifying and removing layers from the traditional technology stack. SAP is helping drive change as customers reduce the amount they spend on hardware and services in favor of investment in software-based innovation. Increasingly, customers are looking to embrace social networking and collaboration technologies as a part of their cloud road map. We are

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developing a new category of cloud applications with a people-centric approach to help customers speed up decisions, strengthen customer relationships, and drive growth.

Enterprise mobility continues to transform the way work is done and businesses are run. Smartphones already outsell PCs. By 2013, mobile devices will be the primary method of Internet access worldwide. A mobile workforce is seen as becoming more productive, since employees can now do their job any time, from any location, rather than being tethered to their office desktop. The pervasiveness of mobile technology, together with advances in the cloud and analytics, empower workforces and consumers in new ways, regardless of location. This way, people can respond quickly and intelligently to timely information about events and their surroundings.

With the continuing threat of climate change and resource price instability, businesses are also paying close attention to the strategic importance of managing sustainability.

#### **Vision and Mission**

Our vision is to help the world run better and improve people's lives. We have a great opportunity to reshape the IT industry and transform business networks. In the next decade, we see a major demographic shift that will drive an exponential demand for natural resources. Businesses and governments will need a new category of sustainable solutions to cope up with this demand and provide high value services to their consumers and citizens. With our vast experience in resource management and our new technology innovations, we can power these new types of solutions.

Our mission is to help every customer become a best-run business. We do this by delivering new technology innovations without disruptions: Enterprise mobility will transform consumption of IT; in-memory technology will simplify the IT stack and drive high value applications; and the cloud delivery of IT solutions will become mainstream. By

leveraging our strong base in applications and analytics as well as new technology innovations, we can offer solutions that make our customers run better.

In summary, we measure our success based on our customers' success: When our customers win, we win. We are committed to optimizing the business value of our customers' IT investments, lowering their total cost of ownership (TCO), and helping them innovate for the future. Our passion for growth and trusted partnerships with our customers, employees, shareholders, and members of our open ecosystem remains resolute.

#### **Strategy for Growth**

Our strategy for growth seeks to increase SAP's market leadership in existing and new market categories. The market trends in mobile, big data, cloud computing, and social networking present a unique opportunity for SAP to deliver expanded business value through a concerted innovation strategy focused on these market trends that delivers these innovations without disruption to our customers' business and further leverages their existing investments in SAP software. To that end, as the information technology industry undergoes a structural shift away from investments in hardware toward increased investments in new software-based innovation, particularly in the area of cloud, mobile, and in-memory technology, SAP wants to position itself at the forefront of accelerating that change.

As a result, compared to 2010, we are doubling our addressable market for 2015 by focusing on five market categories:

*Applications:* With SAP Business Suite software, SAP is already recognized as the undisputed market leader in business applications and enterprise resource planning (ERP). Customers can rapidly deploy standardized core business processes and functions with line-of-business and industry-specific applications across 24 industries and 11 lines of business.



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As SAP innovates and grows these industry-specific and line-of-business-focused core applications, we continue to improve the overall end-user experience for our customers and lower TCO. We are injecting in-memory computing innovation into SAP Business Suite, starting with the controlling profitability analysis accelerator powered by SAP HANA. The accelerator has been available since the fourth quarter of 2011 as a rapid-deployment solution that is installed and ready to use within twelve weeks. At the same time, we have extended maintenance for SAP Business Suite to 2020, an extraordinarily long commitment to our customers by industry standards.

*Analytics:* SAP is an acknowledged global market leader in analytics. We continue to augment our market-leading portfolio of analytics solutions, including our governance, risk, and compliance (GRC) solutions and our enterprise performance management (EPM) solutions, with the power of SAP in-memory technology. The first major effort was the SAP NetWeaver Business Warehouse component powered by SAP HANA introduced in the fourth quarter of 2011. Empowered with real-time business insight that can be delivered in milliseconds with SAP HANA individuals, teams, and business networks can quickly anticipate or predict change, uncover new opportunities, and take immediate, bold, decisive action.

*Mobile:* As the global market leader in mobile solutions, SAP intends to continue to drive the unwiring of the enterprise and simplify the consumption of enterprise data and applications. Customers benefit by having the freedom to operate anytime, anywhere, on any device with mobile apps that ease access to enterprise processes and information. IT units and partners can create new or mobilize existing apps with the Sybase Unwired Platform. We continue to enable our customers to manage mobile devices, and develop and deploy mobile applications to reach their employees and end consumers. SAP delivered 50 mobile apps by the end of 2011 with partners adding several hundred more. The company will continue to innovate in this important area of growth.

*Cloud:* Given the importance of the cloud for applications delivery, we strive to be a leading player in the cloud market. Acquiring SuccessFactors will help toward achieving that objective. We are aiming for innovations in the cloud that our customers can use in every line of business. We aim to redefine the cloud market beyond software-as-a-service (SaaS), including line-of-business solutions and ERP cloud solutions and platform-as-a-service (PaaS); targeting new areas such as collaboration services (including both people-centric applications and business network solutions); information services (including business intelligence in the cloud and data services); and mobile services (especially mobile device management in the cloud). Our strategy is aimed at ensuring that customer businesses of all sizes, subsidiaries, and lines-of-business can fulfill their unique requirements with cloud and virtualization tools and services and on-demand solutions, add-ons and industry-specific extensions from SAP, partners, or their own developers.

*Database and technology:* SAP NetWeaver provides the technology foundation for SAP applications. In addition, it delivers a portfolio of enterprise technology to extend

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applications to reach more people and to adopt new processes, devices, and consumption models. We strive to be a leading player in the database market. While SAP will continue to offer customers a wide range of choice, the attractive Sybase database portfolio including SAP Sybase Adaptive Enterprise Server (ASE) and SAP Sybase IQ, combined with the unprecedented power and potential of SAP HANA, presents significant opportunity to address the market for structured and unstructured data.

Our groundbreaking SAP HANA platform allows customers to take advantage of in-memory computing across all of these market categories. Installed on top of an existing infrastructure and working with available data, they can use it to query multiple types of data sources in real time, at speeds and volumes like never before. As a result, customers gain immediate business insight to transform

organizations and achieve fundamental performance improvement compared to existing systems in their IT landscape.

SAP's momentum in the five market categories will be fueled by our strategy of innovation without disruption, co-innovation with our ecosystem, and ability to orchestrate technology consistently across the enterprise.

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### ***Accelerate Innovation Without Disruption***

While we focus on innovations in our five market categories, our strategy is to deliver innovation with minimum disruption. We will ensure this by reducing TCO for customers adopting our innovations in these areas through rapid-deployment solutions that draw on our years of experience implementing solutions across more than 24 industries and application virtualization. SAP's commitment to accelerated innovation cycles and extended maintenance for SAP Business Suite software offers consistency, predictability, and innovation without disruption to customers' IT environments. SAP stands out among vendors in its ability to enable enterprises to become more agile and efficient while freeing up resources to innovate, better connect with customers, and grow in today's global market.

### ***Expand Our Ecosystem***

Through our open ecosystem, we offer customers maximum choice, value, and the best possible technology through the power of co-innovation from SAP and our partners. SAP continues to invest in our broad partner ecosystem to drive development and delivery of innovative software solutions that address industry-specific and local market needs. We will offer development toolkits on our solutions that will allow our partners to extend our current solutions as well as build new solutions.

### ***Orchestration***

Orchestration allows our customers to link on-premise, cloud, and mobile solutions in a cost-effective and consistent manner. Based on SAP's strategic role in providing the technology backbone for our customers, we are uniquely positioned to define the blueprint and the architectural guidelines that bring together these various IT elements. Through orchestration, we provide master data management, business process management, and unified lifecycle management across all SAP solutions at low TCO.

### **Competition**

SAP continues to be the world leader in applications, analytics, and mobile, and aims for leadership in the cloud and database and technology market categories. Our primary competitors in applications are IBM, Oracle, and Microsoft. Compared with SAP, those companies derive a much higher portion of their revenue from other segments of the IT market, such as hardware (Oracle, IBM); operating systems, and desktop applications (Microsoft); and IT services (IBM). Key competitors in analytics include IBM (Cognos), SAS Institute, and Oracle (Hyperion). The mobile market is still highly fragmented. Competitors with offerings that overlap with ours include Antenna and Spring Wireless (an SAP Ventures portfolio company). In the cloud market, we face line-of-business players such as Salesforce.com, Workday, and NetSuite. Oracle has also become a competitor in this market through its acquisition of RightNow and its planned acquisition of Taleo. Principal competitors in the database and technology business include IBM, Microsoft, and Oracle. Our offerings also compete with those of specialized vendors in various local markets and subsegments.

### **Sustainability**

Sustainability is core to the overall business strategy at SAP and contributes to our vision to make the world run better and thus improve people's lives. We approach sustainability as the holistic management of social, environmental, and economic risks and opportunities for increased near-term and long-term profitability and as a responsibility to our stakeholders. We are committed to fully integrating sustainability into our strategy and business model and in this way we pursue a corporate strategy that is sustainable rather than a stand-alone sustainability strategy.

SAP software, including the SAP ERP application and other SAP Business Suite applications, has helped organizations become more profitable, resource-efficient, and accountable over the past 40 years. These



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applications can also help solve difficult sustainability business problems such as dynamic energy management. Our solutions are helping provide greater levels of collaboration for sustainability among stakeholders and greater access to enterprise-level computing for many of those previously excluded from market participation.

In addition, SAP provides a dedicated line of solutions for sustainability with the essential power to integrate at the center.

But to deliver our vision, we recognize there are important associated responsibilities and dependencies. The most relevant of these for sustainability efforts include:

*Human capital management* Ensuring that we have access to the very best talent within our company and throughout the ecosystem to develop, deliver, and use our technologies

*Intellectual capital management* Ensuring that we organize the most effective research and development capability so we can deliver the highest quality pipeline of new products, solutions, and services while developing and safeguarding our corporate reputation and brand equity

*Security and privacy* Ensuring that we design and deliver our solutions to afford the very highest levels of data security and privacy control

*Business conduct* Ensuring that we conduct our business activities to the highest levels of ethical behavior, as set out in our Code of Business Conduct and other company policies

*Climate and energy* Ensuring that we reduce and minimize the environmental impact of our solutions, services, and corporate operations

### **Financial Management Strategy**

The primary aim of our financial management is to maintain liquidity in the SAP

Group at a level that is adequate to meet our obligations at all times. Finance may be required to proactively sustain liquidity at that level. 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).

### **PORTFOLIO OF SOFTWARE AND SERVICES**

Working closely with customers and partners worldwide, SAP is committed to a product and services strategy that enables customers to use enterprise application software wherever and whenever they need. Whether deployed on premise, in the cloud, or on a mobile device, SAP solutions work together as one, as networked solutions that orchestrate business processes and information meeting the unique needs of businesses and business networks of all sizes.

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Our product portfolio builds on a scalable, powerful technology platform. We can use this base to accelerate product innovation and co-innovate with partners and customers to offer new and complementary solutions. We deliver a combination of innovation in analytics, cloud, and mobile accelerated by transformational advances in in-memory computing on a stable technology foundation and in rapidly deployable, easily adoptable, industry-specific packages. SAP solutions empower people everywhere with the freedom to work in real time, anytime and anywhere, enabling companies to shape innovation in their industries and lead their markets. In taking care to safeguard our customers' technology investments, we also strive to enhance their business value. This way, customers can adopt innovation at their own pace, without disruption, for their specific industry needs.

Security is integral to our commitment to delivering high-quality software, and we endeavor to enhance security in the development of our products and services and by acquiring new technologies and expertise.

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**Software Portfolio**

**Applications**

As we innovate and grow our core applications and industry solutions, we continue to focus on improving the overall end-user experience for our customers.

***SAP Business Suite***

SAP Business Suite software enables companies to optimize their business and IT strategies with an integrated portfolio of business applications and solutions designed to work with other SAP and non-SAP software. The software increases visibility across departments and business silos, improving the ability to make clearer decisions while improving operational efficiency and increasing the flexibility needed to address change.

SAP Business Suite applications can be deployed on a modular basis to address particular business needs within specific timelines, targeting business processes with the highest potential impact.

Customers can incrementally enhance these applications through enhancement packages that they receive through our support offerings, alleviating the need for costly and time-consuming upgrades.

The core applications that make up SAP Business Suite are the following:

The SAP ERP application helps optimize business and IT by reducing IT complexity, increasing adaptability, and delivering more business value at a lower cost than traditional ERP solutions. It supports mission-critical business processes including finance, human capital management, asset management, sales, and procurement, and other essential corporate functions. SAP ERP enables industry-specific processes with functionality that can be activated selectively, keeping the application core stable for high performance.

The SAP Customer Relationship Management (SAP CRM) application manages and monitors sales, service, and marketing processes while supporting key back-office activities. SAP CRM enables multichannel customer interactions with, for example, smartphones, the Internet, and social media and also offers a dedicated communications infrastructure that helps connect all people anytime, anywhere.

The SAP Product Lifecycle Management (SAP PLM) application manages, tracks, and controls product-related information over the complete product and asset lifecycle and across the extended supply chain, while freeing the product innovation process from organizational constraints.

The SAP Supplier Relationship Management (SAP SRM) application supports key procurement activities including demand-driven sourcing, centralized contract management, and interaction with suppliers through multiple channels. SAP SRM helps accelerate and optimize the entire procure-to-pay cycle by enabling integrated processes and enforcing contract compliance.

The SAP Supply Chain Management (SAP SCM) application helps adapt company-specific supply-chain processes to the rapidly changing competitive environment and enables the transformation of traditional supply chains with linear, sequential processes into

open, configurable, and responsive supply networks.

***Industry Solutions***

SAP supports companies in 24 industries with solution portfolios that enable best-practice industry processes. These portfolios are the result of decades of trustful co-innovation with industry-leading customers that have been

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sharing their best practices to help customers, suppliers, and partners in their business networks to optimize the joint network performance. We also provide IT value through orchestration across on-premise and cloud solutions and on any device, providing flexibility, security, and scalability on a single IT platform. The benefits of orchestration are:

Solutions that are more easily consumed through implementable steps

Quick ROI through rapid-deployment solutions

Secure, reliable operations tuned for the individual business

***SAP Rapid Deployment Solutions***

SAP Rapid Deployment solutions combine preconfigured software and predefined services with content such as SAP best practices, templates, tools, and business user enablement, to fulfill specific business requirements at significantly reduced service-to-software ratios. By providing predictable pricing, scope, timelines, and outcomes, as well as by leveraging proven best practices from an extensive ecosystem of customers and qualified partners, SAP Rapid Deployment solutions make it easier to adopt solutions and reduce the implementation risk. Ready to run in typically 12 weeks or less, these solutions help lower the total cost of implementation and give customers immediate and tangible value.

***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, SAP Business One application, and SAP BusinessObjects Edge solutions, which combine business management and business intelligence software. For those who want the benefits of large-scale, integrated business management applications without a complex IT infrastructure, the SAP Business ByDesign solution not only provides a modern cloud solution, but also a platform that customers can use to build their

own solutions. Like large corporations, these firms seek to streamline business processes, cut costs, drive growth, and increase profitability by receiving the right information at the right time across all operations.

***SAP Business All-in-One***

SAP Business All-in-One solutions are designed for small businesses and midsize companies with 100 to 2,500 employees. SAP Business All-in-One solutions support integrated business processes that cover everything from financials, procurement, inventory, manufacturing, logistics, product development, human resources, sales, services, and marketing. At any time, these ERP applications can be extended with additional functionality to scale as business needs change. SAP Business All-in-One solutions are available from qualified partners that deliver more than 660 industry-specific solutions in 55 countries. SAP provides the deployment tools and methodologies that partners need to deliver fast, predictable implementation with low risk, low cost, and rapid time to value. Customers can choose between an on-premise deployment and hosted deployment purchased on a subscription basis.

***SAP Business One***

The SAP Business One application is designed for small businesses with fewer than 100 employees that have outgrown their accounting-only systems and are looking to streamline their operations with a single unified solution. The application supports virtually the entire business with support for financials, sales, customer relationships, inventory, and operations to help small businesses boost efficiency and accelerate profitable

growth. SAP Business One can be tailored and extended to meet specific business needs.

*SAP Business ByDesign*

See the Cloud section, below.

*SAP BusinessObjects Edge*

See the Analytics section, below.

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***Solutions for Sustainability***

With the continuing threat of climate change and resource price instability, businesses are paying close attention to the strategic importance of managing sustainability for both long-term and short-term profitability. Leaders taking a proactive and strategic approach can enjoy first-mover advantage in innovation for new lines of business as well as cost and risk reduction and improved reputation.

SAP is not only working to become a more sustainable company, but we also provide a broad range of solutions to help our customers pursue a sustainable business strategy. We have designed sustainability solutions that fall into five key business demand areas: sustainability reporting and analytics, energy management, operational risk management, sustainable supply chain and products, and sustainable workforce. These include:

The SAP BusinessObjects Sustainability Performance Management analytic application that helps organizations more easily set sustainability goals and objectives, measure and communicate performance, and reduce data collection costs and errors

The SAP Carbon Impact OnDemand (See the Cloud section, below)

The SAP Environment, Health, and Safety Management (SAP EHS Management) application that addresses regulatory compliance and helps companies identify, manage, and mitigate EHS risks by taking an integrated approach to all aspects of risk and compliance

The SAP Manufacturing Integration and Intelligence (SAP MII) application that provides the tools and content to help customers track and identify opportunities for energy reduction in manufacturing

The SAP Advanced Metering Infrastructure (AMI) Integration for Utilities, which helps optimize revenues and demand, enable more cost-effective customer service, and improve market efficiency. It also automates data exchanges for energy suppliers and infrastructure operators.

**Analytics**

***SAP BusinessObjects Portfolio***

The SAP BusinessObjects portfolio includes business intelligence and enterprise information management solutions that enable companies to provide trusted information to every member of a business network, helping them respond faster and make better-informed decisions. The portfolio also includes enterprise performance management and governance, risk, and compliance solutions, which help customers maximize profitability, manage risk and compliance, and optimize systems and processes. It also includes analytic applications designed to help business users reach strategic goals, deliver predictable results, and make sound decisions. Reflecting SAP's commitment to openness and interoperability in heterogeneous software landscapes, the solutions are designed to integrate with data sources and systems from other providers as well as SAP Business Suite applications and other SAP BusinessObjects solutions.

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*SAP BusinessObjects business intelligence (BI)* solutions enable users to interact with business information and obtain answers to ad hoc questions without advanced knowledge of the underlying data sources. Available in cloud, on-premise, and mobile deployment options, the software allows users to access data across all sources and formats and then delivers it as useful, consumable information. BI tools also help customers uncover trends and patterns, solve business problems, anticipate changes, and reach organizational goals.

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*SAP BusinessObjects enterprise information management (EIM)* solutions help customers manage and enhance data integration, data quality management, and metadata management. Augmenting and leveraging EIM functions in the SAP NetWeaver technology platform, the solutions allow companies to build a trustworthy data foundation that supports both business and IT initiatives. Customers can access, integrate, move, or cleanse data structured and unstructured to deliver timely, unified information.

*SAP BusinessObjects enterprise performance management (EPM)* solutions help companies improve their control performance, organization agility, and decision making. The solutions support processes across multiple lines of business including finance, supply chain, and procurement, and include applications for strategy management; planning, budgeting and forecasting; financial consolidation; profitability and cost management; and spend and supply chain performance management.

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

*SAP BusinessObjects analytic* applications address challenges in specific industries and lines of business. Co-created with customers and designed to work in virtually any environment, the applications provide the insight and best-practice support companies need to better understand risk, uncover opportunities, and make the right decisions to optimize their business. The applications, which can be deployed quickly, are designed to work in virtually any IT system and deliver value to customers rapidly.

*SAP BusinessObjects Edge* solutions help midsize companies streamline and enhance their budgeting, planning and consolidation, and strategy management processes. These versatile solutions support flexible ad hoc reporting and analysis, dashboard-based data visualization, data integration, and data quality management.

**Mobile**

Enterprise information is now accessed more and more on the move, as mobile workers use smartphones and other devices to stay connected and productive both in and out of the office. Our customers and partners are mobile too.

The strategy employed by Apple and Google to launch smartphones for consumers won people over with an incredible user experience, mobile apps delivered by their ecosystem, and unprecedented information access. The move has consequently generated intense demand outside the consumer sphere, from businesses and their employees, based on their experiences with consumer applications. No longer satisfied with limited device choices and a few mobile apps to help them stay in touch and be productive, employees are now putting intense pressure on IT for change in two respects: The flexibility to choose devices and easy-to-use mobile apps. As such, IT needs to focus on infrastructure and security issues as well as the user experience.

In 2010, we acquired Sybase to broaden our mobility product portfolio. By leveraging enterprise mobility technology from Sybase together with our existing mobile solutions, we are enhancing our infrastructure, tools, and applications to be able to access data stored in SAP software from anywhere and on any device. This mobile platform is based on open standards; it runs on all major mobile operating systems and manages and supports all major device types.

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Sybase Unwired Platform enables SAP, customers, and partners to build mobile apps to extend existing applications, such as SAP Business Suite software, beyond the desktop to mobile devices. This approach makes it possible for customers to unlock business value from existing SAP software investments and deliver value to people everywhere.

We intend to help our customers extend their reach by:

Enabling business users to consume SAP software data and processes from different devices everywhere (mobile apps for business and productivity)

Providing business users with information from both inside and outside the enterprise so that they can make decisions based on a broad array of data according to their individual use cases (analytical capabilities)

Helping business users to cooperate and optimize performance across a dynamic business network of people (collaboration tools)

Enabling partners, customers, and business users to extend the functionality of SAP software and build their own user experiences

Helping our customers reach their consumers through mobile apps that deliver a great user experience

In 2011, we delivered a number of mobile apps to customers (for example, SAP Travel Expense Approval, SAP CRM Sales, and SAP Retail Execution).

**Cloud**

Driven by technology advances in cloud computing and a rapid value business model, on-demand delivery of business solutions continues to be a viable option for customers of all sizes. We have embraced this shift and are delivering on our commitment to offer the right portfolio of highly strategic and reliable cloud

solutions that will interact and work with existing SAP software investments.

Cloud solutions from SAP leverage technologies such as collaboration and content services to offer new people-centric approaches to solving business problems. Our solutions are designed to take advantage of the inherently networked nature of the cloud model to allow people and businesses to collaborate within and across enterprise boundaries. Built on a well-orchestrated set of platform features, these solutions offer fast time to value and a low-risk deployment option to help ensure business success. Customers can also consume the innovations instantly without the need for on-site IT to manage the infrastructure.

The SAP Business ByDesign solution delivers a complete enterprise solution for small businesses, midsize companies, and large enterprise subsidiaries. This approach enables customers to focus on developing and growing the business while minimizing the need to build and operate IT systems. For SAP Business ByDesign, two new feature packs were released successfully in 2011. Customers

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can find new solutions from SAP and partners that enhance the SAP Business ByDesign solution in SAP Store, including add-ons, mash-ups, and extensions from SAP and partners.

The SAP Information Interchange OnDemand solution by Crossgate is another cloud offering. The solution delivers prebuilt business partner profiles that connect trading partners, enabling fast, efficient business-to-business (B2B) commerce and invoicing that improves how a customer's partners are integrated and how they share data. After establishing a one-time connection with trading partners for all relevant processes, customers can then instantly exchange related electronic documents for all types of materials, goods, and

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services using existing SAP applications.

SAP StreamWork application is a cloud-based collaborative solution that brings together people, information, and structure, with enterprise applications and business processes to deliver faster business results. With SAP StreamWork businesspeople can work within and between companies to solve problems, develop strategies, brainstorm, collect feedback, or drive decisions.

In addition to the solutions above, several cloud solutions targeting specific functional usage are also available, for example, SAP Sales OnDemand, SAP Sourcing OnDemand, SAP Carbon Impact OnDemand, and SAP BusinessObjects BI OnDemand.

**Database and Technology**

For all these layers to fit together, an orchestration layer that works across all applications within a customer landscape is required. Therefore, we plan to continue to invest in the areas of lifecycle management, master data management, and process orchestration. The goal is to continuously reduce the cost of ownership and support data consistency and process management across multiple layers of applications. In addition, we will invest in our technology portfolio in order to provide a technology foundation which powers all current deployment scenarios for applications, in whatever mode they are deployed (on premise, in the cloud, or on a mobile device). For example, the SAP NetWeaver technology platform continues to provide a stable foundation for SAP Business Suite and other SAP software. It enables enterprises to extend and optimize business processes orchestrated across delivery models. SAP NetWeaver delivers a modular set of functions to help reduce IT complexity and increase business flexibility across heterogeneous IT landscapes through open interfaces, middleware, and process management tools.

With SAP Sybase Adaptive Server Enterprise, customers have another database choice as one single source for support, maintenance, and lifecycle management.

Another key innovation in the SAP technology portfolio is in-memory computing. The SAP HANA platform, comprising the SAP HANA database and other components, is based on this technology and enables real-time analysis on large quantities of detailed data. This breakthrough technology is intended to be installed in a nondisruptive way, as a side-by-side attachment to other technology and applications, such as analytics, the SAP NetWeaver Business Warehouse (SAP NetWeaver BW) component, and SAP Business Suite software.

SAP NetWeaver BW is available with SAP HANA as an underlying in-memory-based database. Remarkable simplification, reduction in TCO, improved performance, and breakthrough analytics are just some of the benefits that can be realized by column-based storage with high compression and query performance. It is also possible to natively combine SAP NetWeaver BW data with real-time sourced data in data marts in SAP HANA. We plan to deliver additional applications that will run on SAP NetWeaver BW powered by SAP HANA.

**SAP Services Portfolio**

The SAP Services portfolio exists to help our customers derive value from their SAP solutions in a fast, cost-effective and predictable way.

We provide a holistic approach to the entire application lifecycle, incorporating a broad array of methodologies, tools, and certified partner offerings to help our customers gain value from their SAP investment while meeting their business needs. Tightly integrated with our development organization, services contribute to a closed customer-feedback loop to the development organization and end-to-end risk and quality management throughout the

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entire customer lifecycle. The SAP Services portfolio includes industry- and solution-focused services, business and IT transformation services, custom development services, support services, program management, project management and quality assurance, and education and certification.

We have aligned our services portfolio around the following categories:

High value services: Typically people-centric services in areas such as business transformation, industry-specific (for example, banking), and architecture-focused projects

Innovation services: Service offerings that are helping lead the market adoption of SAP innovations such as SAP HANA, mobility, and cloud offerings

Engineered services: Service offerings that are assembled to order to provide faster time to value and lower TCO with greater predictability, including our extensive portfolio of services for SAP Rapid Deployment solutions

We continue to offer services to address traditional projects, but increasingly we will look to our ecosystem to provide such offerings to our customer base.

SAP Services has a local presence in more than 50 countries and runs more than 70 training centers, seven global support centers, and 10 custom development centers in the Americas, Asia, and Europe. With approximately 21,000 SAP Services professionals around the world, customers needs can be met around the clock to support SAP solutions.

Our custom development and support services and Sybase customer support and services are categorized as software-related services, while the remaining services areas, provided by SAP Consulting, the SAP Education organization, Sybase Messaging, Sybase Consulting, and Sybase Education, are categorized as professional services.

**Software-Related Services**

***SAP Custom Development***

The SAP Custom Development organization develops customer-specific solutions and business functions on SAP technology covering the lifecycle of services to develop and support custom solutions at every stage. With an extensive network of experts across 10 development centers worldwide, SAP Custom Development helps extend, enhance, and optimize existing solutions or build innovative new applications according to customer needs. SAP Custom Development also develops focused business solutions to support the specific needs of various industries.

***Support Services***

SAP offers several options to support our customers' business solution landscapes and their respective needs. Our support units offer a range of customer support services before, during, and after implementation of our software solutions. We provide around-the-clock technical support in every region. We also offer proactive, preventive support services to protect and enhance our customers' investments in SAP technology and software.

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SAP offers a comprehensive, tiered support model to customers worldwide. The offering includes SAP Enterprise Support and SAP Standard Support. Customers choose the option that best meets their requirements. However, the vast majority of customers choose SAP Enterprise Support. The expanded maintenance and support portfolio helps deliver choice, predictable pricing, and value for customers.

SAP Standard Support delivers support services to enable continuous and effective IT operations. This baseline level of support provides our customers with the services and tools to minimize the cost and risk associated with keeping IT systems up and running, including updates. SAP Standard Support ensures that customers' SAP solutions run

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efficiently by delivering improvements, quality management, knowledge transfer, and problem resolution.

SAP Enterprise Support is comprehensive, proactive support and maintenance extending beyond our SAP Standard Support offering. It provides our customers with an application lifecycle management approach that can help them manage IT complexity and integrate solutions across their IT landscapes. As well as updates, for mission-critical processes the service provides continuous quality checks to analyze technical risks. We deliver the quality management methodology, processes, and tools needed to perform advanced testing and implement solution deployment, operations, and continuous improvement initiatives using the SAP Solution Manager application management solution.

The SAP MaxAttention support option expands SAP Enterprise Support, covering the entire lifecycle of an SAP solution in a tailored format for customers with a full range of services that help organizations safeguard complex solutions, plan for new releases and upgrades, and improve productive solution operations. SAP MaxAttention is designed to provide customers with our highest level of customer support built on a dedicated engagement model with a technical support advisor and service-level agreements, supported by long-term commitments delivered by the SAP Active Global Support organization.

SAP Safeguarding services help our customers mitigate the technical risks of an implementation, integration, migration, or upgrade project. They smooth the process of going live and help customers prepare for live use of the software. An on-site technical quality manager helps ensure that customers receive the support they need, that knowledge transfer takes place, and that our customers improve the performance, data consistency, and availability of their IT solution from SAP.

The Sybase Customer Service and Support organization offers technical support for the Sybase family of products. It maintains regional support centers in Asia, Europe, Latin America, and North America, providing uninterrupted technical services around the world. Sybase users and partners have access to software fixes, technical information sources, and newsgroups on the Sybase support Web site.

Sybase Standard Support services include updates and new version releases that become available during the maintenance period. They are designed for high-quality around-the-clock support for critical issues, access to new releases, and online support services.

Sybase Enterprise Support services offer personalized high-availability support for companies with mission-critical projects. Services include priority access to the Enterprise Technical Team, proactive services, and other specialized options. Sybase Enterprise Support provides the highest priority of response times.

In addition, Sybase also offers some support service options geared towards partners and users, primarily for designated workplace level and tools products, and certain iAnywhere Solutions.

**Professional Services**

We offer two broad categories of professional services – consulting and education.

***Consulting Services***

SAP Consulting offers planning, implementation, and optimization services for

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business solutions. We are able to provide our services with a strong industry focus, and can also deliver solutions at functional or departmental levels. Our consultants engage in:

Business transformation activities such as executive advisory services, value partnerships, and business process and platform services. These support our customers in responding to business challenges in a rapidly changing business environment and bridging the gap that can exist between IT and the wider business

IT transformation services, seeking to reduce customers' TCO with tangible business value accompanied by reduced effort and costs

Performance and insight optimization services providing analysis and modeling of business challenges to introduce innovative business processes

Business applications services providing highly engineered solutions to our customers' application and analytical needs

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

By delivering our portfolio of services based on proven business processes with clearly defined cost and scope, we deliver faster, cost-effective value and greater predictability to our customers while at the same time lowering the services-to-software ratio.

In addition, the Sybase Professional Services organization offers customers comprehensive consulting, education, and integration services designed to optimize their business solutions using Sybase and products from other providers.

***Education Services***

The offerings of SAP Education assist SAP customers and partners with knowledge transfer related to SAP products and services. SAP Education offerings include training-needs analysis, certification assessments, learning software, and tools. We provide a consistent curriculum for learners around the world and deliver these offerings through a number of delivery models, including online e-learning, virtual live classroom, learning on demand, and classroom training. Every year, more than 300,000 individuals in the market are trained by SAP Education, making it one of the largest IT training organizations in the world.

Sybase provides a broad education curriculum allowing customers and partners to increase their proficiency in Sybase products. Basic and advanced courses are offered at Sybase education centers, and specially tailored customer classes and self-paced training are also available. A number of Sybase distributors and authorized training providers also provide education in Sybase products.

***Sybase Mobile Services***

The comprehensive Sybase Mobile Services portfolio ranges from mobile messaging interoperability to mobile content delivery and mobile commerce services, for operators, content providers, enterprises, and financial institutions.

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We deliver advanced mobile services to our customers by addressing the complexities of the wireless ecosystem: Incompatible networks, messaging protocols, handsets, and billing systems.

Sybase 365 addresses operator services focused on Short Message Service (SMS), Multimedia Message Service (MMS), GPRS Roaming Exchange (GRX), and Internet Protocol Exchange (IPX) messaging interoperability between mobile operators worldwide. Messages are delivered through a secure operator-grade messaging platform, with

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advanced protocol conversion, routing, queuing, and transcoding capabilities. The interoperability service greatly simplifies the deployment and delivery of interoperator messaging over incompatible networks, protocol stacks, and handsets. Services include traffic analysis and detailed reporting and statistics. Sybase 365 operates two network operations centers to monitor our messaging service infrastructure, direct and monitor global maintenance and repair activities, and provide direct technical support to Sybase customers around the clock.

Sybase Enterprise Services provide mobile services for enterprises, brands, and content providers, enabling customers to monetize premium mobile content and deliver interactive services, mobile CRM, mobile advertising, and mobile marketing campaigns globally. Services include global billing, settlement, reporting, and analysis.

mCommerce Services provide an end-to-end platform covering mBanking, mPayments, and mRemittance, to both developed and emerging markets. Coupling this with our messaging platform and global reach (SMS and MMS), we are well positioned to enable mobile operators, financial institutions, and enterprises to realize the potential of mobile commerce.

**RESEARCH AND DEVELOPMENT**

Research and development are at the heart of SAP's customer-focused innovation strategy. Led by SAP Research and SAP Labs, SAP's research and development efforts channel the Company's deep expertise and diversity to investigate new technology and develop new applications for delivering business value to current and future SAP customers.

**Research**

SAP Research is the global technology research and innovation unit of SAP. By exploring emerging IT trends, the group drives applied research and the incubation of promising projects while focusing on the business impact and contribution to the SAP portfolio. The business model of SAP Research is based on co-innovation with customers, partners, and other third parties; activities span from large-scale collaborative research projects with academic and industrial partners to specific innovation projects with individual customers. The best-validated results and technologies are further developed into prototypes and potential business opportunities within SAP.

SAP's global research network consists of 19 locations worldwide and involves more than 800 partners from industry, academia, and governments as well as SAP customers. The group demonstrates its approach to co-innovation and applied research, among others, with a network of living labs and co-innovation centers. These sites provide hands-on, real-life settings to expand on trends and drive new prototypes as well as dedicated customer solutions. Contributing to talent development at SAP, SAP Research runs its own doctoral program that is attracting top candidates who wish to work on their theses in a real business context.

Significant initiatives by SAP Research in 2011 include:

*Business Web initiative:* The business Web is envisioned as a cloud platform and business environment that offers a one-stop shop for applications, services, and content, as well as tools for rapidly developing and operating applications in the cloud. It combines SAP's strength in business process management with the benefits of cloud computing and enterprise mobility. The business Web platform is being shaped together with

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partners and early adopters by working on real-world B2B scenarios from various industries. The project will continue in 2012, and a team of 80 researchers is currently working on the first prototypes.

*Future fleet at SAP:* In a field test from February to September 2011, this project offered over 500 SAP employees the chance to get behind the wheel of 27 e-cars charged solely with renewable energy at four SAP locations around Walldorf. SAP Research developed a software prototype to administer the e-cars and demonstrated that IT plays a key role in enabling electric mobility.

*Successful conclusion of the THESEUS/TEXO research project:* Funded by the German Federal Ministry of Economics and Technology, this project focused on developing software for the evolving Web-based service economy with semantic technology. Project results include the creation of the Unified Service Description Language, a platform-neutral language for describing services, making it easier to compare and trade services online.

**Development**

The SAP Labs network leverages the business and IT acumen of SAP and includes a distributed network of locations in high-tech centers across the globe that deliver local market-oriented solutions optimized for customer value. Each SAP Labs location has the flexibility of a small company as an integral part of the global network and each has a clear focus topic and area of responsibility. SAP Labs engage closely with universities, offering leadership talks, engineering courses, and exchange programs. They take part in outreach and corporate social responsibility programs such as the FIRST LEGO Leagues and work with local charities. Allied with SAP's strong brand, SAP Labs' engagement ensures that within their local ecosystems, SAP continues to be recognized as an employer of choice and that SAP attracts the best talent.

In 2011, SAP continued to make strides in introducing leaner, faster, and more efficient development across the Company. While more agile methods of development have been associated with companies of smaller size, SAP is among the first companies of its size and scale to adopt short development cycles, small teams with greater empowerment, and closer customer alignment.

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**Research and Development Expenditure**

Our strong commitment to research and development (R&D) is also reflected in our expenditures: In 2011, we increased our R&D expense by 210 million, or 12%, to 1,939 million (2010: 1,729 million). We spent

13.6% of total revenue on R&D in 2011 (2010: 13.9%). Our non-IFRS R&D expense as a portion of total operating expenses declined slightly from 20.0% to 19.9% year over year – a fact that demonstrates an increase in our efficiency.

The importance of R&D was also reflected in the breakdown of employee profiles. At the end of 2011, our total full-time equivalent (FTE) count in development work was 15,861 (2010: 15,884). Measured in FTEs, our R&D headcount was 28% of total headcount (2010: 30%). 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, strategy consulting, and the professional development of our R&D workforce.

**New SAP Offerings**

**New Applications**

***Cross-Industry SAP Business Suite Software***

Through our enhancement packages for our core applications as well as new versions of

industry-specific applications, we have provided updates and enhancements for various functional areas of our SAP Business Suite software. These include the latest enhancement packages for SAP ERP, SAP Product Lifecycle Management (SAP PLM), SAP Customer Relationship Management (SAP CRM), and SAP Supplier Relationship Management (SAP SRM), as well as applications supporting supply network collaboration, supplier lifecycle management, extended warehouse management, asset retirement obligation management, sourcing and contract lifecycle management, transportation management, and a manager self-services add-on.

In addition, we are currently working on products and solutions that address the priorities of lines of business across multiple industries. Other key initiatives and areas of development include master data governance, commodity management, the visual enterprise, extending the business network, multichannel support, transportation management, and sustainability enhancements.

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In 2011, we launched a number of core applications for different lines of business, designed to help companies work as efficiently as possible:

*SAP Web Channel Experience Management*

Addressing companies' need to deliver an integrated and consistent customer experience over the Web, SAP developed the SAP Web Channel Experience Management application. Launched in July 2011, it allows organizations to deploy easy-to-use Web shops, fully integrated with their back-end order management and inventory systems. In addition, this next generation e-commerce solution brings together e-marketing, sales, online self-service, and social customer conversations on a single platform to provide a one-stop, synchronized Web customer experience.

*SAP Commodity Risk Management*

Companies can use the SAP Commodity Risk Management application to take suitable steps for coping with fluctuating commodity prices and mitigating currency risks, thereby helping safeguard their profitability, control materials costs, and comply with applicable regulations.

*SAP Commodity Procurement*

The SAP Commodity Procurement application provides end-to-end support for commodity buying processes and knits them tightly with quality management, settlement, and, most importantly, with risk management.

*SAP Commodity Sales*

The SAP Commodity Sales application helps companies contract at market prices and streamline billing. It supports automated provisional, differential, and final invoicing. Each SAP commodity management application is designed to support enterprise services that help integrate them with other vendors' applications.

***SAP Business Suite Industry Solutions***

*SAP Billing for Telecommunications*

In January 2011, we launched the integrated SAP Billing for Telecommunications package, designed to cover the widespread demands and service portfolios of telecommunications service providers. With this package, individual SAP offerings for rating, charging, invoicing, and financial management are combined on a flexible billing platform, offered in conjunction with analytics and a broad-based value management program. Building on the Highdeal and Sybase acquisitions, this solution marks a new step in enabling these customers to launch and monetize next-generation service offerings.

*SAP Collaborative E-Care Management*

Launched in November 2011, the SAP Collaborative E-Care Management application connects patients, care providers, and their families through medical monitoring software and mobile devices to better manage patients' health with individualized treatment plans and educational content in real time.

*SAP Social Services Management for Public Sector*

Launched in February 2011, the SAP for Public Sector solution portfolio continues its innovation for distinct industry demands with the introduction of a new solution to help improve disbursement processes for monetary social benefits. The SAP Social Services Management for Public Sector package is designed for government agencies at the federal, state, and local level that are tasked with administering and approving

monetary benefits as they relate to social services.

*SAP Trade Promotion Optimization*

The SAP Trade Promotion Optimization application, released in May 2011, deploys advanced modeling and predictive analytics to enable marketing and sales teams to systematically predict and optimize promotion outcomes, including revenue and profit, for both manufacturers and retailers.

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***Solutions for Small Businesses and Midsize Companies******Enhancements to SAP Business One***

Building on strong market acceptance, the SAP Business One application reached the milestone of 30,000 customers. By September 2011, 32,000 small businesses and midsize companies in over 100 countries were running SAP Business One. The new application features improvements that include enhanced integration technologies and support for mobility and social networking. New delivery options offer SAP Business One fully hosted and managed by selected SAP partners. Alternatively, starter packages provide preconfigured software enabling customers to go live in three to ten days.

***Sustainability Solutions******SAP EHS Management***

In September 2011, we added new risk assessment and incident management features to SAP EHS Management software. Companies in asset-intensive industries can go beyond compliance by implementing a closed-loop process to proactively assess and control workplace safety risks, avoiding costly incidents and improving operational efficiency. The new incident management functionality helps organizations learn from accidents and near-miss events, and take preventive actions to keep people, assets, and the environment safe.

***SAP Product Safety Management OnDemand***

For manufacturers, ensuring material and product safety requires safe transportation, storage, and use as directed by key regulations such as the EU Regulation on the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), the U.S. Toxic Substances Control Act (TSCA), and the Globally Harmonized System of Classification and Labelling of Chemicals (GHS). The SAP Product Safety Management OnDemand solution, launched in October 2011, helps

integrate material and product safety. The solution is available on a usage-based subscription providing cloud access to an SAP-hosted platform that includes the SAP EHS Management and SAP EHS Regulatory Content packages. The solution is available today to chemical producers and retailers in Europe. The solution is fully integrated with SAP ERP and includes key functionality including substance master data, safety data sheets, dangerous goods management, global label management, standard operating procedures, and substance volume tracking.

***New Analytics Solutions******Business Intelligence Solutions***

The 4.0 release of SAP BusinessObjects BI solutions in February 2011 manifests the broad range of technology innovations that are shaping the future of analytics. These solutions enable real-time analysis, with in-memory computing, putting powerful BI in users' hands through new mobile capabilities. They allow the combination of business and social data to provide new insights by bringing together structured and unstructured information, all delivered on a platform that provides various models for deployment on premise, in the cloud, embedded in business operations, or in a hybrid manner.

***Enterprise Information Management Solutions***

In February 2011, SAP made available the 4.0 release of SAP BusinessObjects EIM solutions, designed in conjunction with the 4.0 release of SAP BusinessObjects BI solutions, as well as SAP HANA appliance software to help customers perform real-time analytics on big data, integrate structured and unstructured data, and analyze information from social networks. In addition, with new offerings such as SAP BusinessObjects Information Steward software and SAP Master Data Governance application, business and IT can collaborate like never before.

to support information governance across the enterprise.

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***Enterprise Performance Management Solutions***

In May 2011, we shipped the 10.0 release of SAP BusinessObjects EPM solutions, designed to help organizations better execute on their business strategy. New in the 10.0 release are a unified Web and Microsoft Excel interface that can be used across multiple applications for a common look and feel and greater productivity, comprehensive applications designed for finance and other lines of business, and support for new technologies such as mobile devices.

***Governance, Risk, and Compliance Solutions***

In March 2011, SAP made available the 10.0 release of SAP BusinessObjects GRC solutions. These solutions help reduce the cost and effort required to manage risk and compliance programs; more confidently protect revenue streams, shareholder value and reputation; and contribute to optimized organizational performance and results. The 10.0 release introduces a common look and feel across all applications in the GRC suite; embeds BI reports and dashboards; and includes a graphical tool to define and depict risks.

***Analytic Applications for Industries and Lines of Business***

In 2011, we launched a number of analytic applications in the SAP BusinessObjects portfolio tailored to address challenges in specific industries and lines of business. Co-created with customers and designed to work in any environment, the applications provide the insight and best-practice support that companies need to better understand risk, uncover opportunities, and make the right decisions to optimize their business.

***Analytics Applications for Sustainability***

To help companies ensure product safety, comply with environmental regulations, and better protect their employees, in 2011 we

released SAP Best Practices packages for sustainability. These include the SAP Best Practices for Analytics in Health and Safety, SAP Best Practices for Analytics in Product Safety and Stewardship, and SAP Best Practices for Analytics in Environment Compliance packages. The new packages feature operational analytics designed to give line-of-business managers in environment, health and safety and product areas improved insight into core processes and information.

***New Mobile Solutions***

***Mobile Apps for SAP BusinessObjects***

In February 2011, SAP launched the 4.0 release of SAP BusinessObjects BI and EIM solutions to bring business analytics to mobile devices, as well as mobile apps for SAP BusinessObjects and SAP Business Explorer software. Leveraging Sybase Unwired Platform, our mobile BI suite can process content from SAP and business applications from other providers.

***Mobile Platform***

In September 2011, SAP launched the next-generation Sybase Unwired Platform with release 2.1. The platform is an expansive enterprise mobility solution for developing and managing the entire lifecycle of native and Web apps across key mobile device platforms. We also announced an enhanced version of our software development kit (SDK) for ecosystem partners and customers, enabling them to develop complementary applications to help run their business better. The SDK includes a wide variety of mobile apps that can run on a broad selection of mobile devices.

***Mobile Apps for Industry and Lines of Business***

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In November 2011, SAP and Sybase announced a series of new mobile apps built on Sybase Unwired Platform aimed at making business processes and business information mobile across key industries including

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manufacturing, consumer products, utilities, high tech, oil and gas, and retail:

*The SAP Field Service mobile app* provides full online and offline access to assignments, service orders, and service confirmation. Functions for mobilizing and customizing SAP CRM applications give field service engineers more mobile application features.

*The SAP Retail Execution mobile app* provides online and offline access to accounts, contacts, visits, surveys, and products and fully integrates with native device functionality.

*The SAP EAM Work Order mobile app* addresses the requirements for plant maintenance operations staff for work order management, notifications, technical object management, inventory, and business partner management.

*Mobile apps for employee productivity* are simple single-purpose mobile apps, built on Sybase Unwired Platform. Designed similar to consumer apps, they can be used by employees with zero training. These productivity apps allow users to act on workflows and access critical business information stored in SAP ERP Human Capital Management solution, SAP CRM, SAP SRM, and other applications from their mobile devices.

### ***Mobile Device Management***

In November 2011, we added some critical capabilities for Afaria mobile management software, including end-user self-service portal and application enablement. In addition, the new telecommunication expense management capabilities provide administrators with a powerful tool for easily managing employee mobile costs such as voice and data roaming. Application on-boarding for iOS, Android, and BlackBerry devices enables IT organizations to create and preload libraries of mobile apps for simplified access by authorized employees.

### **New Cloud Solutions**

#### ***SAP Business ByDesign Feature Pack 2.6***

In February 2011, SAP launched a new release for the SAP Business ByDesign solution, which serves as an open platform on which a broad ecosystem of partners can further customize the software. Enhancements included usability, support for additional mobile devices, and on-demand integration of subsidiary operations into on-premise installations at headquarters. With this release, SAP Business ByDesign was also made available in Austria, Canada, and Switzerland.

#### ***SAP Business ByDesign Feature Pack 3.0***

Based on strong co-innovation with customers and partners, SAP announced general availability of the second release of the SAP Business ByDesign solution in August 2011. SAP Business ByDesign was made available for Australia and Mexico, with language support in Spanish. In addition, mobile support was extended to include the Microsoft Windows Phone 7 mobile platform.

#### ***SAP Product Safety Management OnDemand***

See the New Applications section.

*SAP Sales OnDemand*

In March 2011, SAP introduced the SAP Sales OnDemand solution, SAP's first user-centric cloud-based application for sales professionals with designed-in social collaboration. The solution, which complements the on-premise SAP CRM, offers enterprises running SAP Business Suite software a preintegrated cloud solution that embraces the way sales representatives collaborate and improves their productivity. We launched SAP Sales OnDemand at the SAPPHIRE NOW conference in 2011 and made it generally available in a number of countries at the end of the second quarter.

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***SAP Sourcing OnDemand***

The latest version of the Sourcing OnDemand solution was made available in March 2011. The solution was designed for sourcing professionals to obtain rapid and sustainable savings through best-practice management, real-time visibility, and greater control within strategic sourcing, contract lifecycle management, and supplier management.

**New Database and Technology Solutions*****SAP HANA Platform***

In June 2011, SAP announced the general availability of the SAP HANA platform, bringing to customers high-speed analytics, new business applications, renewed existing SAP solutions, and IT simplification with SAP in-memory computing technology.

***Applications for SAP HANA***

In 2011, SAP delivered the following applications based on the SAP HANA platform:

*SAP Electronic Medical Record:* Doctors in the neurology department at the Charité hospital in Berlin are using this new mobile app to access patient health records while on the wards. Doctors can use the app to call up lab results and images, the patient's home address, and various facets of a patient's medical record. Instant access to patient data and images helps healthcare professionals collaborate and take better decisions.

*Charitable Transformation (ChariTra)* online network, launched in November 2011, is built on the SAP HANA platform and helps connect volunteers, nonprofit organizations, and corporations work together toward social causes and make a difference in their communities.

*SAP Smart Meter Analytics* software, launched in September 2011, enables utility companies to turn massive volumes of data into powerful insights. With the new solution powered by SAP HANA, utility companies can help customers adopt more sustainable energy-use practices.

*SAP BusinessObjects Strategic Workforce Planning* application, launched in December 2010, is powered by SAP HANA to support advanced capabilities that manage and optimize a company's workforce planning processes.

***Accelerators for SAP HANA***

In September 2011, SAP released the SAP CO-PA Accelerator software for cost and profitability analysis, improving the speed and depth of working with large volumes of financial data. This solution can be implemented with the wider SAP BusinessObjects EPM solutions portfolio to help organizations create a complete picture of their cost and profit drivers. Deployed either by SAP Consulting as a rapid-deployment solution, or by an experienced SAP partner, the SAP CO-PA Accelerator helps companies engage in faster and more efficient profitability cycles and month-end closing processes.

We also released SAP Customer Segmentation Accelerator software, designed to help marketing departments analyze and segment in new ways. The solution helps organizations build highly specific segmentation on high volumes of customer data and at unparalleled speed. Marketers can now work with massive populations of granular data to better understand customer demand, behavior and preferences – targeting the right

customers with the right offers across every segment, tactic, and channel. The accelerator is also delivered as a rapid-deployment solution to ensure a quicker time to value.

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**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. In 2011, we obtained 756 granted and validated patents worldwide. Our portfolio includes patent families covering, for example, SAP Business Suite software, SAP BusinessObjects products, SAP Business ByDesign, and Sybase products.

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

**PARTNER ECOSYSTEM**

SAP customers want choice when it comes to partnering with companies best suited to their needs – choice in the solutions they implement and choice in their source for purchasing, implementing, and supporting those solutions. Our ecosystem and channels strategy delivers open choices to customers through a collaborative, innovative, and interactive network of partners, customers, and individuals. Tapping into this ecosystem, customers are connected with a diverse set of providers and resources to help them succeed and become best-run businesses. By teaming with our partners, we can offer customers more innovation, more flexibility, and more variety in the solutions we offer than we could alone. Customers, in turn, can rapidly experience benefits of the best software available from the world's leading software, services and technology companies, including emerging technologies, such as in-memory computing, cloud computing, and mobility, as well as analytics and line-of-business solutions.

A key factor for the success of our ecosystem strategy is the SAP PartnerEdge program, which promotes productive partnerships and consistent service quality for a

variety of SAP partner types. Since a thriving partner ecosystem is central to our success, we have expanded the program to better serve our partners by providing more functional enhancements, operational improvements, and increased program benefits.

In 2011, we continued to expand our ecosystem in ways that deliver timely innovations to the market to help create a technology landscape for customers today, as well as for the future. We ended 2011 with more than 11,000 partners of various types from services, technology, software, original equipment manufacturers (OEMs), and value-added resellers (VARs) and distributors. As a result of these local, regional and global partnerships, SAP continues to fuel innovation with customers and partners worldwide in its five market categories, as detailed by some examples in 2011:

*Applications:* SAP now offers SAP Application Visualization software by iRise, which accelerates solution design by improving communication between business users and IT departments. The SAP Social Media Analytics application by NetBase delivers marketers more accurate real-time analytics for understanding their markets and customers through the social Web. SAP Intelligence Analysis for Public Sector by Palantir helps public safety and security agencies run better, so that communities will run safer. And the SAP Defense Command and Control application by Systematic helps advance frontline logistics.

*Analytics:* SAP Crystal Server 2011 software and the 4.0 release of SAP BusinessObjects Edge BI software are now being resold by channel partners. The software is designed to enable small and midsize enterprises, as well as lines of business, to better understand all facets of their businesses and make confident, data-driven decisions as events unfold, in real time. SAP is



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building on its collaboration with Google to help customers manage large data volumes in intuitive, visual displays and facilitate faster, better-informed decisions. SAP will enhance its business analytics software with location-based data capabilities, allowing people to interact with real-time information on Google Maps.

*Mobile:* SAP and Accenture announced a relationship to develop and deploy new mobility solutions, which leverage Sybase Unwired Platform to tap new growth opportunities in the market for enterprise mobility. SAP also has opened up mobile solutions from the Sybase portfolio to partners within our global ecosystem, enabling SAP value-added resellers the opportunity to sell Sybase-branded enterprise mobility apps and solutions for application development, device management, and security. In addition, SAP expanded its relationship with Verizon to jointly market and sell key components of Verizon's Managed Mobility portfolio so that customers can easily access their on-premise and cloud-based SAP applications virtually anytime and anywhere.

*Cloud:* SAP partnered with Amazon, Dell, IBM, Microsoft, and Verizon to deliver enterprise solutions in the cloud as part of our commitment to provide customers with flexibility in software deployment options and innovations in cloud computing. SAP announced it is working in a three-way strategic collaboration with EMC and VMware to develop tools and services that make it easier for customers to adopt cloud and run SAP systems in cloud infrastructures with increasing levels of automation. We also expanded our solution reseller program for SAP Business ByDesign to 11 countries.

*Database and Technology:* SAP expanded its relationship with OpenText, announcing two new applications for SAP NetWeaver Portal developed by SAP and OpenText: SAP Portal Content Management, an enterprise solution for managing document-related content, and SAP Portal Site Management, a solution helping a broad number of users easily manage Web content.

**Collaboration and Structure**

Best-run businesses require best-in-class technologies to enable and drive success. For this to be possible, customers need choice in solutions and partners, and access to rapid innovation and a speedy time to value from their investments. SAP offers a number of partner programs to enhance co-innovation and help partners to grow their business in new ways, while reaching customers through creative new channels. SAP also fosters a number of different communities – interactive networks of developers, customers and partners – that come together to collaborate on a broad range of topics.

*SAP Community Network:* With over two million members in more than 200 countries, SAP Community Network is where customers, partners, employees, and experts go to exchange news and work together. It comprises the SAP Developer Network community, the Business Process Expert community, the Business Analytics community, the SAP University Alliances community, and SAP EcoHub online marketplace.

*SAP Store:* The online or e-channel for enterprise solutions and services from SAP and partners, SAP Store, offers quick, easy to implement solutions that are built and suited for the online environment, including business analytics, mobile apps, cloud solutions, and other business process software and services. SAP Store offers over 1,200

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solutions from both SAP and over 600 solution partners. SAP Store offers customers access to information, insights and ability to trial applications before purchase for truly informed decision making.

*SAP solution extensions:* Developed by independent partners, solution extensions integrate easily with SAP software, offering customers cross-solution and cross-industry functions that complement SAP solution offerings. Solution extensions are sold by SAP as SAP-branded offerings. A number of new solution extensions were introduced in 2011, including from partners IBM, iRise, Systematic, and Palantir.

*SAP OEM partner program:* Through this program, more than 800 partner participants embed SAP technology into their products for end-user benefit. A dedicated team of SAP integration experts works closely with our OEMs from onboarding to enablement to ensure that they have the tools and products they need to embed or integrate SAP technology with their solutions or service offerings to meet their customers' needs most efficiently. In doing so, they also expand the reach of SAP offerings, including the SAP BusinessObjects portfolio, SAP Business Suite, SAP HANA, and solutions from Sybase, into new and different markets.

*SAP Co-Innovation Lab:* The global SAP Co-Innovation Lab network is aimed at driving and facilitating innovative projects between SAP and its partners, both globally and in the regions. Lab facilities are located in Bangalore, India; Palo Alto, California (United States); São Paulo, Brazil; and Tokyo. Additional expert teams are located in Walldorf, Germany, and Seoul, Korea. Since the inception of SAP Co-Innovation Lab in 2007, SAP and its partners participating in lab projects have strived to create innovative solutions; accelerate technology adoption and enablement; provide a global, shared project infrastructure; and showcase joint achievements. The formation of SAP Co-Innovation Lab is made possible through the support of sponsoring partners Cisco, F5, HP, Intel, NetApp, and VMWare.

**Finance Plan for SAP Solutions**

To help companies invest in SAP solutions and the associated services and hardware, we work with leading global financiers that specialize in IT financing to deliver the SAP Financing service, a financing structure for customers. Since its inception, it has become a firmly established SAP Services offering, having helped arrange more than 3,200 finance deals for SAP customers in all segments—small businesses, midsize companies, and large enterprises. To give customers flexibility to choose among potential economic benefits, the plan offers all of the popular financing models with their different advantages: It can help conserve liquidity and it provides an alternative to credit from their existing banking relationships.

**ACQUISITIONS AND DISPOSALS****Strategic Acquisitions**

SAP's acquisition strategy complements existing applications and solutions with innovative technologies and capabilities while maintaining its track record of organic growth. We made the following acquisitions in 2011:

In February, we acquired security software, identity and access management software, and development and consulting resources from SECUDE, a Swiss company. The acquisition enables us to provide secure client-server communications to customers without the need for third-party offerings. It underscores our



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commitment to investing in product security for our customers and users, and fulfills a key customer requirement by shipping SAP solutions with default security software.

In September, we acquired Right Hemisphere, a leading provider of visual enterprise solutions. The 3-D model-based visualization and communications technologies from Right Hemisphere enable visual navigation and interrogation of an entire product or asset and all of its associated data in one unified environment. The addition of visualization capabilities to our core product offerings will help customers across diverse industries accelerate time to market, increase people and asset productivity and improve information quality and processes across all lines of businesses.

In November, we acquired Crossgate, a leading provider of hosted B2B integration services. Crossgate enables companies to fully integrate and network with trading partners, clients and suppliers, allowing electronic data exchange with any business partner regardless of its technical capability. As a result of this acquisition, we can provide an easy way for trading partners to collaborate, share data, and automate processes that link customers and suppliers for streamlined B2B e-commerce.

In December, we announced our intention to acquire SuccessFactors, the market-leading provider of cloud-based human capital management (HCM) solutions. Our cash tender offer was successfully completed on February 21, 2012. We have acquired more than 90% of the SuccessFactors ordinary shares. The acquisition will add SuccessFactors' team and technology to SAP's cloud assets, significantly boosting our momentum as a provider of cloud applications, platforms, and infrastructure. In combination, SAP and SuccessFactors will offer a full range of advanced end-to-end cloud and on-premise solutions for all key business processes.

**Disposals**

In November, we sold 100% of our shareholding in Steeb Anwendungssysteme, Abstatt, to All for One Midmarket. Steeb Anwendungssysteme is one of the leading SAP system resellers in Germany, with approximately 1,000 customers – almost all in Germany.

**Venture Activities**

Over the past 15 years, we have partnered with outstanding entrepreneurs worldwide to build industry-leading businesses. We seek to invest in innovative, fast-growing companies with a proven product and business model, and provide our portfolio companies with the expertise, relationships, geographic reach, and capital to help them grow their business and scale their revenues. We invest globally with a particular focus on emerging companies in Europe, India, and the United States, as well as in Brazil and China in the future.

In 2011, we made new investments in the following companies:

Control4, based in Salt Lake City, Utah (United States), provides operating systems for the smart home, delivering intelligent control over consumer electronics products, appliances, and networking systems through an easy-to-use and intuitive software interface.

Alteryx, based in Irvine, California (United States), provides an integrated, location business intelligence applications platform for delivering fast, extensible, and spatially-enabled business analytics tools and services.

OpenX, based in Pasadena, California (United States), is a leading independent

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provider of digital advertising technology that enables businesses to manage and grow their online advertising revenue.

JustDial, based in Mumbai, India, is the leading local search engine in India focused on providing consumers with immediate access to fast, reliable, and comprehensive information on businesses, products, and services across India.

SAVO Group, based in Chicago, Illinois (United States), is a leading provider of cloud-based collaborative sales enablement solutions.

One97 Communications, based in New Delhi, India, provides mobile value-added services to mobile operators, consumers, and enterprises in India including mobile content, advertising, and commerce services.

Box.net, based in Palo Alto, California (United States), provides a secure content sharing and collaboration platform in the cloud.

Lithium, based in Emeryville, California (United States), is a leading provider of cloud solutions that accelerate business through social customer experience for both customers and employees.

**ENERGY AND EMISSIONS**

Serving our customers, pursuing our strategy of innovation, and driving toward sustainable success all demand that we address our environmental impact. We recognize the need to do our part to reduce the emissions that contribute to climate change and to become more energy efficient. These efforts bring tangible benefits not just to the environment, but to our business. New efficiencies drive significant savings that directly impact our financial performance. These savings also enable us to invest further in innovation, as well as sustainability initiatives such as our increased purchase of renewable energy.

By working to improve our efficiency, we have learned what it takes to do so. We are better positioned to design solutions to help our customers thrive in a resource-constrained world. We have been challenged to solve problems in new ways, making us more innovative and driving financial success for our Company, employees, investors, and other stakeholders. In addition, our focus on becoming more sustainable has engaged our employees, who overwhelmingly indicate in the employee survey that these efforts are important to SAP.

We assess our progress on energy and greenhouse gas emissions through four key performance indicators that reveal not just how well we are addressing our environmental impact, but also our broader performance in terms of forging new solutions and executing on our strategy.

*Carbon footprint:* We recognize our responsibility to protect the environment by lowering emissions contributing to climate change. SAP's goal is to reduce total greenhouse gas emissions to levels of the year 2000 by 2020. For the fifth consecutive year, we increased our carbon efficiency, from 36.3 grams per euro in 2010 to 34.4 grams per euro in 2011 (measured in emissions caused per euro revenue). In parallel with the increase in our revenue, some activities required to support our business, such as travel to serve our customers, also increased, which ultimately led to an increase in our total greenhouse gas emissions. SAP's greenhouse gas emissions increased 8% worldwide to 490 kilotonnes (2010: 455 kilotonnes, including Sybase). Our focused sustainability initiatives have led to a cumulative cost avoidance of 190 million since 2008 in comparison to a business-as-usual extrapolation based on 2007. The experience we gain from our own initiatives helps us develop software to help our customers



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with their energy efficiency programs, and so contributes to the success of our business.

*Total energy consumption:* Our total energy consumption includes all energy produced or purchased by our organization. Reducing our energy consumption positions us to weather anticipated increases in energy prices, and enables us to better serve customers that are increasingly focused on exercising energy- and emission-aware purchasing strategies. Our total energy consumption increased 2% from approximately 845 gigawatt hours in 2010 to 860 gigawatt hours in 2011 due to the growth of our business. Specifically, we can trace this increase to our data centers and corporate cars. While our total consumption went up, however, our efficiency also improved. For example, while the number of cars in our fleet increased to accommodate growth, the energy consumed per car decreased. In 2011, we implemented a range of efficiency projects in such areas of our business as our buildings and data centers.

*Data center energy:* We focus on making data centers more energy efficient by measuring and managing the data center energy consumption per employee. These efforts are part of our larger green IT strategy, which also includes working with customers and hardware providers to forge new sustainable solutions. Despite our continuous efforts, the growth in our business has led to an increase of data center energy intensity from 2,746 kilowatt hours per FTE (2010) to 2,824 kilowatt hours per FTE in 2011.

*Renewable energy:* SAP continues to expand its use of electricity from renewable sources, both to decrease our reliance on fossil fuels and nuclear power and to support an emerging market that is crucial for a sustainable future. We purchase some of this green electricity from local utility companies and produce some using solar panels on our facilities. At the end of 2011, approximately 47% of our total electricity consumption stemmed from renewable sources, up from 45% in 2010.

For more information about how SAP solutions help companies run better from environmental, social, and economic perspectives, see the Portfolio of Software and Services section.

**SEASONALITY**

Our business has historically experienced the highest revenue in the fourth quarter of each year, due primarily to year-end capital purchases by customers. Such factors have resulted in 2011, 2010, and 2009 first quarter revenue being lower than revenue in the prior year's fourth quarter. We believe that this trend will continue in the future and that our revenue will continue to peak in the fourth quarter of each year and decline from that level in the first quarter of the following year.

**SALES, MARKETING AND DISTRIBUTION**

SAP primarily uses its worldwide network of subsidiaries to market and distribute SAP's products and services locally. These subsidiaries have entered into license or commissionaire agreements with the SAP entity owning the underlying intellectual property (generally SAP AG) pursuant to which the subsidiary acquired the right to sublicense or sale SAP's products to customers within a specific territory. Under these agreements, the subsidiaries retain a certain percentage of the revenue generated by the sublicensing activity. We began operating in the United States in 1988 through SAP America, Inc., a wholly owned subsidiary of SAP AG. Since then, the United States has become one of our most important markets.

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In addition to our subsidiaries' sales forces, we have developed an independent sales and support force through value-added resellers unrelated to SAP who assume responsibility for the licensing, implementation and some initial level of support of our solutions. We have also entered into partnerships with major system integration firms, telecommunication firms and computer hardware providers to offer certain SAP Business Suite applications.

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

Traditionally, our sales model has been to charge a one-time, up front license fee for a perpetual license to our software (without any rights to future products) which is typically installed at the customer site. We now offer our solutions in a variety of ways which include in the cloud, hosted solutions, and subscription-based models that provide the customer with a right to unspecified future software products. Although revenues from these new types of models currently are not material, we expect the revenues from most of these models to increase in the future.

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

Capitalizing on the possibilities of the Internet, we actively make use of online marketing. Some of our solutions can be tested online via the Internet demonstration and

evaluation system, which also offers special services to introduce customers and prospects to new solutions and services.

### **INTELLECTUAL PROPERTY, PROPRIETARY RIGHTS AND LICENSES**

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

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

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

We are named as a defendant in various legal proceedings for alleged intellectual property infringements. See Note (24) to our Consolidated Financial Statements for a more detailed discussion relating to certain of these legal proceedings.

### **ORGANIZATIONAL STRUCTURE**

As of December 31, 2011, SAP AG controlled directly or indirectly 199 subsidiaries. Our subsidiaries perform various tasks such as the distribution of SAP's products and providing SAP services on a local basis, research and development, customer support, marketing, and administration. Our primary research and development facilities, the overall group strategy and the corporate administration functions are concentrated at our headquarters in Walldorf, Germany.



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The following table illustrates our most significant subsidiaries based on revenues as of December 31, 2011:

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

**DESCRIPTION OF PROPERTY**

Our principal office is located in Walldorf, Germany, where we own and occupy approximately 425,000 square meters of office and datacenter space including our facilities in neighboring St. Leon-Rot. We also own and lease office space in various other locations in Germany, totaling approximately 115,000 square meters. In approximately 65 countries worldwide, we occupy roughly 1,360,000 square meters. The space in most locations other than our principal office in Germany is leased. We also own certain real properties in Newtown Square and Palo Alto (United States); Bangalore

(India); Sao Leopoldo (Brazil), London (UK) and a few other locations in and outside of Germany.

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The office and datacenter space we occupy includes approximately 260,000 square meters in the EMEA region, excluding Germany, approximately 325,000 square meters in the region North and Latin America, and approximately 235,000 square meters in the APJ Region.

The space is being utilized for various corporate functions including research and development, customer support, sales and marketing, consulting, training, administration

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and messaging. Substantially all our facilities are being fully used. For a discussion on our non-current assets by geographic region see Note (29) to our Consolidated Financial Statements. Also see, Item 6. Directors, Senior Management and Employees Employees, which discusses the numbers of our employees, in FTE s, by business area and by geographic region, which may be used to approximate the productive capacity of our workspace in each region.

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

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

In Japan, we commenced an office relocation project in the first half of 2012 to consolidate three of our current Tokyo offices into one office with the capacity of 1,200 seats. This project aims to increase work efficiency and working space. We estimate the total cost of this project to be approximately 24 million, which we will fully incur in 2012. The relocation project will be finalised at the end of April 2012.

In 2012 we commenced construction of our office building in Palo Alto, US. The construction aims at optimizing work space conditions to support line of business requirements and the improvement of general building conditions. We estimate the total cost of this project to be approximately 12 million, of which we had paid approximately 1 million as of December 31, 2011. The construction of our office building will be finalised at the end of 2012.

In the second half of 2011 we began construction of a new building for a research center in Potsdam, Germany. The new research center will collaborate closely with universities in the Berlin/Brandenburg area in Germany, creating a total of 100 new jobs. Focus will be on the deployment of the new in-memory computing technology introduced by SAP, including SAP HANA software. SAP estimates to invest for the construction of the building approximately 17 million, of which we had paid approximately 1 million as of December 31, 2011. The construction of our new research center will be finalised in the second half of 2013.

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

Our principal capital expenditures for property, plant, and equipment amounted to 372 million for 2011 (2010: 287 million; 2009: 207 million). Principal capital expenditures in 2011 for property, plant, and equipment increased compared to 2010 mainly due to an increase in spending on IT hardware. The increase from 2009 to 2010 was mainly due to an increase in spending on IT hardware and cars. Principal capital expenditures for property, plant and equipment for the period from January 1, 2012 to the date of this report were 100 million. For a related discussion on our property, plant, and equipment see Note (17) to our Consolidated Financial Statements.

Our capital expenditures for intangible assets such as software licenses, acquired technologies and customer contracts amounted to 114 million in 2011 from 1,814 million in 2010 (2009: 51 million). This decrease was due primarily to executing only a few small business combinations in 2011 while in 2010 we acquired Sybase. Our investments allocated to goodwill amounted to 170 million in 2011 from 3,398 million in 2010 (2009: 41 million). This decrease was again due to the few small acquisitions we closed in 2011 as compared to 2010. The significant increase from 2009 to 2010 (in the addition to goodwill and intangible

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assets) was primarily attributable to the acquisition of Sybase in 2010, whereas in 2009 we only had some small acquisitions. For further details on acquisitions and related capital expenditures, see Note (4) and Note (16) to our Consolidated Financial Statements.

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

#### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

Not applicable.

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

##### **OVERVIEW**

Our principal sources of revenue are sales of software products and related services. Software revenue is primarily derived from software license fees that customers pay to use our products. Support revenue is derived from support services which provide the customer with unspecified upgrades, updates and enhancements and software support. Our software and support revenue is included within software and software-related services on our income statement. In addition to those revenue streams, our software and software-related service revenue includes subscription and other software-related service revenue.

Subscription revenues flow from contracts that have both a software element and a support element. Subscription contracts typically give our customers the use of current software and the right to unspecified future products. We typically charge a fixed monthly or quarterly fee for a definite term up to five years. Software rental revenue flows from software rental contracts, which include software and support service elements. These contracts provide the customer with current software products and

support but do not provide the right to receive unspecified future software products. Customers pay a periodic fee over the rental term and we recognize fees from software rental contracts ratably over the term of the arrangement. Our revenue from other software-related services includes revenue from our in the cloud offerings, from hosting contracts that do not entitle the customer to readily exit the arrangement, and from software-related revenue-sharing arrangements.

We also earn revenue from our professional services, which are included within professional services and other service revenue on our income statement. This revenue consists of consulting and other service revenue; consulting revenue is primarily derived from the services rendered with respect to implementation of our software products and other service revenue results primarily from our training and hosting activities; and the messaging services business that we acquired as a part of the Sybase acquisition in 2010. Our training revenue results from rendering training for customer project teams and end-users, as well as training third-party consultants with respect to SAP software products. Our messaging revenue primarily results from per message transaction fees. Hosting revenue results from non-mandatory hosting services and application management services. Non-mandatory hosting services revenue consists of revenue from hosting contracts from which the customer can readily exit if it wishes to run the software on its own systems.

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

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

the factors that we believe impacted our performance in 2011;

our outlook for 2011 compared to our actual performance (non-IFRS);

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a discussion of our operating results for 2011 compared to 2010 and for 2010 compared to 2009;

the factors that we believe will impact our performance in 2012; and

our operational targets for 2012 (non-IFRS).

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

**ECONOMIC CONDITIONS**

**Global Economic Trends**

The growth of the global economy became steadily more sluggish in 2011. At the same time, heightened uncertainty and growing tensions on the financial markets had led to a worldwide decrease of confidence in financial systems among companies and consumers by the end of the year, according to the latest report by the European Central Bank (ECB). The International Monetary Fund (IMF) paints a similar picture of the global economy in 2011, and it remarks that it had not expected developments to take that course after the upturn in 2010. The Organisation for Economic Co-operation and Development (OECD) notes that growth was especially slow in the advanced economies in 2011, whereas the emerging markets grew vigorously, though not as rapidly as the year before.

The ECB reports that the economic situation in the Europe, Middle East, and Africa (EMEA) region in 2011 was held back by the tensions on the financial markets in the euro area. In particular, it expected economic activity to grow weaker in the euro countries in the final quarter of the year. A key factor was declining demand on European financial markets, which made financing generally more difficult. The OECD even talks of a mild recession, caused by decreasing domestic and export demand. On

the other hand, for countries in the Middle East and Africa that did not experience serious civil unrest, high energy prices and strong demand from the emerging markets boosted economic growth, the ECB says.

In the Americas region, throughout 2011 growth was slowest in the United States, although the ECB did report a short-lived remission there in the third quarter. According to the IMF, the reason for the slow growth was that government stimulus programs proved inadequate to generate sufficient consumer or business demand. For the rest of the region, only South America enjoyed strong economic growth in 2011, says the IMF.

In the Asia Pacific Japan (APJ) region, different circumstances gave rise to different economic outcomes in 2011. In Japan, the determining factors were the earthquake in March followed by the associated tsunami and nuclear disaster, from which the Japanese economy made a surprisingly quick recovery during the remainder of the year, according to both the ECB and the OECD. While growth in Japan decreased in the first half of the year, not least because of the preceding economic crisis, it turned around in the second half of the year as a result of increased domestic demand and strong export sales. In contrast, the emerging markets in Asia saw economic growth in the high single-digit percentages in 2011. However, the rate of growth did decrease due to slower export growth, explains the ECB. The most rapidly growing economy, China, was also affected, but China's economy lost only a little momentum in the second half of the year and still achieved a growth rate that almost reached double digits.

**The IT Market**

Unlike the overall economy, which was increasingly weighed down by sovereign debt problems in many industrialized nations, the global IT market was generally stable in 2011 aside from certain segments and regions discussed below. That is the view expressed by International Data Corporation (IDC), a market research firm based in the United States. IDC



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notes that in the BRIC countries (Brazil, Russia, India, and China) IT market growth was well into double-digit percentages.

The software segment continued to grow steadily in 2011, IDC reports. Growth was strongest in the emerging markets and the BRICs. By contrast, economic uncertainty slowed growth in the hardware segment, especially in the second half of the year. Companies in particular held back investment in new hardware toward the end of the year. However, mobile devices such as smartphones and tablets, along with the apps that run on them, were among the growth markets in 2011.

In the Europe, Middle East, and Africa (EMEA) region, the sovereign debt crisis not only impacted economic development as a whole in several euro area countries, it also weakened the IT market in the second half of year, especially in Western Europe. For these countries the IDC sees IT sales growth floundering in the lower single-digit percentages, and therefore once again reduces its expectations compared to its previous report. However, the major casualty was the hardware segment. The market for software and services was less severely affected.

The Americas region IT market was also stronger in the first half of 2011 than in the second, according to IDC. More than once in the course of the year, it revised its projections for the United States downward in response to gathering economic gloom. But IDC still expects a midrange single-digit growth percentage from the U.S. software market. With the exception of the PC segment, in 2011 the overall IT market was relatively stable in the United States compared with Western Europe.

The defining moment in 2011 for the Asia Pacific Japan (APJ) region was the earthquake off the coast of Japan in March, with its far-reaching consequences for the environment, the people, and the economy of Japan. Although the Japanese IT market has already regained lost impetus, growth was slightly slower over 2011 than in the year before as the country struggled against the economic headwinds.

**OUTLOOK FOR 2011**

**Performance Against Outlook for 2011 (Non-IFRS)**

Our 2011 operating profit-related internal management goals and published outlook guidance were based on non-IFRS numbers. For this reason, in this section we discuss performance against our outlook exclusively and expressly in terms of non-IFRS numbers derived from IFRS measures. All discussion in the Operating Results (IFRS) section is in terms of IFRS measures, and the numbers in that section are not explicitly identified as IFRS measures.

**Outlook for 2011 (Non-IFRS)**

At the beginning of 2011, we forecast that our software and software-related service revenue (non-IFRS) would increase between 10% and 14% in 2011 on a constant currency basis (2010: 9,868 million). We expected that software revenue would grow more quickly than software and software-related service revenue. We forecast that all regions would contribute to this growth, although we expected more rapid growth in the Americas and APJ regions than in the EMEA region.

We also expected that our operating profit (non-IFRS) for 2011 would be between 4.45 billion and 4.65 billion on a constant currency basis (2010: 4.01 billion). Based on this forecast, we expected operating margin (non-IFRS) to widen 0.5 to 1.0 percentage points on a constant currency basis (2010: 32.0%).

We anticipated an IFRS effective tax rate of between 27.0% and 28.0% in 2011 (2010: 22.5%) and a non-IFRS effective tax rate of between 27.5% and 28.5% (2010: 27.2%).

In April, we confirmed the forecast for 2011 we had published in January. However, owing to our positive performance in the first half, we reported in July that growth for both non-IFRS operating profit and non-IFRS software and software-related revenue was expected to reach the upper end of the range we forecast at the start of the year.



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In October, we adjusted the outlook guidance for the IFRS effective tax rate to between 28.5% and 29.5% (2010: 22.5%) due to the effects of the reduction in the provision recorded for the TomorrowNow litigation.

To assist in understanding our 2011 performance as compared to our 2011 outlook a reconciliation from our IFRS financial measures to our non-IFRS financial measures is provided below. These IFRS financial measures reconcile to the nearest non-IFRS equivalents as follows:

| millions, except<br>operating margin             | IFRS<br>Financial<br>Measure | Support<br>Revenue Not<br>Recorded<br>Under<br>IFRS | Acquisition-<br>Related<br>Charges | Share-<br>based<br>compensation | Restruc-<br>turing | Discon-<br>tinued<br>Activities | Non-IFRS<br>Financial<br>Measure | Currency<br>Effect on the<br>Non-IFRS<br>Financial<br>Measure | Non-IFRS<br>Financial<br>Measure at<br>Constant<br>Currency |
|--|------------------------------|---|------------------------------------|---------------------------------|--------------------|---------------------------------|----------------------------------|---|---|
| Software and software-related<br>service revenue | 11,319                       | 27  | n/a                                | n/a                             | n/a                | n/a                             | 11,346                           | 153   | 11,499  |
| Total revenue <sup>(1)</sup>                     | 14,233                       | 27  | n/a                                | n/a                             | n/a                | n/a                             | 14,260                           | 196   | 14,456  |
| Operating profit <sup>(1)</sup>                  | 4,881                        | 27  | 447                                | 68                              | 4                  | 717                             | 4,710                            | 69  | 4,779   |
| Operating margin in %                            | 34.3                         | 0.1   | 3.1                                | 0.5                             | 0                  | 5.0                             | 33.0                             | 0   | 33.1  |

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

**2011 Actual Performance Compared to Outlook (Non-IFRS)**

In 2011, we increased our software and software-related service revenue (non-IFRS) by 17% to 11,499 million on a constant currency basis (2010: 9,868 million), clearly exceeding our expectation of 10% to 14% growth announced in January 2011, as well as our revised forecast in July, in which we expected to achieve the upper end of that range. Despite the partially uncertain economic situation in 2011, our new and established customers continued to invest strongly in our products. As a result, software revenue grew more strongly than software and software-related revenue. All regions contributed to the growth, with software revenue growing more rapidly in the Americas and APJ regions than in the EMEA region on a constant currency basis.

In 2011, we achieved an operating profit (non-IFRS) of 4,779 million on a constant currency basis. Thus, we not only clearly surpassed the target of 4,450 million to

4,650 million announced in January, but also our July adjusted forecast, in which we anticipated reaching the upper limit of this range. The non-IFRS operating margin widened 1.1 percentage points to 33.1% on a constant currency basis, which was better than the expected 0.5 to 1.0 percentage point improvement.

We achieved an effective tax rate of 27.9% (IFRS) and 26.6% (non-IFRS), which is lower than the effective tax rate of 28.5% to 29.5% (IFRS) and 27.5% to 28.5% (non-IFRS) projected for 2011. This decrease in comparison to the outlook mainly resulted from the development of profit before taxes at constant currency especially in North America and Europe, and from taxes for prior years.

**Operating Results (IFRS)**

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

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

| millions  | 2011          | 2010          | Change in %<br>2011 vs<br>2010 |
|---|---------------|---------------|--------------------------------|
| Software revenue  | 3,971         | 3,265         | 22%                            |
| Support revenue   | 6,967         | 6,133         | 14%                            |
| Subscription and other software-related service revenue | 381           | 396           | 4%                             |
| <b>Software and software-related service revenue</b>    | <b>11,319</b> | <b>9,794</b>  | <b>16%</b>                     |
| Consulting revenue                                      | 2,341         | 2,197         | 7%                             |
| Other service revenue                                   | 573           | 473           | 21%                            |
| <b>Professional services and other service revenue</b>  | <b>2,914</b>  | <b>2,670</b>  | <b>9%</b>                      |
| <b>Total revenue</b>                                    | <b>14,233</b> | <b>12,464</b> | <b>14%</b>                     |

***Total Revenue***

Total revenue increased from 12,464 million in 2010 to 14,233 million in 2011, representing an increase of 1,769 million or 14%. This total revenue growth reflects a 16% increase from changes in volumes and prices and a 2% decrease from currency effects. The revenue growth is due primarily to an increase in software revenue of 706 million and an increase in support revenue of 834 million. In 2011, software and software-related service revenue totaled 11,319 million as a result of this increase. Software and software-related service revenue represented 80% of all revenue in 2011 compared with 79% in 2010. In 2011, professional services and other service revenue contributed 2,914 million to our total revenue, representing an increase of 9% compared to 2010.

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

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

Software revenue represents fees earned from the sale or license of software to customers. Support revenue represents fees earned from providing customers with technical support services and unspecified software upgrades, updates, and enhancements. Subscription and other software-related service revenue represents fees earned from software subscriptions, on-demand offerings, software rentals, and other types of software-related service contracts.

Software and software-related service revenue increased from 9,794 million in 2010 to 11,319 million in 2011, representing an increase of 16%. The software and software-related service revenue growth reflects a 17% increase from changes in volumes and prices and a 1% decrease from currency effects.

Software revenue increased from 3,265 million in 2010 to 3,971 million in 2011, representing an increase of 706 million or 22%. This increase reflects growth of 25% from changes in volumes and prices and a 3% decrease from currency effects.



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

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

Our stable customer base and the continued investment in software by new and existing customers throughout 2011 and the previous year resulted in an increase in support revenue from 6,133 million in 2010 to 6,967 million in 2011. Our SAP Enterprise Support offering generated most of the support revenue. The 834 million or 14% increase in support revenue reflects growth of 15% from changes in volumes and prices and a 1% decrease from currency effects. Our premium offerings and strong growth in revenue from SAP Enterprise Support were among the factors accounting for the increase in support revenue.

Subscriptions and other software-related service revenue declined 15 million or 4% to 381 million (2010: 396 million). This reduction reflects changes in volume and prices only, and results mainly from the fact that global enterprise agreements and other similar long-term license agreements have become less popular among our customers as a contract model. Increasingly, our customers prefer instead to invest in the purchase of software licenses. Consequently, our subscriptions revenue decreased year over year, as expected. We do not expect subscription revenue from long-term license agreements, such as global

enterprise agreements and flexible license agreements, in itself to rise significantly in the future.

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

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

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

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

Other service revenue increased from 473 million in 2010 to 573 million in 2011, representing an increase of 21%. This growth reflects a 23% increase from changes in volumes and prices and a 2% decrease from currency effects. The increase is due mainly to revenues from messaging services and training revenue.

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

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

**Revenue by Industry**

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

***Revenue by Region***

We break our operations down into three regions: the Europe, Middle East, and Africa (EMEA) region; the Americas region, which comprises North and Latin America; and the Asia Pacific Japan (APJ) region, which includes Japan, Australia, and other parts of Asia. We allocate revenue amounts to each region based on customers' locations. For more information about revenue by geographic region, see the Notes to the Consolidated Financial Statements section, Note (29).

***The EMEA Region***

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In 2011, the EMEA region generated 6,991 million in revenue (2010: 6,263 million) or 49% of total revenue (2010: 50%). This represents a year-over-year increase of 12%. Total revenue in Germany increased 7% to 2,347 million in 2011 (2010: 2,195 million). Germany contributed 34% of all EMEA region revenue (2010: 35%). The remaining revenue in the EMEA region was primarily generated in the UK, France, Switzerland, the Netherlands, Russia, and Italy. Software and software-related

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service revenue generated in the EMEA region in 2011 totaled 5,529 million (2010: 4,883 million). Software and software-related service revenue represented 79% of all revenue in 2011 compared with 78% in 2010.

*The Americas Region*

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

*The APJ Region*

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

Software and software-related service revenue represented 85% of all revenue in 2011 compared with 84% in 2010.

***Revenue by Industry***

To help us better meet the requirements of existing and potential customers, we restructured our industry groups in 2011, and now serve nine sectors rather than six as in 2010.

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

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

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

Results from the other sectors were as follows: Financial services: 1,196 million, at a



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growth rate of 13%; public services: 1,399 million, at a growth rate of 12%; services: 2,190 million, at a growth rate of 12%; energy and natural resources:

2,001 million, at a growth rate of 11%; and healthcare and life sciences: 636 million, at a growth rate of 7%.

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

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

**Operating Profit and Operating Margin**

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

***Operating Profit and Operating Margin***

In 2011, our operating profit totaled 4,881 million (2010: 2,591 million), a significant year-over-year improvement. A contributor to the increased operating profit in 2011 was a 717 million reduction of the TomorrowNow litigation provision. We had increased this provision in 2010, which resulted in a 981 million negative impact on operating profit in that year. For more information about the TomorrowNow litigation, see the Notes to the Consolidated Financial Statements section, Note (24). Overall, revenue increased in 2011 while operating expenses decreased.

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

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2010, we had significantly increased the provision, which had a negative impact of 7.9 percentage points on operating margin.

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

The sections that follow discuss our costs by line item.

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

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

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In 2011, costs for software and software-related services rose 16% to 2,107 million (2010: 1,823 million). The main cost driver was an increase in personnel to cover the growing demand for SAP Enterprise Support in 2011, which in turn had a positive effect on support revenue. The license fees and the commissions that we pay to third parties for database software also rose in parallel with the increase in software revenue. The margin on our software and software-related services, defined as software and software-related services profit as a percentage of software and software-related services revenue, remained constant year over year in 2011 at 81% (2010: 81%).

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

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

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

***Research and Development Expense***

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

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

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

***Sales and Marketing Expense***

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

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

***General and Administration Expense***

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

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



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**Segment Results**

We have four reportable operating segments: Product, Consulting, Training, and Sybase.

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

Consolidated Statements of Income because of several differences between our internal management reporting and our external IFRS reporting. For further details of our segment reporting and a reconciliation from our internal management reporting to our external IFRS reporting, see the Notes to the Consolidated Financial Statements section, Note (29).

**Segment Profitability**

| millions, unless otherwise stated | 2011       | 2010       | Change in % 2011<br>vs. 2010 |
|-----------------------------------|------------|------------|------------------------------|
| <b><u>Product Segment</u></b>     |            |            |                              |
| External revenue                  | 10,025     | 9,020      | 11                           |
| Segment expenses                  | 4,085      | 3,625      | 13                           |
| Segment contribution              | 5,940      | 5,395      | 10                           |
| <b>Segment profitability</b>      | <b>59%</b> | <b>60%</b> | <b>1pp</b>                   |
| <b><u>Consulting Segment</u></b>  |            |            |                              |
| External revenue                  | 2,955      | 2,714      | 9                            |
| Segment expenses                  | 2,091      | 1,968      | 6                            |
| Segment contribution              | 864        | 746        | 16                           |
| <b>Segment profitability</b>      | <b>29%</b> | <b>27%</b> | <b>2pp</b>                   |
| <b><u>Training Segment</u></b>    |            |            |                              |
| External revenue                  | 376        | 362        | 4                            |
| Segment expenses                  | 229        | 226        | 1                            |
| Segment contribution              | 147        | 136        | 8                            |
| <b>Segment profitability</b>      | <b>39%</b> | <b>38%</b> | <b>1pp</b>                   |
| <b><u>Sybase Segment</u></b>      |            |            |                              |
| External revenue                  | 873        | 387        | >100                         |
| Segment expenses                  | 647        | 260        | >100                         |
| Segment contribution              | 226        | 127        | 78                           |
| <b>Segment profitability</b>      | <b>26%</b> | <b>33%</b> | <b>7pp</b>                   |

***Product Segment***

The Product segment is primarily engaged in marketing and licensing our software products and providing support for them. Support includes technical support for our products, assistance in resolving problems, providing user documentation, unspecified software upgrades, updates, and enhancements. The Product segment also performs certain custom development projects. The Product segment includes our sales, marketing, and service and support lines of business.

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In 2011, revenue in the Product segment increased 11% to 10,025 million (2010: 9,020 million). This growth reflects a 13% increase from changes in volumes and prices and a 2% decrease from currency effects. The reason for this growth was the rise in software license sales, which in turn led to an increase in support revenue. Software revenue, which is added to revenues in the Product segment, rose by 19% to 3,282 million (2010: 2,766 million). This growth reflects a 22% increase from changes in volumes and prices and a 3% decrease from currency effects. Support revenue increased by

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9% to 6,302 million (2010: 5,776 million). This growth reflects a 10% increase from changes in volumes and prices and a 1% decrease from currency effects. Subscription and other software-related service revenue declined 3% to 377 million (2010: 387 million). All regions contributed to the increased revenue in the Product segment.

In 2011, expenses in the Product segment increased 13% to 4,085 million (2010: 3,625 million). Expenses from software sales account for approximately 56% of total expenses in the Product segment, whereas approximately 16% of total expenses in the Product segment are attributable to marketing and approximately 28% to support services. The increased expenses in the Product segment are the result of increased business operations following the rise in demand in 2011.

The contribution of the Product segment rose by 10% to 5,940 million (2010: 5,395 million), representing segment profitability of 59% (2010: 60%).

***Consulting Segment***

The Consulting segment is primarily engaged in the implementation of our software products.

In 2011, revenue in the Consulting segment increased 9% to 2,955 million (2010: 2,714 million). This growth reflects a 10% increase from changes in volumes and prices and a 1% decrease from currency effects. Geographically, all regions contributed to this segment revenue increase, with the Americas and APJ regions contributing most significantly.

Expenses in the Consulting segment rose by 6% to 2,091 million (2010: 1,968 million). The increased expenses in the Consulting segment are the result of increased business operations following the rise in demand in 2011.

The contribution of the Consulting segment rose 16% to 864 million (2010: 746 million), representing segment profitability of 29% (2010: 27%).

***Training Segment***

The Training segment is primarily engaged in providing educational services on the use of our software products and related topics for customers and partners. Training services include traditional classroom training at SAP training facilities, customer and partner training, user training, and e-learning.

In 2011, revenue in the Training segment increased 4% to 376 million (2010: 362 million). This growth reflects a 6% increase from changes in volumes and prices and a 2% decrease from currency effects. The EMEA and Americas regions were the primary contributors to this growth in revenue. With an increase of 19%, growth was particularly high in Latin America. The APJ region recorded a decline of 2%.

Expenses in the Training segment rose 2% to 230 million (2010: 226 million). The increased expenses in the Training segment are the result of increased business operations following the rise in demand in 2011.

The contribution of the Training segment rose 8% to 147 million (2010: 136 million), representing segment profitability of 39% (2010: 38%).

***Sybase Segment***

The Sybase segment is primarily engaged in implementing our vision of a wireless enterprise for customers and partners. To this end, we supply enterprise software and mobile software solutions for information management, development, and integration.

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The contribution of the Sybase segment to overall segment results is determined using a different approach than that used for the other segments. The Sybase segment includes development, administration, and other costs that do not apply to the other segments.

Sybase was acquired in 2010, so 2010 revenue and expenses for the Sybase segment are for five months only.

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In 2011, revenue in the Sybase segment increased 126% to 873 million (2010: 387 million). This growth reflects a 130% increase in volume and price changes (taking into account that revenue figures were only available for five months in the previous year), and a 5% decrease from currency effects.

Expenses in the Sybase segment rose 149% to 646 million (2010: 260 million).

The contribution of the Sybase segment rose 78% to 226 million (2010: 127 million), representing segment profitability of 26% (2010: 33%).

**Financial Income**

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

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

Finance costs mainly consist of interest expense on financial liabilities ( 123 million in 2011 compared to 77 million in 2010). This year-over-year increase resulted mainly from the

financial debt incurred in connection with the Sybase acquisition. We used bank loans, bonds, and private placements to finance this acquisition. For more information about these financing instruments, see the Notes to the Consolidated Financial Statements section, Note (18b).

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

**Income Tax**

Our effective tax rate increased to 27.9% in 2011 (2010: 22.5%). The main reason for this significant year-over-year difference is the change in the measurement of the TomorrowNow litigation provision. While 2010 saw a tax rate reduction of almost 5 percentage points as a result of the significant increase of the TomorrowNow litigation provision, in 2011 we experienced an effective tax rate increase resulting from the reduction of the same provision. However, this increase was offset by tax effects related to intercompany financing. For more information, see the Notes to the Consolidated Financial Statements section, Note (11).

**Our 2010 Results Compared to Our 2009 Results (IFRS)**

**Revenue**

**Revenue**

millions

2010

2009

|   |               |               | <b>Change in %<br/>2010 vs<br/>2009</b> |
|---|---------------|---------------|---|
| Software revenue  | 3,265         | 2,607         | 25%                                     |
| Support revenue   | 6,133         | 5,285         | 16%                                     |
| Subscription and other software-related service revenue | 396           | 306           | 29%                                     |
| <b>Software and software-related service revenue</b>    | <b>9,794</b>  | <b>8,198</b>  | <b>19%</b>                              |
| Consulting revenue                                      | 2,197         | 2,074         | 6%                                      |
| Other service revenue                                   | 473           | 400           | 18%                                     |
| <b>Professional services and other service revenue</b>  | <b>2,670</b>  | <b>2,474</b>  | <b>8%</b>                               |
| <b>Total revenue</b>                                    | <b>12,464</b> | <b>10,672</b> | <b>17%</b>                              |

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***Total Revenue***

Total revenue increased from 10,672 million in 2009 to 12,464 million in 2010, representing an increase of 1,792 million or 17%. SAP's business without the Sybase results contributed 14% to this growth. This total revenue growth reflects a 10% increase from changes in volumes and prices and a 7% increase from currency effects. Specifically, our software revenue increased by 658 million as compared to 2009 and our support revenue increased by 848 million as compared to 2009. Additionally, our SSRS revenue increased, resulting in software and software-related service revenue of 9,794 million in 2010. Software and software-related service revenue represented 79% of our total revenue in 2010 compared to 77% in 2009. Professional services and other service revenue contributed 2,670 million to our total revenue in 2010. This represents an increase of 8% compared to 2009. Professional services and other service revenue accounted for 21% of our total revenue in 2010 compared to 23% in 2009.

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

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

Software revenue represents fees earned from the sale or license of software to customers. Support revenue represents fees earned from providing customers with technical support services and unspecified software upgrades, updates, and enhancements. Subscription and other software-related service revenue represents fees earned from software subscriptions, in the cloud offerings, rentals, and other types of software-related service contracts.

In 2010, software and software-related service revenue increased from 8,198 million in 2009 to 9,794 million, representing an increase of 19%. The software and software-related service revenue growth reflects a 13% increase from changes in volumes and prices and a 6%

increase from currency effects. SAP's business without the Sybase results contributed 16% to this growth.

Software revenue increased from 2,607 million in 2009 to 3,265 million in 2010, representing an increase of 658 million or 25%. The software revenue growth consists of a 16% increase from changes in volumes and prices and a 9% increase from currency effects.

SAP Business Suite revenue contributed most to the overall organic increase in software revenue, followed by SAP BusinessObjects solutions as well as our products based on our SAP NetWeaver platform.

Our customer base increased again in 2010. Based on the value of software orders received, excluding Sybase, 18% of our software orders received in 2010 were attributable to deals with new customers (2009: 17%). The value of software orders received, excluding Sybase, increased 21% year over year. The total number of new software deals closed, excluding Sybase, increased by 5% to 44,875 (2009: 42,639).

Support revenue increased from 5,285 million in 2009 to 6,133 million in 2010, representing an increase of 848 million or 16%. This support revenue growth reflects a 10% increase from changes in volumes and prices and a 6% increase from currency effects. The SAP Enterprise Support maintenance service was the largest contributor to our support revenue. Our increased support revenue resulted from our stable customer base and the continued sale of software to existing and new customers throughout 2010.

Subscription and other software-related service revenue increased 90 million or 29% to 396 million compared to 306 million in 2009. The increase in revenue reflects a 25% increase from volumes and prices and a 4% increase from currency effects. It derives primarily from subscription contracts concluded in 2009 and 2010.



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

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

Professional services and other service revenue increased 196 million or 8% from 2,474 million in 2009 to 2,670 million in 2010. The rise consists of a 2% increase from changes in volumes and prices and a 6% increase from currency effects.

Consulting revenue increased 6% from 2,074 million in 2009 to 2,197 million in

2010. The increase was derived from currency effects. In 2010, consulting contributed 82% of professional services and other service revenue (2009: 84%). Consulting revenue contributed 18% of total revenue (2009: 19%). A substantial portion of consulting revenue follows on from software license sales. Software license sales were relatively weak in 2009. In this context, the growth in consulting revenue in 2010 is unremarkable.

Other service revenue increased 18% from 400 million in 2009 to 473 million in 2010. The other service revenue increase consists of a 13% increase from changes in volumes and prices and a 5% increase from currency effects. This increase resulted primarily from training revenue, hosting revenue that the SAP IT organization generates by operating, managing, and maintaining SAP solutions and messaging revenue from Sybase, which we acquired in July 2010.

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

| millions              | 2010          | 2009          | Change<br>in %<br>2010 vs<br>2009 |
|-----------------------|---------------|---------------|-----------------------------------|
| Germany               | 2,195         | 2,029         | 8%                                |
| Rest of EMEA          | 4,068         | 3,614         | 13%                               |
| <b>Total EMEA</b>     | <b>6,263</b>  | <b>5,643</b>  | <b>11%</b>                        |
| United States         | 3,243         | 2,695         | 20%                               |
| Rest of Americas      | 1,192         | 925           | 29%                               |
| <b>Total Americas</b> | <b>4,435</b>  | <b>3,620</b>  | <b>23%</b>                        |
| Japan                 | 513           | 476           | 8%                                |
| Rest of APJ           | 1,253         | 933           | 34%                               |
| <b>Total APJ</b>      | <b>1,766</b>  | <b>1,409</b>  | <b>25%</b>                        |
| <b>Total revenue</b>  | <b>12,464</b> | <b>10,672</b> | <b>17%</b>                        |



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**Revenue by Industry**

| millions                   | 2010          | 2009          | Change in %<br>2010 vs<br>2009 |
|----------------------------|---------------|---------------|--------------------------------|
| Manufacturing Discrete     | 2,190         | 1,910         | 15%                            |
| Manufacturing Process      | 1,255         | 1,038         | 21%                            |
| Consumer Products          | 1,243         | 1,056         | 18%                            |
| Energy & Natural Resources | 1,796         | 1,457         | 23%                            |
| Services                   | 1,959         | 1,776         | 10%                            |
| Financial Services         | 1,058         | 909           | 16%                            |
| Public Services            | 1,246         | 1,086         | 15%                            |
| Retail & Wholesale         | 1,124         | 921           | 22%                            |
| Healthcare & Life Sciences | 593           | 519           | 14%                            |
| <b>Total revenue</b>       | <b>12,464</b> | <b>10,672</b> | <b>17%</b>                     |

**Revenue by Region***The EMEA Region*

In 2010, 50% of our total revenue was derived from the EMEA region (2009: 53%). Our revenue from the EMEA region grew 11% in 2010 to 6,263 million (2009: 5,643 million). This growth reflects an 8% increase from changes in volumes and prices and a 3% increase from currency effects. Total revenue in Germany increased 8% to 2,195 million in 2010 (2009: 2,029 million). Germany contributed 35% to our total revenue from the EMEA region, which is a decrease of 1 percentage point compared to 2009. Other EMEA revenue in 2010 originated primarily from the United Kingdom, France, Switzerland, the Netherlands, Italy, and Russia. Software and software-related service revenue generated in the EMEA region in 2010 totaled 4,883 million (2009: 4,336 million). Software and software-related service revenue accounted for 78% of all revenue in the EMEA region in 2010 (2009: 77%).

*The Americas Region*

Of our 2010 total revenue, 36% (2009: 34%) was recognized in the Americas region. Revenue in the region increased 23% to 4,435 million in 2010. Revenue from the United States rose 20% to 3,243 in 2010, which represents an increase of 13% from changes in volumes and prices and a 7% increase from

currency effects. The United States contributed 73% (2009: 74%) of the Americas region revenue. Revenue from the rest of the Americas region increased 29% to 1,192 million, which represents an increase of 15% from changes in volumes and prices and a 14% increase from currency effects. This revenue was principally generated in Canada, Brazil, and Mexico. In 2010, software and software-related service revenue from our Americas region grew 26% to 3,427 million (2009: 2,718 million). This growth included a 9% increase from currency effects. Software and software-related service revenue represented 77% of all revenue in the Americas region in 2010 (2009: 75%).

*The APJ Region*

In 2010, the APJ region contributed 14% (2009: 13%) to our total revenue, with most of this revenue being derived from Japan. In the APJ region, revenue rose by 25% to 1,766 million in 2010. Revenue from Japan increased 8% to 513 million, which represents 29% (2009: 34%) of

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our revenue from the APJ region. The revenue rise in Japan reflects a 5% decrease due to changes in volumes and prices and a 13% increase from currency effects. Together, the other countries in the APJ region – principally Australia, India, and China – saw a 34% increase in revenue, reflecting a 16% increase in volumes and prices and an 18% increase from currency effects. In 2010, our APJ

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region achieved software and software-related service revenue growth of 30% (including 17% from currency effects) to reach 1,485 million (2009: 1,144 million). Software and software-related service revenue represented 84% of all revenue in the APJ region in 2010 (2009: 81%).

**Revenue by Industry**

To help us better meet the requirements of existing and potential customers, we restructured our industry groups in 2011, and now serve nine sectors rather than six as in 2010. Accordingly we have adjusted our 2010 to 2009 comparison to nine industry sectors.

Based on the new nine industry sector structure and in comparison with our total revenue change in 2010, we outperformed in the

energy & natural resources industry sector with revenue of 1,796 million, which represents a growth rate of 23%, in retail & wholesale with an increase of 22% to 1,124 million, in manufacturing process with revenue of 1,255 million and an increase of 21% and in consumer products, where our total revenue amounted to 1,243 million, representing an increase of 18% compared to 2009. Financial services industries revenue grew 16% to 1,058 million. Healthcare & lifesciences achieved 593 million revenue and a year-over-year growth rate of 14%. Public services achieved 1,246 million revenue at a growth rate of 15%; discrete manufacturing industries revenue was 2,190 million, an increase of 15%, and service industries revenue grew 10% to 1,959 million.

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

| millions   | 2010         | % of total revenue | 2009         | % of total revenue | Change in % 2010 vs 2009 |
|--|--------------|--------------------|--------------|--------------------|--------------------------|
| Cost of software and software-related services   | 1,823        | 15%                | 1,658        | 16%                | 10%                      |
| Cost of professional services and other services | 2,071        | 17%                | 1,851        | 17%                | 12%                      |
| Research and development                         | 1,729        | 14%                | 1,591        | 15%                | 9%                       |
| Sales and marketing                              | 2,645        | 21%                | 2,199        | 21%                | 20%                      |
| General and administration                       | 636          | 5%                 | 564          | 5%                 | 13%                      |
| Restructuring                                    | 3            | 0%                 | 198          | 2%                 | < 100%                   |
| TomorrowNow litigation                           | 981          | 8%                 | 56           | 1%                 | >100%                    |
| Other operating income/expense, net              | 9            | 0%                 | 33           | 0%                 | 73%                      |
| <b>Total operating expenses</b>                  | <b>9,873</b> | <b>79%</b>         | <b>8,084</b> | <b>76%</b>         | <b>22%</b>               |

**Operating Profit and Operating Margin**

| millions, except for operating margin | 2010  | 2009  | Change in % 2010 vs 2009 |
|---------------------------------------|-------|-------|--------------------------|
| Operating profit                      | 2,591 | 2,588 | 0%                       |
| Operating margin in %                 | 20.8% | 24.3% | 3.5pp                    |



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***Operating Profit and Operating Margin***

In 2010, our operating profit was almost unchanged year over year at 2,591 million (2009: 2,588 million) despite costs totaling 981 million (2009: 56 million) that negatively impacted our operating profit. These costs resulted from an increase in the provision we recorded for the TomorrowNow litigation. For more information about the TomorrowNow litigation, see the Notes to the Consolidated Financial Statements section, Note (24). Acquisition-related charges of 300 million (2009: 271 million) also had a greater effect on operating profit than in the previous year.

Our operating margin was 20.8% (2009: 24.3%), a decrease of 3.5 percentage points. Acquisition-related charges and effects from discontinued TomorrowNow activities negatively impacted our operating margin by 10.3 percentage points in 2010 (2009: 3.1 percentage points). In 2009, restructuring charges of 198 million impacted the operating margin by 1.9 percentage points, whereas in 2010 restructuring expenses did not materially impact our operating margin.

Our total operating expenses increased 1,789 million or 22% to 9,873 million compared with 8,084 million in 2009, primarily as a result of the greater expense from discontinued TomorrowNow activities and the acquisition of Sybase.

The sections that follow discuss our costs by line item. All cost line items below were impacted by the inclusion of Sybase for the months August to December 2010.

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

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

Cost of software and software-related services increased 10% from 1,658 million in 2009 to 1,823 million in 2010. The principal reason for this increase was an increase in headcount to cover growing demand for SAP Enterprise Support in 2010, demand that was also reflected in growing software-related service revenue. The margin on our software and software-related services, defined as the ratio of the gross software and software-related services result to software and software-related service revenue, expressed as a percentage, was 81% in 2010 (2009: 80%).

***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.

Cost of professional services and other services rose 12% from 1,851 million in 2009 to 2,071 million in 2010. The margin on our professional services and other services, defined as the ratio of the gross professional services and other services result to professional services and other services revenue, expressed as a percentage, was 22% in 2010 (2009: 25%).

The reasons for the decline in the profitability of our professional services and other services were investments we made to prepare for growing demand in 2010 after the downturn in 2009 and costs incurred on unprofitable consulting contracts.

***Research and Development***

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

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

Our total R&D expense rose 9% to 1,729 million in 2010. The increase was mainly due to the inclusion of Sybase and to unfavorable currency effects.

Our R&D expense as a percentage of total revenue declined to 14% (2009: 15%). Total revenue increased more steeply than R&D expense, resulting in a reduction in the R&D ratio.

***Sales and Marketing***

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

Sales and marketing expenses increased 20% to 2,645 million in 2010 compared to 2,199 million in 2009. The increase was mainly due to increased travel and marketing expenses driven by an increase in our business activity, and unfavorable currency effects. By increasing our sales force we accelerated our revenue growth. Sales and marketing expense as a percentage of total revenue was 21% in 2010, little changed since 2009.

***General and Administration***

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

Our G&A expense rose from 564 million in 2009 to 636 million in 2010, representing an increase of 13%. The increase in cost was mainly driven by the inclusion of Sybase and by unfavorable currency effects. G&A expenses as a percentage of total revenue in 2010 were consistent with the 2009 level of 5%.

***Segment Discussions***

The acquisition of Sybase, Inc. affected our internal reporting to management. In addition to our previously reported segments, Product, Consulting, and Training, we added a new reportable segment: Sybase. While this new segment is named Sybase, it is not identical to the acquired Sybase business since parts of the acquired business are now integrated with and thus reported in other segments, and certain SAP activities are now in our Sybase segment.

Total revenue and profit figures for each of our operating segments differ from the respective revenue and profit figures classified in our Consolidated Statements of Income because of several differences between our internal management reporting and our external IFRS reporting. For further details of our segment reporting and a reconciliation from our internal management reporting to our external IFRS reporting, see the Notes to the Consolidated Financial Statements section, Note (29).

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**Segment Profitability**

| millions, unless otherwise stated | 2010       | 2009       | Change in %<br>2010 vs. 2009 |
|-----------------------------------|------------|------------|------------------------------|
| <b>Product Segment</b>            |            |            |                              |
| External revenue                  | 9,020      | 7,846      | 15                           |
| Segment expenses                  | 3,625      | 3,115      | 16                           |
| Segment contribution              | 5,395      | 4,731      | 14                           |
| <b>Segment profitability</b>      | <b>60%</b> | <b>60%</b> | <b>0pp</b>                   |
| <b>Consulting Segment</b>         |            |            |                              |
| External revenue                  | 2,714      | 2,498      | 9                            |
| Segment expenses                  | 1,968      | 1,717      | 15                           |
| Segment contribution              | 746        | 781        | 4                            |
| <b>Segment profitability</b>      | <b>27%</b> | <b>31%</b> | <b>4pp</b>                   |
| <b>Training Segment</b>           |            |            |                              |
| External revenue                  | 362        | 332        | 9                            |
| Segment expenses                  | 226        | 217        | 4                            |
| Segment contribution              | 136        | 115        | 18                           |
| <b>Segment profitability</b>      | <b>38%</b> | <b>35%</b> | <b>3pp</b>                   |
| <b>Sybase Segment</b>             |            |            |                              |
| External revenue                  | 387        | 0          | N/A                          |
| Segment expenses                  | 260        | 0          | N/A                          |
| Segment contribution              | 127        | 0          | N/A                          |
| <b>Segment profitability</b>      | <b>33%</b> | <b>N/A</b> | <b>N/A</b>                   |

**Product Segment**

The Product segment is primarily engaged in marketing and licensing our software products and providing support for them. Support includes technical support for our products, assistance in resolving problems, providing user documentation, unspecified software upgrades, updates, and enhancements.

The Product segment also performs certain custom development projects. The Product segment includes the sales, marketing, and service and support lines of business.

Product segment revenue increased 15% from 7,846 million in 2009 to 9,020 million in 2010. This growth reflects an 8% increase from changes in volumes and prices and a 7% increase from currency effects. The increase was driven by an increase in customer licensing of our software, which in turn contributed to an increase in support revenue. Software revenue as part of the total Product segment revenue

increased 17% from 2,373 million in 2009 to 2,766 million in 2010. This growth reflects an 8% increase from changes in volumes and prices and a 9% increase from currency effects. Support revenue increased 14% from 5,076 million in 2009 to 5,776 million in 2010. This growth reflects an 8% increase from changes in volumes and prices and a 6% increase from currency effects. Subscription and other software-related service revenue increased 28% from 304 million in 2009 to 387 million in 2010.

Product segment expenses increased 16% from 3,115 million in 2009 to 3,625 million in 2010. Expenses from the sales line of business account for roughly 54% of the entire Product segment expenses, while expenses from the marketing line of business account for roughly 17% and

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expenses from the service and support line of business account for roughly 29% of overall Product segment expenses. The increase in Product segment expenses is related to accelerated business activities due to incipient economic recovery in 2010.

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Product segment contribution increased 14% from 4,731 million in 2009 to 5,395 million in 2010. Product segment profitability remained at 60% in 2010.

***Consulting Segment***

The Consulting segment is primarily engaged in the implementation of our software products.

Consulting segment revenue increased 9% from 2,498 million in 2009 to 2,714 million in 2010. This growth reflects a 3% increase from changes in volumes and prices and a 6% increase from currency effects. Geographically all regions contributed to this segment revenue increase, predominantly in North America and our APJ region.

Consulting segment expenses increased 15% from 1,717 million in 2009 to 1,968 million in 2010. This expense growth was primarily the result of investments to prepare for the increased demand in 2010 after the downturn in 2009.

Consulting segment contribution decreased 5% from 781 million in 2009 to 746 million in 2010. Consulting segment profitability was 27% in 2010 compared to 31% in 2009.

***Training Segment***

The Training segment is primarily engaged in providing educational services on the use of our software products and related topics for customers and partners. Training services include traditional classroom training at SAP training facilities, customer and partner-specific training and end-user training, as well as e-learning.

Training segment revenue was 362 million in 2010, which represents an increase of 9% from 332 million in 2009. This growth reflects a 2% increase from changes in volumes and prices and a 7% increase from currency effects. Geographically, the Americas and APJ regions were the primary contributors to our 2010 Training segment revenue increase.

In 2010, our Training segment revenue growth was especially high in North America, with a 29% increase, whereas Training segment revenue decreased 3% in the EMEA region.

Our Training segment expenses increased 4% from 217 million in 2009 to 226 million in 2010. Costs increased to support the growing business activities in 2010 after the downturn in 2009.

The Training segment contribution increased 18% from 115 million in 2009 to 136 million in 2010. Training segment profitability was 38% in 2010 compared to 35% in 2009.

***Sybase Segment***

The Sybase segment is primarily engaged in enabling the unwired enterprise for customers and partners by delivering enterprise and mobile software solutions for information management, development, and integration. The measurement of the result for the Sybase segment differs from the measurements for the other segments, as the Sybase segment result includes development, administration, and other corporate expenses while these expenses are excluded from the measurement of the results of the other segments.

Sybase segment revenue was 387 million, mainly driven by sales of databases, mobility solutions, and messaging services. Sybase segment expenses were 260 million in 2010.

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The Sybase segment contribution was 127 million in 2010, resulting in a Sybase segment profitability of 33%.

### **Finance Income, Net**

Finance income, net, improved to - 67 million (2009: - 80 million). Our finance income in 2010 was 73 million (2009: 37 million) and our finance costs were 140 million (2009: 117 million).

Finance income mainly consists of interest income from loans and receivables (e.g. cash,

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cash equivalents, and current investments; 34 million in 2010 compared to 35 million in 2009). The decrease was mainly due to interest rate reductions which were partly offset by an increase in average liquidity in 2010 compared to 2009.

Finance cost mainly consists of interest expense on financial liabilities ( 77 million in 2010 compared to 63 million in 2009). The increase compared to 2009 resulted mainly from the financial debt incurred in connection with the Sybase acquisition. We used bank loans, bonds, and private placements to finance this acquisition. For more information about these financing instruments, see the Notes to the Consolidated Financial Statements section, Note (18b). In addition, the pending TomorrowNow litigation caused interest expenses of 12 million in 2010 (2009: 0 million).

Another significant contribution to the finance income, net in 2010 came from the derivatives that we utilize to execute our financial risk management strategy. These derivatives caused time value effects that were reflected in interest income with an amount of 25 million (2009: 0 million) and in interest expense with an amount of 31 million (2009: 38 million).

**Income Tax**

The 2010 effective tax rate was 22.5% compared to 28.1% in 2009. Approximately 5 percentage points of this decrease resulted from the increase in provision recorded for the TomorrowNow litigation. For more information, see the Notes to the Consolidated Financial Statements section, Note (11).

**FOREIGN CURRENCY EXCHANGE RATE EXPOSURE**

Although our reporting currency is the euro, a significant portion of our business is conducted in currencies other than the euro. Since the Group's entities usually conduct their business in their respective functional

currencies, our risk of exchange rate fluctuations from ongoing ordinary operations is not considered significant. However, occasionally we generate foreign-currency-denominated receivables, payables, and other monetary items by transacting in a currency other than the functional currency; to mitigate the extent of the associated foreign currency exchange rate risk, the majority of these transactions are hedged as described in Note (26) to our Consolidated Financial Statements. Also see Notes (3) and (25) for additional information on foreign currencies.

Approximately 69% and 67% of our total revenue 2011 and 2010, respectively, was attributable to operations in non-euro participating countries. As a result, those revenues had to be translated into euros for financial reporting purposes. Fluctuations in the value of the euro had an unfavorable impact on our total revenue of 195 million, profit before tax of 147 million and profit after tax of 123 million for 2011, and had favorable impacts on our total revenue of 705 million, profit before tax of 68 million and profit after tax of 72 million for 2010. For 2009 the euro had favorable impacts on our total revenue of 18 million and our profit after tax of 1 million, whereas the euro had unfavorable impacts on our profit before tax of 12 million. In addition, we held foreign currency options as of December 31, 2011 to partially hedge the cash flow risk from the consideration expected to be paid in U.S. Dollar for the acquisition of SuccessFactors, Inc. For more information see Note (4).

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

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**OUTLOOK**

**Future Trends in the Global Economy**

The European Central Bank (ECB) expects serious structural problems to continue in the advanced economies in 2012. The ECB believes tension on the international financial markets will persist, and hamper recovery. It expects the resilient emerging markets will drive the growth in the global economy. The International Monetary Fund (IMF) projects global economic growth in the middle of the single-digit percentage range in 2012, that is to say, slightly slower than in 2011. It forecasts that the growth rate in the advanced economies will be in the low single-digits, but trending upward. It projects growth in the upper single-digit percentages in the emerging markets.

In the Europe, Middle East, and Africa (EMEA) region, the ECB expects that the economy of the euro area will gradually recover in 2012. The recovery will, it suggests, be supported by solid global demand, very low short-term interest rates, and steps to stabilize the functionality of the financial sector. However, the real economy will be held back somewhat by problematic financial markets and government bond markets in the euro area. In contrast, the Organisation for Economic Co-operation and Development (OECD) expects a mild recession in the euro countries in the first half of 2012. It expects some recovery in the second half, encouraged by government confidence-building measures. According to the ECB, the slow pace of political reform, continuing social unrest, and an uncertain global economy will impede growth and affect overall economic stability in some countries in the Middle East and North Africa in 2012.

In the Americas region, the ECB foresees a slowing of economic recovery in early 2012. The reasons for this include: Slow progress on the U.S. labor market and adverse conditions on the financial markets. The ECB also expects changes in U.S. public spending and finances to hold back growth even further as temporary

reductions in taxes and support for unemployment programs come to an end, although the unemployment situation eased unexpectedly in early 2012. The OECD does not expect the U.S. economy to regain momentum until after 2012.

In the Asia Pacific Japan (APJ) region, divergent trends in Japan and the emerging markets will continue in 2012, says the ECB. The Japanese economy will benefit from growing domestic demand generated by continued reconstruction and more government stimulus programs, but will be held back by easing global demand, the ECB forecasts. The OECD also expects the Japanese economy could already see a slowdown in growth by the second half of the year if government reconstruction measures are not continued. According to the ECB, the emerging markets of Asia will see economic growth losing some momentum in 2012, but growth is still expected to be strong. This is because of the expected turbulence on the financial markets worldwide and weak economies in some of the leading advanced countries, it explains.

The various institutions still expect that their forecasts will be affected by high uncertainty and significant risks. The ECB believes the tensions on the financial markets may become even more problematic. The OECD predicts the sovereign debt crisis in the euro area and fiscal policy issues in the United States may affect global economic growth.

**IT Market: The Outlook for 2012**

The global IT market will continue to expand in 2012, and it will do so more quickly than the global economy as a whole, according to International Data Corporation (IDC), a market research firm based in the United States.

The rate of growth in the industrialized and emerging economies will again be mixed, IDC expects. IDC believes that in 2012 the IT market will expand only minimally in the industrialized economies but quite substantially in the



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emerging economies – some of which could see double-digit percentage growth. Investment bank Goldman Sachs is more circumspect than IDC in this regard. It predicts that global IT spending will grow much more slowly in 2012 than it did in 2011.

In 2012, analysts identify the greatest market potential in five areas. Cloud computing is expected to move beyond Software as a Service (SaaS). Mobile and mobile apps are flourishing and becoming more important for enterprises. The analytics market is expected to expand, driven by the increasing need for simulations, predictions, and optimization. Databases that can handle high data volumes are becoming strategic and are renewing the relationship between business and information technology. And in the slipstream of these trends, applications will be surging ahead as well.

For its current EMEA region outlook IDC has revised its predictions for 2012 especially for Western Europe. It believes the ongoing debt crisis in the euro area will increasingly impact the economy and that companies will respond by investing less. Consequently, IT market growth in Western Europe will not exceed the low to middle single digit percentages in 2012, IDC forecasts.

Similarly, IDC has revised its outlook for the Americas region, and in particular for the United States compared with previous calculations. It expects the U.S. IT market to expand by a percentage in the middle of the single-digit range: Growth will be slightly slower in the hardware segment, but there will be constant single-digit growth in the software segment, it believes.

Looking at the Asia Pacific Japan region, IDC predicts that IT sales in Japan will continue to recuperate from the impact of the March 2011 earthquake and tsunami. It expects the segment to grow several percent in 2012 with the help of publicly financed reconstruction programs. In the emerging economies of Asia, IDC expects double-digit IT sales growth.

In other words, IDC's worries about the growth of the IT market in 2012 apply chiefly to Western Europe and the United States. IDC believes the risk to be greater there than elsewhere that IT spending might decline. The analysts remain optimistic in their projections and risk analyses for other countries. UBS, a major Swiss bank, views the market prospects and risks for North America in a rather more positive light than those for Western Europe. It believes that the public sector and the financial services industry in those countries may buy fewer IT services than before.

**Forecast for SAP**

**Strategy for Profitable Growth**

SAP seeks profitable growth across its portfolio of products and services. Our goal is to double our addressable market to US\$230 billion and increase the number of people who use and benefit from SAP solutions to one billion by 2015. Our ability to deliver software-based innovation and value in target growth areas of applications, analytics, mobile, cloud, and database and technology, positions us favorably in segments of the enterprise market with higher growth than expected global GDP rates. SAP continues to invest and increase its presence and market share in countries experiencing high growth, such as Brazil, China, India, and Russia. At the same time, SAP's combination of a stable, consistent core, together with breakthrough innovations, continues to expand our business in all operating regions, with double-digit growth in each region in 2011.

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

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

SAP goes to market by region, customer segment, and industry. In each region, we concentrate our sales efforts on the fastest-growing markets with the most business potential. We evolve and invest in our go-to-market coverage model to effectively sell industry-specific solutions while increasing our engagement with customers in line-of-business functions (for example, human resources, sales, and marketing) and users of business analytics. We continue to provide companies of any size – small, midsize, and large – with new software purchasing options that align to their specific budgetary, resource and deployment preferences. In 2011, we reached a milestone of more than 1,000 companies running SAP Business ByDesign, which small businesses and midsize companies can use as a cloud-based platform. In addition, we introduced new cloud-solutions for large enterprises built on SAP Business ByDesign.

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

SAP continues to engage an expanding partner ecosystem to increase market coverage, enhance our solutions portfolio, and spur innovation. SAP and its vibrant partner ecosystem offer greater choice and business value through the power of co-innovation, appealing to customers that want to avoid being “locked in” to a single vendor. SAP channel partners offer customers knowledgeable local delivery of solutions across industries and geographies. In 2011, SAP continued to substantially increase the share of our software revenue that we generate through indirect channels. SAP technology partners continue to drive our research agenda, enhance the SAP solution portfolio, and monetize new technology breakthroughs.

**Organic Growth and Targeted Acquisitions**

Organic growth remains the primary driver of SAP’s strategy. We continue to invest in our own product development and technology innovation, improving the speed, number of projects, and innovations brought to market. Our open ecosystem strategy enables us to leverage the innovative potential of our partners to drive customer value. We also will 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. On that front, we will be concentrating on the SuccessFactors acquisition and thus expanding our cloud business in 2012.

**Operational Targets for 2012 (Non-IFRS)****Revenue and Operating Profit Outlook**

In light of our continuing focus on the cloud business and considering our recent acquisition of SuccessFactors, we are widening the range of revenues for which acquisition-related deferred revenue write downs are adjusted for in determining our non-IFRS revenue and profit numbers. We continue to adjust for deferred revenue write downs, i.e. for revenues that would have been recognized had the acquired entities remained stand-alone entities but that we are not permitted to recognize as revenue under IFRS as a result of business combination accounting rules. However, in the definitions of our non-IFRS measures used through 2011, such adjustments for deferred revenue write downs were limited to support revenue. From 2012 onwards, we will additionally make such deferred revenue write down adjustments for cloud subscription revenue and other similarly recurring revenues. All other non-IFRS measures will remain unchanged. As the deferred revenue write-down adjustments for recurring revenues other than support revenue from acquisitions that were executed through 2011 were immaterial, we do not restate prior period non-IFRS measures to align with the new definition.

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The Executive Board is providing the following outlook for the full-year 2012 from today's perspective:

We expect full-year 2012 non-IFRS software and software-related service revenue to increase in a range of 10% to 12% at constant currencies (2011: 11.35 billion). This includes a contribution of up to 2 percentage points from SuccessFactors' business.

We expect full-year 2012 non-IFRS operating profit to be in a range of 5.05 billion to 5.25 billion at constant currencies (2011: 4.71 billion). Full-year 2012 non-IFRS operating profit excluding SuccessFactors is expected to be in a similar range.

We project a full-year 2012 IFRS effective tax rate of 26.5% to 27.5% (2011: 27.9%) and a non-IFRS effective tax rate of 27.0% to 28.0% (2011: 26.6%).

The growth we expect in software and software-related service revenue (non-IFRS) is based on our expectation of double-digit growth, at constant currencies, in our software revenue. The increase we expect in non-IFRS operating profit is based on the expectation that the operating margin, not including the SuccessFactors acquisition, will increase by 50 basis points due to increased total revenue and efficiency gains.

We present the following reconciliation from our 2011 IFRS software and software-related service revenue, IFRS total revenue, IFRS operating profit, and IFRS operating margin to the non-IFRS equivalents to facilitate comparison between IFRS numbers and the non-IFRS numbers in our 2012 outlook:

**Reconciliations of IFRS to Non-IFRS Numbers for 2011**

| millions, unless otherwise stated             | IFRS Financial Measure | Support Revenue Not Recorded Under IFRS | Operating Expenses <sup>1)</sup> | Discontinued Activities <sup>3)</sup> | Non-IFRS Financial Measure |
|---|------------------------|---|----------------------------------|---------------------------------------|----------------------------|
| Software and software-related service revenue | 11,319                 | 27                                      | N/A                              | N/A                                   | 11,346                     |
| Total revenue <sup>2)</sup>                   | 14,233                 | 27                                      | N/A                              | N/A                                   | 14,260                     |
| Operating profit <sup>2)</sup>                | 4,881                  | 27                                      | 519                              | 717                                   | 4,710                      |
| Operating margin in %                         | 34.3                   | 0.1                                     | 3.6                              | 5.0                                   | 33.0                       |

<sup>1)</sup> Included in operating expenses are acquisition-related charges, share-based payment expenses, and restructuring charges.

<sup>2)</sup> 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.

<sup>3)</sup> The discontinued activities include the results of our discontinued TomorrowNow business.

**Goals for Liquidity and Finance**

We seek to maintain a positive net liquidity position at the end of 2012. We intend to reduce our financial debt as and when the debt falls due. We will consider issuing new debt, such as

bonds or U.S. private placements, only if market conditions are advantageous. Depending on the level of net liquidity we seek to achieve, we intend to continue to consider repurchasing shares for treasury in the future, but not before the fourth quarter of 2012.

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**Investment Goals**

Excepting acquisitions, our planned capital expenditures for 2012 will be covered in full by operating cash flow and will chiefly be spent on new information technology.

As part of our growth and innovation strategy, we plan to invest around US\$2 billion in China by 2015. This demonstrates our long-term strategic commitment to China, the world's second largest economy. We have successfully grown our business in China over the past 20 years and now want to scale our operations to fully meet the needs of both enterprises and our ecosystem. Our SAP Labs and SAP Research facilities there will continue to drive innovation for our Chinese customer base. We will also create more research and development facilities, and hire the best people to work for us. Our objective is to help drive sustainable growth in China through informatization.

SAP continues to invest and increase its presence and market share in countries experiencing high growth. For example, at the end of 2011 we increased our sales forces in such countries. We have also opened a nearshore delivery center in Romania, and are looking to hire 400 consultants in that country by 2014. We intend to invest between \$30 million and \$40 million into the center, which is the overall investment that will go into training programs for employees and the cost of the headquarters. Further, we have decided to set up a new nearshore services center in Portugal, which we expect to be operational in the first half of 2012. The new services center will create 100 new jobs in 2012. These nearshore centers will be SAP's first units of this kind, working with clients across Europe, the Middle East, and Africa (EMEA).

**Proposed Dividend**

We plan to continue our dividend policy, which is that the payout ratio should be approximately 30% excluding the TomorrowNow litigation effect in the calculation. This results in a dividend of

0.75 per share representing a payout ratio of 30% excluding the TomorrowNow litigation effect from the calculation.

In addition, we propose to reward our shareholders with a special dividend of \$0.35 per share due to the 40th anniversary of SAP.

If the Annual General Meeting of Shareholders so resolves, we will therefore increase the dividend from \$0.60 to \$1.10 per share in 2012.

**Premises on Which our Outlook is Based**

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

Among the premises on which this outlook is based are those presented concerning economic development and our expectation that we will not benefit from any effects in 2012 from a major acquisition, without regard to the acquisition of SuccessFactors.

**Medium-Term Prospects**

We expect our business, our revenue, and our profit to grow, assuming there is a sustained recovery in the global economy. Our strategy is to increase software and software-related service revenue and our operating margin through greater efficiency across all sales channels, services, our support infrastructure, and research and development.

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

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

We want to extend our leadership in the applications segment.

We want to extend our market share in analytics.

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We want to extend our leadership in mobile computing.

We want to become a profitable market leader in cloud computing, generating 2 billion revenue in this segment by 2015.

We want to become the fastest-growing provider of databases and technology. Our plan is for indirect sales to be contributing up to 40% of total revenue by 2015.

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

The stability and consistency of SAP's core suite of applications is a competitive advantage for SAP and our customers. In 2011, SAP committed to faster cycles of innovation with minimum disruption to customer operations, and extended maintenance for core applications until 2020. This long-term planning security differentiates SAP within the software industry and demonstrates our commitment to our customers' success. Our customer-focused innovation strategy also concentrates on three areas that will transform the way business is done—mobile computing, in-memory computing, and cloud computing. This combination of nondisruptive innovation at the core and breakthrough innovation helps our customers lower total cost of ownership, increase productivity, and accelerate their own business innovation at the same time. It will enable us to provide business value and grow our business in the five market categories on which we focus: applications; analytics; mobile; cloud; and database and technology.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

#### **Centralized Financial Management**

We use global centralized financial management to control liquid assets and monitor exposure to interest rates and currencies. The primary aim of our financial management is to maintain liquidity in the Group at a level that is adequate to meet our obligations. Most SAP companies have their liquidity managed by the Group, so that liquid assets across the Group can be consolidated, monitored, and invested in accordance with Group policy. High levels of liquid assets provide a strategic reserve, helping to 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 (25) to (27).

#### **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



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growth, to acquire businesses, to pay dividends on our shares, and to buy back SAP shares on the open market. On December 31, 2011, 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 A-, 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 A-, and such investments were not material in 2011.

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.

To expand our business, we have made and expect to continue making acquisitions of businesses, products, and technologies. For more information about the financial debt incurred in 2010 for that purpose, mainly in connection with the acquisition of Sybase, see the Cash Flows and Liquidity section. Depending on our future cash position and future market conditions, we might issue additional debt instruments to fund acquisitions, maintain financial flexibility, and limit repayment risk. Therefore, we continuously monitor funding options available in the capital markets and trends in the availability of funds, as well as the cost of such funding.

**Capital Structure Management**

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

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

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

Our goal 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. For more information about dividends and share repurchases and about our current capital structure ratios, see the Notes to the Consolidated Financial Statements section, Note (22).

**Cash Flows and Liquidity**

Total Group liquidity on December 31, 2011, primarily comprised amounts in euros ( 3,737 million) and U.S. dollars ( 833 million). Current investments are included in other financial assets on the statement of financial position. Bank loans, private placement transactions, and bonds are included within financial liabilities on the statement of financial position. Financial debt on December 31, 2011, primarily comprised amounts in euros ( 2,999 million) and U.S. dollars ( 966 million). Around 3% of our financial debt is held at variable interest rates and is not hedged.

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**Analysis of Net Liquidity**

| millions                                  | 2011         | 2010         | Change       |
|---|--------------|--------------|--------------|
| Cash and cash equivalents                 | 4,965        | 3,518        | 1,447        |
| Current investments                       | 636          | 10           | 626          |
| <b>Total Group liquidity</b>              | <b>5,601</b> | <b>3,528</b> | <b>2,073</b> |
| Current bank loans                        | 101          | 1            | 100          |
| Current private placement transaction     | 423          | 0            | 423          |
| Current bond                              | 600          | 0            | 600          |
| <b>Net liquidity 1</b>                    | <b>4,477</b> | <b>3,527</b> | <b>950</b>   |
| Non-current bank loans                    | 1            | 1,106        | 1,105        |
| Non-current private placement transaction | 1,240        | 1,071        | 169          |
| Non-current bond                          | 1,600        | 2,200        | 600          |
| <b>Net liquidity 2</b>                    | <b>1,636</b> | <b>850</b>   | <b>2,486</b> |

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

with original maturities of greater than three months and remaining maturities of less than one year) as reported in our IFRS Consolidated Financial Statements.

Total financial debt consists of current financial liabilities (for example, overdrafts, current bank loans, bonds or private placements) and non-current financial liabilities (for example, non-current bank loans, bonds, or private placements) as reported in our IFRS Consolidated Financial Statements. For more information about our financial debt, see the Notes to the Consolidated Financial Statements section, Note (18).

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

The increase in total Group liquidity from 2010 was mainly due to the positive cash inflows from our operations.



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

**Analysis of Consolidated Statements of Cash Flows**

| millions                                 | Years ended December 31, |       |       | Change in % 2011<br>vs. 2010 | Change in % 2010<br>vs. 2009 |
|--|--------------------------|-------|-------|------------------------------|------------------------------|
|  | 2011                     | 2010  | 2009  |                              |                              |
| Net cash flows from operating activities | 3,775                    | 2,922 | 3,019 | 29                           | 3                            |
| Net cash flows from investing activities | 1,226                    | 3,994 | 299   | 69                           | >100                         |
| Net cash flows from financing activities | 1,176                    | 2,520 | 2,170 | < 100                        | < 100                        |

**Analysis of Consolidated Statements of Cash Flow: 2011 compared to 2010**

Net cash provided by operating activities improved 853 million or 29% to 3,775 million in 2011 (2010: 2,922 million). The year's good sales figures were the factor with the greatest effect on operating cash flow in 2011. By effective management of working capital, we were again able to reduce the days sales outstanding (DSO) for receivables, defined as average number of days from revenue recognition to cash receipt from the customer. In 2011, we reduced DSO by five days to 60 days (2010: 65 days).

Cash outflows from investment activities totaled 1,226 million in 2011, much reduced from the 2010 figure of 3,994 million. In 2011, cash outflows were mainly driven by investments in time deposits and German government bonds, and also by our business and infrastructure following the acquisition of tangible and intangible assets. In 2011, we paid 188 million for the acquisition of consolidated companies compared to 4,194 million in 2010. Much of the 2010 outflow was attributable to the purchase price paid for the acquisition of Sybase.

Cash outflows from financing activities totaled 1,176 million in 2011, compared to cash inflows of 2,520 million in 2010. Our 2011 cash outflows were mainly due to the repayment of a credit facility we entered into in connection

with our acquisition of Sybase. This was partly offset by a private placement completed in the United States on June 1, 2011, which led to a cash inflow of US\$750 million. In the previous year, cash inflows were driven mainly by the incoming payments from our financing activities related to the acquisition of Sybase.

The increase in total dividend to 713 million was due to an increase in the dividend paid from 0.50 per share in the previous year to 0.60 in the reporting year (total dividend payout in 2010: 594 million). In 2011, we repurchased shares for treasury in the amount of 246 million (2010: 220 million).

**Analysis of Consolidated Statements of Cash Flow: 2010 Compared to 2009**

Net cash provided by operating activities decreased 97 million or 3% to 2,922 million in 2010 (2009: 3,019 million). The comparative operating cash inflows in 2009 had, however, been supported by payments from customers on trade receivables for which payment was deferred in 2008 in

the context of that year's financial crisis. The 102 million we paid out in connection with the TomorrowNow litigation had a negative effect on 2010 operating cash flows. This was partly offset by the effective management of our working capital as evidenced by a decrease of our average collection period, which is measured in days sales outstanding, or DSO (defined as average number of days from

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revenue recognition to cash receipt from the customer) by 14 days from 79 days in 2009 to 65 days in 2010.

Net cash used in investing activities increased significantly from 299 million in 2009 to 3,994 million in 2010 mainly due to our acquisition of Sybase in 2010. In 2010, we invested 334 million in our technology and business infrastructure by purchasing intangible assets and property, plant, and equipment, a significant portion of which represented the purchase of patents, vehicles, IT hardware, and the cost of constructing office buildings (2009: 225 million).

Net cash inflows from financing activities were 2,520 million in 2010 compared to net cash outflows of 2,170 million in 2009. The net cash inflows in 2010 were mainly due to the proceeds from our financing transactions conducted in connection with the Sybase acquisition. In total, the financing transactions conducted in 2010 led to cash inflows in the amount of 5,380 million of which 2,196 million were used to partly repay the acquisition-related term loan and assumed outstanding convertible bonds from Sybase. The net cash outflows in 2009 were mainly due to the repayment of the credit facility we entered into in connection with our acquisition of Business Objects. The dividend distributed in 2010 was 594 million, unchanged from the previous year (2009: 594 million). We repurchased shares for treasury in the amount of 220 million in 2010 (2009: 0 million).

**Credit Facilities**

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

We are party to a revolving 1.5 billion syndicated credit facility agreement with an initial term of five years ending in December

2015. The use of the facility is not restricted by any financial covenants. Potential proceeds are for general corporate purposes. Borrowings under the facility bear interest at the euro interbank offered rate (EURIBOR) or London interbank offered rate (LIBOR) for the respective currency plus a margin ranging from 45 to 75 basis points that depends on the amount drawn. We pay a commitment fee of 15.75 basis points 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. Consequently, there were no borrowings outstanding under the facility as at December 31, 2011.

As at December 31, 2011, SAP AG had additional available credit facilities totaling approximately 490 million. As at December 31, 2011, 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, 2011, approximately 54 million was available through such arrangements. Total aggregate borrowings under these lines of credit amounted to 1 million as at December 31, 2011.

**OFF-BALANCE SHEET ARRANGEMENTS**

Several SAP entities have entered into operating leases for office space, hardware, cars and certain other equipment. These arrangements are sometimes referred to as a form of off-balance sheet financing. Rental expenses under these operating leases are set forth below under Contractual Obligations. We believe we do not have forms of material off-balance sheet arrangements that would require disclosure other than those already disclosed.

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**CONTRACTUAL OBLIGATIONS**

The table below presents our on- and off-balance sheet contractual obligations as of December 31, 2011:

| Contractual obligations<br>millions   | Total        | Payments due by period |              |            |                      |
|---|--------------|------------------------|--------------|------------|----------------------|
|   |              | Less than<br>1 year    | 1-3 years    | 3-5 years  | More than<br>5 years |
| Debt obligations <sup>(1)</sup>   | 4,567        | 1,392                  | 1,552        | 791        | 832                  |
| Other non-current obligations on the statement of financial position <sup>(2)</sup> | 92           | 1                      | 7            | 3          | 81                   |
| Operating lease obligations <sup>(3)</sup>  | 878          | 212                    | 345          | 190        | 131                  |
| Purchase obligations <sup>(3)</sup>   | 572          | 371                    | 122          | 48         | 31                   |
| <b>Total</b>  | <b>3,025</b> | <b>808</b>             | <b>1,078</b> | <b>550</b> | <b>589</b>           |

<sup>(1)</sup> This represents bank loans, private placement transactions, bonds, other financial liabilities and interest thereon.

<sup>(2)</sup> Amounts mainly consist of employee-related liabilities. Not included in the table are non-current tax liabilities of 408 million, which include provisions for uncertainties in income taxes.

<sup>(3)</sup> See Note (23) to our Consolidated Financial Statements for additional information about operating lease and purchase obligations. Our expected contributions to our pension and other post employment benefit plans are not included in the table above. We expect to contribute in 2012 statutory minimum and discretionary amounts of 1 million to our German defined benefit plans and 47 million to our foreign defined benefit plans, all of which are expected to be paid as cash contributions. Our contributions to our German and foreign defined contribution plans have ranged from 132 million to 151 million in 2009 through 2011; we expect similar contributions to be made in 2012.

We expect to meet these contractual obligations with our existing cash, our cash flows from operations and our financing activities. The timing of payments for the above contractual obligations is based on payment schedules for those obligations where set payments exist. For other obligations with no set payment schedules, estimates as to the most likely timing of cash payments have been made. The ultimate timing of these future cash flows may differ from these estimates.

**Obligations under Indemnifications and Guarantees**

Our software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe a third party's intellectual property rights. In addition, we occasionally provide function or performance guarantees in

routine consulting contracts and development arrangements. We also generally provide a six to twelve month warranty on our software. Our warranty liability is included in other provisions. For more information on other provisions see Note (19b) to our Consolidated Financial Statements. For more information on obligations and contingent liabilities refer to Note (3) and Note (23) in our Consolidated Financial

Statements.

**RESEARCH AND DEVELOPMENT**

For information on our R&D activities see Item 4. Information about SAP Research and Development. For information on our R&D costs see Item 5. Operating and Financial Review and Prospects Operating Results and for information related to our R&D employees see Item 6. Directors, Senior Management and Employees Employees.

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**CRITICAL ACCOUNTING ESTIMATES**

Our Consolidated Financial Statements are prepared based on the accounting policies described in Note (3) to our Consolidated Financial Statements in this report. The application of such policies requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, revenues and expenses in our Consolidated Financial Statements. We base our judgments, estimates and assumptions on historical and forecast information, as well as regional and industry economic conditions in which we or our customers operate, changes to which could adversely affect our estimates. Although we believe we have made reasonable estimates about the ultimate resolution of the underlying uncertainties, no assurance can be given that the final outcome of these matters will be consistent with what is reflected in our assets, liabilities, revenues and expenses. Actual results could differ from original estimates.

The accounting policies that most frequently require us to make judgments, estimates, and assumptions, and therefore are critical to understanding our results of operations, are:

revenue recognition;

valuation of trade receivables;

accounting for share-based compensation;

accounting for income tax;

accounting for business combinations;

subsequent accounting for goodwill and other intangibles;

accounting for legal contingencies; and

recognition of internally generated intangible assets from development.

Our management periodically discusses these critical accounting policies with the Audit Committee of the Supervisory Board. See Note (3c) to our Consolidated Financial Statements for further discussion on our critical accounting estimates and critical accounting policies.

**NEW ACCOUNTING STANDARDS NOT YET ADOPTED**

See Note (3e) to our Consolidated Financial Statements for our discussion on new accounting standards not yet adopted.



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## Item 6

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****SUPERVISORY BOARD**

The current members of the Supervisory Board of SAP AG, each member's principal occupation, the year in which each was first elected and the year in which the term of each expires, respectively, are as follows:

| <b>Name</b>  | <b>Age</b> | <b>Principal Occupation</b>   | <b>Year First Elected</b> | <b>Year Term Expires</b> |
|--|------------|---|---------------------------|--------------------------|
| Prof. Dr. h.c. mult. Hasso Plattner, Chairman <sup>(1)(2)(5)(6)(7)(10)</sup>                 | 68         | Chairman of the Supervisory Board   | 2003                      | 2012                     |
| Pekka Ala-Pietilä <sup>(1)(6)(7)(10)</sup>   | 55         | Co-founder and CEO Blyk Ltd.  | 2002                      | 2012                     |
| Prof. Dr. Wilhelm Haarmann <sup>(1)(2)(4)(10)</sup>  | 61         | Attorney at Law, Certified Public Auditor and Certified Tax Advisor; HAARMANN Partnerschaftsgesellschaft, Rechtsanwälte, Steuerberater, Wirtschaftsprüfer | 1988                      | 2012                     |
| Bernard Liautaud <sup>(6)(11)</sup>  | 49         | General Partner, Balderton Capital  | 2008                      | 2012                     |
| Dr. h.c. Hartmut Mehdorn <sup>(1)(4)(5)</sup>  | 69         | Chief Executive Officer, Air Berlin PLC, Rickmansworth, UK  | 1998                      | 2012                     |
| Prof. Dr.-Ing. Dr. h.c. mult. Dr.-Ing. E.h. mult. Joachim Milberg <sup>(1)(2)(3)(6)(7)</sup> | 68         | Chairman of the Supervisory Board of BMW AG   | 2007                      | 2012                     |
| Dr. Erhard Schipporeit <sup>(1)(3)(9)(10)</sup>  | 63         | Management Consultant   | 2005                      | 2012                     |
| Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus Wucherer <sup>(1)(6)</sup>                                | 67         | Managing Director of Dr. Klaus Wucherer Innovations- und Technologieberatung GmbH   | 2007                      | 2012                     |
| Lars Lamadé, Vice Chairman <sup>(2)(5)(8)(10)</sup>  | 40         | Employee, Project Manager Service & Support   | 2002                      | 2012                     |
| Thomas Bamberger <sup>(3)(8)</sup>   | 44         | Employee, Chief Operating Officer Global Service & Support  | 2007                      | 2012                     |
| Panagiotis Bissiritsas <sup>(2)(4)(6)(8)</sup>   | 43         | Employee, Support Expert  | 2007                      | 2012                     |
| Peter Koop <sup>(6)(8)</sup>   | 45         | Employee, Industry Business Development Expert  | 2007                      | 2012                     |
| Christiane Kuntz-Mayr <sup>(6)</sup>   | 49         | Employee, Deputy Chairperson of the Works Council of SAP AG   | 2009                      | 2012                     |
| Dr. Gerhard Maier <sup>(2)(3)(8)</sup>   | 58         | Employee, Development Project Manager   | 1989                      | 2012                     |
| Dr. Hans-Bernd Meier <sup>(12)</sup>   | 60         | Retiree, independent Consultant for SAP Project   | 2011                      | 2012                     |
| Stefan Schulz <sup>(4)(5)(6)(8)(10)</sup>  | 42         | Employee, Development Project Manager   | 2002                      | 2012                     |

<sup>(1)</sup> Elected by SAP AG's shareholders on May 10, 2007.

<sup>(2)</sup> Member of the General and Compensation Committee.

<sup>(3)</sup> Member of the Audit Committee.



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- (4) Member of the Finance and Investment Committee.
- (5) Member of the Mediation Committee.
- (6) Member of the Technology and Strategy Committee.
- (7) Member of the Nomination Committee.
- (8) Elected by SAP AG's employees on April 23, 2007.
- (9) Member of the Audit Committee and determined to be the Audit Committee financial expert.
- (10) Member of the Special Committee.
- (11) Elected by SAP AG's shareholders on June 3, 2008, replaced August-Wilhelm Scheer who resigned from the Supervisory Board on the same day.
- (12) Replaced Willi Burbach who left the Supervisory Board on August 7, 2011

For detailed information on the Supervisory Board committees and their tasks, including the Audit Committee and Compensation Committee, please refer to Item 10 Additional Information Corporate Governance.

Pursuant to the German Co-determination Act of 1976 (Mitbestimmungsgesetz), members of the Supervisory Board of SAP AG consist of eight representatives of the shareholders and eight representatives of the employees. Of the eight employee representatives, two must be nominated by the trade unions. The elected employees must be at least 18 years of age and must have been in the employment of SAP AG or one of its German subsidiaries for at least one year. They must also fulfill the other qualifications for election codified in Section 8 of the German Works Council Constitution Act. These qualifications include, among other things, not having been declared ineligible or debarred from holding public office by a court.

Certain current members of the Supervisory Board of SAP AG were members of supervisory boards and comparable governing bodies of enterprises other than SAP AG in Germany and other countries as of December 31, 2011. See Note (30) to our Consolidated Financial Statements for more detail. Apart from pension obligations towards employees, SAP AG has not entered into contracts with any member of the Supervisory Board that provide for benefits upon a termination of the employment or service of the member.

**EXECUTIVE BOARD**

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The current members of the Executive Board, the year in which each member was first appointed and the year in which the term of each expires, respectively, are as follows:

| <b>Name</b>                | <b>Year First Appointed</b> | <b>Year Current Term Expires</b> |
|----------------------------|-----------------------------|----------------------------------|
| Bill McDermott, Co-CEO     | 2008                        | 2017                             |
| Jim Hagemann Snabe, Co-CEO | 2008                        | 2017                             |
| Dr. Werner Brandt          | 2001                        | 2013                             |
| Gerhard Oswald             | 1996                        | 2014                             |
| Vishal Sikka               | 2010                        | 2017                             |

The following changes occurred in the Executive Board in 2011:

In July 2011, Angelika Dammann resigned as a member of the Executive Board. Following Angelika's resignation, Werner Brandt, CFO of SAP, started to act as interim head of Global HR and interim labor relations director.

A description of the management responsibilities and backgrounds of the current members of the Executive Board are as follows:

**Bill McDermott, Co-CEO** (Vorstandssprecher), 50 years old, holds a master's degree in business administration. He joined SAP in 2002 and became a member of its Executive Board on July 1, 2008. On February 7, 2010 he became Co-CEO alongside Jim Hagemann Snabe.

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Besides the duties as Co-CEO, he is responsible for strategy, governance, corporate development, innovation, sales, field services, consulting, ecosystem activities, communications, and marketing.

**Jim Hagemann Snabe, Co-CEO** (Vorstandssprecher), 46 years old, holds a master degree in operational research. He joined SAP in 1990 and became a member of its Executive Board on July 1, 2008. On February 7, 2010 he became Co-CEO alongside Bill McDermott. Besides the duties as Co-CEO, he is responsible for strategy, governance, corporate development, innovation, products and solutions development, communications, and marketing.

**Werner Brandt**, 58 years old, business administration graduate. Werner Brandt joined SAP in early 2001 as the Chief Financial Officer and member of the Executive Board. He is responsible for finance and administration including investor relations and data protection and privacy. He is also responsible for Global Human Resources and is SAP's Labor Relations Director (acting). Prior to joining SAP, Werner Brandt was CFO and member of the Executive Board of Fresenius Medical Care AG since 1999. In this role, he was also responsible for labor relations. Before joining Fresenius Medical Care AG, Werner Brandt headed the finance function of the European operations of Baxter International Inc.

**Gerhard Oswald**, 58 years old, economics graduate. Gerhard Oswald joined SAP in 1981 and became a member of the Executive Board in 1996. He became Chief Operating Officer on February 11, 2010. In this position he is responsible for SAP active global support, installed base maintenance & support, global IT, globalization services, quality governance & production, COO operations, university alliances, global user groups organization, chief process office, and SAP Labs network.

**Vishal Sikka**, 44 years old, holds a PH. D. degree in computer science from Stanford University. He joined SAP in 2002 and became a

member of its Executive Board on February 7, 2010 leading technology and innovation. His responsibilities include the SAP technology platform and products, including database, application platform and middleware, collaboration, business analytics, and search. He is also responsible for the development of new products and new business areas, including the SAP research, incubation, and new products organizations. Before joining the Executive Board, he was the first Chief Technology Officer at SAP, and prior to that was SAP's Chief Software Architect. Before joining SAP, he was area vice president for platform technologies at Peregrine Systems, and prior to that he founded and led two start-ups Bodha, Inc. and IBrain Software.

The members of the Executive Board of SAP AG as of December 31, 2011 that are members on other supervisory boards and comparable governing bodies of enterprises, other than SAP, in Germany and other countries, are set forth in Note (30) to our Consolidated Financial Statements. SAP AG has not entered into contracts with any member of the Executive Board that provide for benefits upon a termination of the employment of service of the member, apart from pensions, benefits payable in the event of an early termination of service, and abstention compensation for the postcontractual noncompete period.

To our knowledge, there are no family relationships among the Supervisory Board and Executive Board members.

**COMPENSATION REPORT**

**Compensation for Executive and Supervisory Board Members**

This compensation report outlines the criteria that we applied for the year 2011 to determine compensation for Executive Board and Supervisory Board members, discloses the amount of compensation paid, and describes the compensation systems. It also contains information about Executive Board members' share-based payment plans, shares held by



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Executive Board and Supervisory Board members, and the directors' dealings required to be disclosed in accordance with the German Securities Trading Act.

**Compensation for Executive Board Members**

**Compensation System for 2011**

Executive Board members' compensation for 2011 is intended to reflect SAP's size and global presence as well as our economic and financial standing. The compensation level is internationally competitive to reward committed, successful work in a dynamic environment.

The Executive Board compensation package is performance-based. In 2011, it had four elements:

A fixed annual salary

A variable short-term incentive (STI) plan to reward performance in the plan year

A variable medium-term incentive (MTI) plan to reward performance in the plan year and the two subsequent years

A share-based long-term incentive (LTI) plan tied to the price of SAP shares

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

The following criteria apply to the elements of Executive Board compensation for 2011:

The fixed element is paid as a monthly salary.

The variable compensation under the STI plan depends on the SAP Group's performance against the KPI target values for non-IFRS constant currency software and software-related service revenue growth and non-IFRS constant currency operating profit. In addition, the STI element has a discretionary component that allows the Supervisory Board, at the end of the period in question, to address not only an Executive Board member's individual performance, but also SAP's performance in terms of market position, innovative power, customer satisfaction, employee satisfaction, and attractiveness as an employer. Moreover, if there has been any extraordinary and unforeseeable event the Supervisory Board can, at its reasonable discretion, retroactively adjust payouts up or down in the interest of SAP. On February 16, 2012, the Supervisory Board assessed SAP's performance against the agreed targets and determined the amount of STI payable. The STI pays out after the Annual General Meeting of Shareholders in May 2012.

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The variable compensation under the MTI plan depends on the SAP Group's performance over the three years 2011 to 2013 against the KPI target values for software and software-related service revenue growth and earnings per share (both of which are non-IFRS, constant currency values). In addition, the MTI element has a discretionary component that allows the Supervisory Board, at the end of the period in question, to address not only an Executive Board member's individual performance, but also SAP's performance over the three years 2011 to 2013 in terms of market position, innovative power, customer satisfaction, employee satisfaction, and attractiveness as an employer. The MTI pays out after the Annual General Meeting of Shareholders in 2014.

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The LTI component consists of the issue of virtual share options under the terms of the 2011 share option (SAP SOP 2010) plan. For the terms and detail of the SAP SOP 2010 plan, see the Notes to Consolidated Financial Statements section, Note (28). The number of virtual share options to be issued to each member of the Executive Board in 2011 by way of long-term incentive was decided by the Supervisory Board on March 18, 2011, with effect from June 9, 2011, and reflects the fair value of the virtual share options awarded.

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

**Executive Board Compensation System for 2012**

There is a new compensation system for Executive Board members with effect from January 1, 2012, replacing the arrangements in place in 2011. It is more competitive, and more strongly aligned to the goals in our strategy for 2015.

In place of the four elements in the discontinued package (the fixed annual salary and the short-term, medium-term, and long-term incentive elements), future packages will have only three elements. Executive Board members will still receive a fixed salary, as they did in 2011. Their compensation will also still have a variable short-term incentive (STI) element, which will, as in the past, reward performance from year to year. However, the long-term incentive (LTI) element has been completely redesigned. The annual medium-term incentive (MTI) plans will be discontinued, although MTI allocations already made on or before December 31, 2011, will not be affected. The STI element will be scaled so that, assuming 100% target achievement and assuming the SAP share price is the same when any variable element pays out as it was when it was granted, the STI to LTI weighting will be approximately

30% to 70% for the co-CEOs and 42% to 58% for other members of the Executive Board.

The new long-term incentive element, the LTI Plan 2015, is called the RSU Milestone Plan 2015. It focuses on the SAP share price and on certain objectives derived from our Company strategy for the years through 2015. RSU stands for restricted share unit. We established the LTI Plan 2015 at the beginning of 2012 as a standard LTI element in compensation packages for the years 2012 through 2015. It will pay out in the years 2016 through 2019, so the first payout will not be until after the end of 2015. In February 2012, each member of the Executive Board was allocated a certain number of SAP restricted share unit virtual shares for 2012. At the beginning of 2013, 2014, and 2015, the virtual share allocation process will be repeated for each of those years respectively. The number of restricted share units allocated to each member for a given year is his or her milestone award (an amount in euros) for that year divided by the SAP share price over a reference period (defined in the LTI Plan 2015 terms) at the beginning of the year in question.

The number of RSUs an Executive Board member actually earns in respect of a given year could be greater or smaller than the initial allocation. It depends on Company performance against the objectives for that year (a year is a performance period in the Plan). The objectives derive from SAP's strategy for the period to 2015. The Plan objectives relate to two key performance indicators (KPIs): our non-IFRS total revenue and our non-IFRS operating profit. The KPI targets have already been set for the entire life of the LTI Plan 2015 for the years 2012 to 2015.

After the end of each performance period (which is a Plan year), the Supervisory Board assesses the Company's performance against the objectives set for that year and determines the number of RSUs to be finally allocated to (and which then vest in) each Executive Board member. There are objective-based performance hurdles to clear each year before any RSUs can vest. There is also a cap: Normally, the quantity

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of vested RSUs a member can attain in respect of a Plan year is capped at 150% of his or her initial RSU allocation for that year. The Company strategy underlying the LTI Plan 2015 focuses on where SAP aims to be by 2015, so the Plan gives greater weight to performance against the KPI targets for 2015 (the final year of the Plan) than against the targets for 2012 through 2014. After the end of 2015, the number of vested RSUs a member of the Executive Board actually receives for that year is revised. In circumstances where the targets for the individual years are not achieved but the 2015 targets are achieved, the outcome of this revision would be that a member would receive as many vested RSUs for 2015 as would make up for any that he or she did not receive in the earlier years by reason of failures to achieve targets. On the other hand, if the Company underachieves against the 2015 objectives, Executive Board members may in the worst case lose all of the vested RSUs allocated to them for 2015.

All vested RSUs are subject to a three-year holding period. The holding period commences at the end of the year (performance period) for which the RSU was allocated. The amount an RSU eventually pays out depends on the SAP share price at the end of the holding period. A member who leaves the Executive Board before the end of the Plan retains his or her vested RSUs for completed Plan years but not any allocated but unvested RSUs for the year during which he or she leaves.

Each vested RSU entitles its holder to a (gross) payout corresponding to the price of one SAP share after the end of the three-year holding period. The applicable share price is measured over a reference period defined in the RSU Milestone Plan 2015 terms.

Subject to the requirements in the German Stock Corporation Act, section 87 (1), the Supervisory Board is entitled to revise the STI and the LTI in extraordinary and unforeseeable circumstances.

**Executive Board Members - Compensation in 2011**

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

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- 1) Insurance contributions, benefits in kind, expenses for maintenance of two households due to work abroad, reimbursement of legal and tax advice fees, nonrecurring payments, use of aircraft, tax
- 2) Fair value at the time of grant
- 3) Includes discrete payments arising through application of the fixed exchange-rate clause to the following items: salary for 2011: 129,900; profit-sharing bonus for 2011: 664,300
- 4) Includes a discrete payment arising through application of the fixed exchange-rate clause to the following item: profit-sharing bonus for 2011: 124,100

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- 5) Angelika Dammann's appointment as member of the Executive Board ended on July 8, 2011. Her contract with SAP AG ended on August 31, 2011. Due to the end of her contract on August 31, 2011 the number of virtual options issued to her in 2011 was reduced. The amount of the Short-Term Incentive includes pro rata temporis amounts of the STI 2011 ( 585,000), the MTI 2011 ( 330,300) and the MTI 2010 ( 247,800).

Assuming 100% target achievement, the amounts the MTI 2011 and the MTI 2010 will pay out in 2013 and 2014 are as follows.

**MTI Target Payouts**

| thousands                   | MTI 2011 Target Payouts 2014 | MTI 2010 Target Payouts 2013 |
|-----------------------------|------------------------------|------------------------------|
| Bill McDermott (co-CEO)     | 820.0                        | 820.0                        |
| Jim Hagemann Snabe (co-CEO) | 820.0                        | 820.0                        |
| Dr. Werner Brandt           | 495.5                        | 495.5                        |
| Gerhard Oswald              | 495.5                        | 495.5                        |
| Vishal Sikka                | 495.5                        | 443.9                        |
| Total                       | 3,126.5                      | 3,074.9                      |

The share-based payment amounts in 2011 result from the following virtual share option grants under the SAP SOP 2010.

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

|  | Quantity       | Fair Value per Right at Time of Grant | 2011 Grants<br>Total Fair Value at Time of Grant<br>thousands | Fair Value per Right on Dec. 31, 2011 | Total Fair Value on Dec. 31, 2011<br>thousands |
|--|----------------|---------------------------------------|---|---------------------------------------|--|
| Bill McDermott (co-CEO)                          | 112,426        | 8.45                                  | 950.0   | 7.13                                  | 801.6  |
| Jim Hagemann Snabe (co-CEO)                      | 112,426        | 8.45                                  | 950.0   | 7.13                                  | 801.6  |
| Dr. Werner Brandt                                | 68,284         | 8.45                                  | 577.0   | 7.13                                  | 486.9  |
| Gerhard Oswald                                   | 68,284         | 8.45                                  | 577.0   | 7.13                                  | 486.9  |
| Vishal Sikka                                     | 68,284         | 8.45                                  | 577.0   | 7.13                                  | 486.9  |
| Dr. Angelika Dammann (member until July 8, 2011) | 45,523         | 8.45                                  | 384.7   | 7.13                                  | 324.6  |
| <b>Total</b>                                     | <b>475,227</b> |                                       | <b>4,015.7</b>  |                                       | <b>3,388.5</b>                                 |

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**Total Executive Board Payment in 2010, Including SAP SOP 2010 Share Options Granted**

| thousands  | Fixed Elements |                     | Performance-Related Element | Long-Term Incentive Elements                     | Total           |
|--|----------------|---------------------|-----------------------------|--|-----------------|
|  | Salary         | Other <sup>1)</sup> | Short-Term Incentive (STI)  | Share-Based Payment (SAP SOP 2010) <sup>2)</sup> |                 |
| Bill McDermott (co-CEO) <sup>3)</sup>            | 1,355.2        | 196.4               | 1,920.6                     | 950.0  | 4,422.2         |
| Jim Hagemann Snabe (co-CEO)                      | 1,150.0        | 114.5               | 1,648.7                     | 950.0  | 3,863.2         |
| Dr. Werner Brandt                                | 700.0          | 18.4                | 997.7                       | 577.0  | 2,293.1         |
| Gerhard Oswald                                   | 700.0          | 97.6                | 997.7                       | 577.0  | 2,372.3         |
| Vishal Sikka <sup>4)</sup>                       | 697.3          | 215.4               | 969.9                       | 577.0  | 2,459.6         |
| Dr. Angelika Dammann (member until July 8, 2011) | 350.0          | 106.4               | 498.9                       | 288.5  | 1,243.8         |
| <b>Total</b>                                     | <b>4,952.5</b> | <b>748.7</b>        | <b>7,033.5</b>              | <b>3,919.5</b>                                   | <b>16,654.2</b> |

<sup>1)</sup> Insurance contributions, benefits in kind, expenses for maintenance of two households due to work abroad, reimbursement legal and tax advice fees, nonrecurring payments, security services, tax

<sup>2)</sup> Fair value at the time of grant

<sup>3)</sup> Includes discrete payments arising through application of the fixed exchange-rate clause to the following items: salary for 2010: 205,200; profit-sharing bonus for 2010: 271,900

<sup>4)</sup> Includes discrete payments arising through application of the fixed exchange-rate clause to the following items: salary for 2010: 70,100; profit-sharing bonus for 2010: 76,100

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

|                             | Quantity | Fair Value per Right at Time of Grant | 2010 Grants                                 |                                       | Total Fair Value on Dec. 31, 2010 |
|-----------------------------|----------|---------------------------------------|---|---------------------------------------|-----------------------------------|
|                             |          |                                       | Total Fair Value at Time of Grant thousands | Fair Value per Right on Dec. 31, 2010 |                                   |
| Bill McDermott (co-CEO)     | 135,714  | 7.00                                  | 950.0                                       | 8.19                                  | 1,111.5                           |
| Jim Hagemann Snabe (co-CEO) | 135,714  | 7.00                                  | 950.0                                       | 8.19                                  | 1,111.5                           |
| Dr. Werner Brandt           | 82,428   | 7.00                                  | 577.0                                       | 8.19                                  | 675.1                             |

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|  |                |      |                |      |                |
|--|----------------|------|----------------|------|----------------|
| Gerhard Oswald                                   | 82,428         | 7.00 | 577.0          | 8.19 | 675.1          |
| Vishal Sikka                                     | 82,428         | 7.00 | 577.0          | 8.19 | 675.1          |
| Dr. Angelika Dammann (member until July 8, 2011) | 41,214         | 7.00 | 288.5          | 8.19 | 337.5          |
| <b>Total</b>                                     | <b>559,926</b> |      | <b>3,919.5</b> |      | <b>4,585.8</b> |

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**End-of-Service Benefits**

**Regular End-of-Service Undertakings**

***Retirement Pension Plan***

Members of the Executive Board receive a retirement pension when they reach the retirement age of 60 and vacate their Executive Board seat or a disability pension if, before reaching the regular retirement age, they become subject to occupational disability or permanent incapacity. A surviving dependant's pension is paid on the death of a former member of the Executive Board. The disability pension is 100% of the vested retirement pension entitlement and is payable until the beneficiary's 60th birthday, after which it is replaced by a retirement pension. The surviving dependant's pension is 60% of the retirement pension or vested disability pension entitlement at death. Entitlements are enforceable against SAP AG.

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

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

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

Bill McDermott and Vishal Sikka have rights to future benefits under the pension plan of SAP America. The pension plan of SAP America is a cash balance plan that on retirement provides either monthly pension payments or a lump sum. The pension becomes available from the beneficiary's 65th birthday. Subject to certain conditions, the plan also provides earlier payment or invalidity benefits. The SAP America pension plan closed with effect from January 1, 2009. Interest continues to be paid on the earned rights to benefits.

SAP also made contributions to a third-party pension plan for Bill McDermott and Vishal Sikka. SAP's contributions are based on Bill McDermott's and Vishal Sikka's payments into this pension plan. Additionally in view of the close of the SAP America pension plan, SAP adjusted its payments to this non-SAP pension plan. In 2011, SAP paid contributions for Bill McDermott totaling 470,800 (2010: 765,700) and for Vishal Sikka totaling 95,700 (2010: 153,200).

Instead of paying for entitlements under the pension plan for Executive Board members, SAP pays equivalent amounts to a non-SAP pension plan for Jim Hagemann Snabe. In 2011, SAP paid contributions totaling 283,800 (2010: 283,100).

Gerhard Oswald's performance-based retirement plan was discontinued when SAP introduced a contributory retirement pension plan in 2000. His pension benefits are derived from any accrued entitlements on December 31, 1999, under performance-based pension agreements and a salary-linked contribution for the period commencing January 1, 2000. Gerhard Oswald's rights to retirement pension benefits will increase by further annual contributions because he will remain a member of the Executive Board after his 60th

birthday until his retirement on June 30, 2014.

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

| thousands  | Bill Mc<br>Dermott<br>(co-CEO) | Dr. Werner<br>Brandt | Gerhard<br>Oswald | Vishal<br>Sikka | Dr. Angelika<br>Dammann<br>(Member<br>until July 8,<br>2011) | Total          |
|--|--------------------------------|----------------------|-------------------|-----------------|--|----------------|
| PBO January 1, 2010                                | 958.1                          | 902.8                | 3,626.2           | 0               | 0  | 5,487.1        |
| Less plan assets market value January 1, 2010      | 42.5                           | 655.1                | 2,874.2           | 0               | 0  | 3,571.8        |
| <b>Accrued January 1, 2010</b>                     | <b>915.6</b>                   | <b>247.7</b>         | <b>752.0</b>      | <b>0</b>        | <b>0</b>   | <b>1,915.3</b> |
| <b>Accrued January 1, 2010 (new Board members)</b> | <b>0</b>                       | <b>0</b>             | <b>0</b>          | <b>0.2</b>      | <b>0</b>   | <b>0.2</b>     |
| PBO change in 2010                                 | 115.1                          | 381.5                | 501.2             | 13.3            | 62.9   | 1,074.0        |
| Plan assets change in 2010                         | 10.1                           | 266.6                | 500.7             | 11.8            | 78.7   | 867.9          |
| PBO December 31, 2010                              | 1,073.2                        | 1,284.3              | 4,127.4           | 46.7            | 62.9   | 6,594.5        |
| Less plan assets market value December 31, 2010    | 52.6                           | 921.7                | 3,374.9           | 45.0            | 78.7   | 4,472.9        |
| <b>Accrued December 31, 2010</b>                   | <b>1,020.6</b>                 | <b>362.6</b>         | <b>752.5</b>      | <b>1.7</b>      | <b>15.8</b>  | <b>2,121.6</b> |
| PBO change in 2011                                 | 66.3                           | 215.4                | 358.1             | 6.4             | 50.0   | 696.2          |
| Plan assets change in 2011                         | 4.0                            | 209.3                | 436.3             | 3.5             | 98.5   | 751.6          |
| PBO December 31, 2011                              | 1,139.5                        | 1,499.7              | 4,485.5           | 53.1            | 112.9  | 7,290.7        |
| Less plan assets market value December 31, 2011    | 56.6                           | 1,131.0              | 3,811.2           | 48.5            | 177.2  | 5,224.5        |
| <b>Accrued December 31, 2011</b>                   | <b>1,082.9</b>                 | <b>368.7</b>         | <b>674.3</b>      | <b>4.6</b>      | <b>64.3</b>  | <b>2,066.2</b> |

The table below shows the annual pension entitlement of each member of the Executive Board on reaching age 60 based on entitlements from SAP under performance-based and salary-linked plans vested on December 31, 2011.

**Annual Pension Entitlement**

| thousands  | Vested on<br>December 31,<br>2011 | Vested on<br>December 31,<br>2010 |
|--|-----------------------------------|-----------------------------------|
| Bill McDermott (co-CEO) <sup>1)</sup>            | 98.3                              | 101.1                             |
| Dr. Werner Brandt                                | 80.6                              | 72.9                              |
| Gerhard Oswald                                   | 243.7 <sup>2)</sup>               | 228.1                             |
| Vishal Sikka <sup>1)</sup>                       | 6.5                               | 6.3                               |
| Dr. Angelika Dammann (member until July 8, 2011) | 8.2                               | 3.5                               |

<sup>1)</sup> The rights shown here for Bill McDermott and Vishal Sikka refer solely to rights under the SAP America pension plan.

<sup>2)</sup> Due to the extension of Gerhard Oswald's contract beyond his 60th birthday, this value represents the retirement pension entitlement that he would receive after his current Executive Board contract expires on June 30, 2014, based on the entitlements vested on December 31, 2011.

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

***Postcontractual Noncompete Provisions***

During the agreed 12-month postcontractual noncompete period, Executive Board members receive abstention payments corresponding to 50% of their final average contractual compensation as members.

The following table presents the net present values of the postcontractual noncompete abstention payments. The net present values in the table reflect the discounted present value of the amounts that would be paid in the fictitious scenario in which the Executive Board members leave SAP at the end of their respective current contract terms and their final average contractual compensation prior to their departure equals the compensation in 2011. Actual postcontractual noncompete payments will likely differ from these amounts depending on the time of departure and the compensation levels and target achievements at the time of departure.

**Net Present Values of the Postcontractual Noncompete Abstention Payments**

| <b>thousands</b>            | <b>Contract Term<br/>Expires</b> | <b>Net Present<br/>Value of<br/>Postcontractual<br/>Noncompete<br/>Abstention<br/>Payment</b> |
|-----------------------------|----------------------------------|---|
| Bill McDermott (co-CEO)     | June 30, 2017                    | 5,545.2   |
| Jim Hagemann Snabe (co-CEO) | June 30, 2017                    | 4,621.8   |
| Dr. Werner Brandt           | December 31, 2013                | 3,154.4   |
| Gerhard Oswald              | June 30, 2014                    | 3,118.8   |
| Vishal Sikka                | December 31, 2017                | 2,878.1   |
| <b>Total</b>                |                                  | <b>19,318.3</b>   |

**Early End-of-Service Undertakings*****Severance Payments***

The standard contract for all Executive Board members since January 1, 2006, provides that on termination before full term (for example, where the member's appointment is revoked, where the member becomes occupationally disabled, or in connection with a change of control), SAP AG will pay to the member the outstanding part of the compensation target for the entire remainder of the term, appropriately discounted for early payment. A member has no claim to that payment if he or she leaves SAP AG for reasons for which he or she is responsible.

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If an Executive Board member's appointment to the Executive Board expires or

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

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***Postcontractual Noncompete Provisions***

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

***Permanent Disability***

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

**Payments to Executive Board Members Retiring in 2011**

Angelika Dammann resigned from her position as Executive Board member with effect from July 8, 2011, with the approval of the Supervisory Board. She received the following payments in connection with her retirement with effect from August 31, 2011:

Angelika Dammann received a payment of 3,658,503 in relation to the early termination of her contract.

In July 2011, we waived the postcontractual noncompete provisions in her contract. The postcontractual noncompete provisions were subject to a termination notice of six months. As she retired at the end of August 2011, she received monthly abstention compensation of 103,650 corresponding to 50% of her final average contractual compensation for the remaining noncompete period of 4.5 months.

The rights that had been allocated to her under LTI 2010 and LTI 2011 did not lapse on her retirement but remain available to her without restriction until their expiration which in all cases is five years after grant.

**Payments to Former Executive Board Members**

In 2011, we paid pension benefits of 1,346,000 to Executive Board members who had retired before January 1, 2011 (2010: 1,290,000). At the end of the year, the PBO for former Executive Board members was 25,267,000 (2010: 24,878,000). Plan assets of 25,788,000 are available to service these obligations (2010: 25,120,000).

**Executive Board Members Long-Term Incentives**

Members of the Executive Board hold or held throughout the year share-based payment rights under the SAP SOP 2010, SOP Performance Plan 2009, SAP SOP 2007, SAP SOP 2002, and LTI Plan 2000, which were granted to them in previous years. For information about the terms and details of SAP SOP 2010, SOP Performance Plan 2009, and SAP SOP 2007, see the Notes to the Consolidated Financial Statements section, Note (28).

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**SAP SOP 2010**

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

**SAP SOP 2010 Virtual Share Options**

|  | Year<br>Granted | Strike Price<br>per<br>Share | Holding on<br>January 1, 2011 |                               | Rights<br>Exercised<br>in<br>2011<br>Quantity of<br>Options | Price<br>on<br>Exercise<br>Date | Exercisable<br>Rights<br>of<br>Retired<br>Members<br>of<br>the Executive<br>Board | Forfeited<br>Rights<br>Quantity of<br>Options | Holding on<br>December 31, 2011 |                               |
|--|-----------------|------------------------------|-------------------------------|-------------------------------|---|---------------------------------|---|---|---------------------------------|-------------------------------|
|  |                 |                              | Quantity<br>of<br>Options     | Remaining<br>Term in<br>Years |   |                                 |   |   | Quantity<br>of<br>Options       | Remaining<br>Term in<br>Years |
| Bill McDermott (co-CEO)                                | 2010            | 40.80                        | 135,714                       | 6.69                          |   |                                 |   |   | 135,714                         | 5.69                          |
|  | 2011            | 48.33                        | 112,426                       | 7.44                          |   |                                 |   |   | 112,426                         | 6.44                          |
| Jim Hagemann Snabe<br>(co-CEO)                         | 2010            | 40.80                        | 135,714                       | 6.69                          |   |                                 |   |   | 135,714                         | 5.69                          |
|  | 2011            | 48.33                        | 112,426                       | 7.44                          |   |                                 |   |   | 112,426                         | 6.44                          |
| Dr. Werner Brandt                                      | 2010            | 40.80                        | 82,428                        | 6.69                          |   |                                 |   |   | 82,428                          | 5.69                          |
|  | 2011            | 48.33                        | 68,284                        | 7.44                          |   |                                 |   |   | 68,284                          | 6.44                          |
| Gerhard Oswald   | 2010            | 40.80                        | 82,428                        | 6.69                          |   |                                 |   |   | 82,428                          | 5.69                          |
|  | 2011            | 48.33                        | 68,284                        | 7.44                          |   |                                 |   |   | 68,284                          | 6.44                          |
| Vishal Sikka   | 2010            | 40.80                        | 82,428                        | 6.69                          |   |                                 |   |   | 82,428                          | 5.69                          |
|  | 2011            | 48.33                        | 68,284                        | 7.44                          |   |                                 |   |   | 68,284                          | 6.44                          |
| Dr. Angelika Dammann<br>(member until July 8,<br>2011) | 2010            | 40.80                        | 41,214                        | 6.69                          |   |                                 |   |   | 41,214                          | 5.69                          |
|  | 2011            | 48.33                        | 68,284                        | 7.44                          |   |                                 |   | 22,761  | 45,523                          | 6.44                          |
| <b>Total</b>   |                 |                              | <b>1,057,914</b>              |                               |   |                                 |   | <b>22,761</b>                                 | <b>1,035,153</b>                |                               |

**SOP Performance Plan 2009**

The table below shows the current Executive Board members' holdings, on December 31, 2011, of virtual share options issued under the SOP Performance Plan 2009.

The strike price for an option varies with the performance of SAP shares over time against

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the TechPGI index. The gross profit per option is limited to 30.80, corresponding to 110% of the SAP share price on the date of issue.

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

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**SOP Performance Plan 2009 Virtual Share Options**

|                             | Year<br>Granted | Strike<br>Price<br>per Share | Holding on<br>January 1, 2011 |                               | Rights<br>Exercised<br>in<br>2011<br>Quantity<br>of<br>Options | Price<br>on<br>Exercise<br>Date | Exercisable<br>Rights<br>of<br>Retired<br>Members<br>of the Execu-<br>tive Board<br>Quantity<br>of<br>Options | Forfeited<br>Rights<br>Quantity<br>of Options | Holding on<br>December 31, 2011 |                               |
|-----------------------------|-----------------|------------------------------|-------------------------------|-------------------------------|--|---------------------------------|---|---|---------------------------------|-------------------------------|
|                             |                 |                              | Quantity<br>of<br>Options     | Remaining<br>Term in<br>Years |  |                                 |   |   | Quantity<br>of<br>Options       | Remaining<br>Term in<br>Years |
| Bill McDermott (co-CEO)     | 2009            | variable                     | 102,670                       | 3.35                          |  |                                 |   |   | 102,670                         | 2.35                          |
| Jim Hagemann Snabe (co-CEO) | 2009            | variable                     | 102,670                       | 3.35                          |  |                                 |   |   | 102,670                         | 2.35                          |
| Dr. Werner Brandt           | 2009            | variable                     | 102,670                       | 3.35                          |  |                                 |   |   | 102,670                         | 2.35                          |
| Gerhard Oswald              | 2009            | variable                     | 102,670                       | 3.35                          |  |                                 |   |   | 102,670                         | 2.35                          |
| Vishal Sikka <sup>1)</sup>  | 2009            | variable                     | 35,588                        | 3.35                          |  |                                 |   |   | 35,588                          | 2.35                          |
| <b>Total</b>                |                 |                              | <b>446,268</b>                |                               |  |                                 |   |   | <b>446,268</b>                  |                               |

<sup>1)</sup> The holding was allocated before appointment to the Executive Board in 2010.

**SAP SOP 2007**

The table below shows Executive Board members' holdings, on December 31, 2011, of virtual share options issued to them under the SAP SOP 2007 plan since its inception, including virtual share options issued to them both during and before their respective membership of the Executive Board.

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

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**SAP SOP 2007 Virtual Share Options**

|  | Year<br>Granted | Strike<br>Price<br>per<br>Option | Holding on<br>January 1, 2011 |                               | Rights<br>Exercised<br>in 2011<br>Quantity<br>of<br>Options | Price<br>on<br>Exercise<br>Date | Exercisable<br>Rights<br>of<br>Retired<br>Members<br>of the<br>Executive Board |                           | Holding on<br>December 31, 2011 |                               |
|--|-----------------|----------------------------------|-------------------------------|-------------------------------|---|---------------------------------|--|---------------------------|---------------------------------|-------------------------------|
|  |                 |                                  | Quantity<br>of<br>Options     | Remaining<br>Term in<br>Years |   |                                 | Quantity<br>of<br>Options  | Quantity<br>of<br>Options | Quantity<br>of<br>Options       | Remaining<br>Term in<br>Years |
| Bill McDermott (co-CEO) <sup>1)</sup>        | 2007            | 39.28                            | 62,508                        | 1.23                          | 62,508  | 44.67                           |  |                           |                                 | 0.23                          |
|  | 2008            | 35.96                            | 70,284                        | 2.18                          | 70,284  | 44.67                           |  |                           |                                 | 1.18                          |
| Jim Hagemann Snabe<br>(co-CEO) <sup>1)</sup> | 2007            | 39.28                            | 37,505                        | 1.23                          | 37,505  | 43.92                           |  |                           |                                 | 0.23                          |
|  | 2008            | 35.96                            | 56,228                        | 2.18                          | 56,228  | 43.92                           |  |                           |                                 | 1.18                          |
| Dr. Werner Brandt                            | 2007            | 39.28                            | 72,216                        | 1.23                          | 72,216  | 43.92                           |  |                           |                                 | 0.23                          |
|  | 2008            | 35.96                            | 81,200                        | 2.18                          | 81,200  | 44.67                           |  |                           |                                 | 1.18                          |
| Gerhard Oswald                               | 2007            | 39.28                            | 72,216                        | 1.23                          | 72,216  | 43.92                           |  |                           |                                 | 0.23                          |
|  | 2008            | 35.96                            | 81,200                        | 2.18                          | 81,200  | 43.92                           |  |                           |                                 | 1.18                          |
| Vishal Sikka <sup>1)</sup>                   | 2007            | 39.28                            | 12,502                        | 1.23                          | 12,502  | 43.92                           |  |                           |                                 | 0.23                          |
|  | 2008            | 35.96                            | 17,571                        | 2.18                          |   |                                 |  |                           | 17,571                          | 1.18                          |
| <b>Total</b>                                 |                 |                                  | <b>563,430</b>                |                               | <b>545,859</b>  |                                 |  |                           | <b>17,571</b>                   |                               |

<sup>1)</sup> The holding was allocated before appointment to the Executive Board in 2010.

**SAP SOP 2002**

The table below shows Executive Board members' December 31, 2011, holdings of share options issued in previous years under the SAP SOP 2002 plan since its inception. The strike price for an SAP SOP 2002 share option is 110% of the base price of one SAP share. The base price is the arithmetic mean closing auction price for SAP shares in the Xetra trading system (or its successor system) over the five business days immediately before the issue date of that share option.

The strike price cannot be less than the closing auction price on the day before the issue date. The issued options have a term of five years and can only be exercised on specified

dates after the two-year vesting period. As a result of the issue on December 21, 2006, of bonus shares at a one-to-three ratio under a capital increase from corporate funds, on exercise each share option now entitles its beneficiary to four shares. For better comparability with the price of SAP shares since implementation of the capital increase, the following table shows not the number (quantity) of options but the number (quantity) of shares to which they entitle the holder. Consequently, the strike prices shown are prices per share and not per option. The number

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of shares shown in the table is four times the number of options, and the strike price for an option is four times the strike price per share shown in the table. The right to exercise options issued in 2006 expired in February 2011.

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**SAP SOP 2002 Share Options**

|   | Year<br>Granted | Strike<br>Price<br>per<br>Share | Holding on<br>January 1, 2011 | Rights<br>Exercised<br>in<br>2011 | Price<br>on<br>Exercise<br>Date | Exercisable<br>Rights of<br>Retired<br>Members<br>of the Executive<br>Board | Forfeited<br>Rights   | Holding on<br>December 31,<br>2011<br>Remaining |
|---|-----------------|---------------------------------|-------------------------------|-----------------------------------|---------------------------------|---|-----------------------|---|
|   |                 |                                 | Quantity<br>of Shares         | Remaining<br>Term in<br>Years     | Quantity<br>of<br>Shares        | Quantity<br>of<br>Shares  | Quantity<br>of Shares | Quantity<br>of<br>Shares<br>Term<br>in<br>Years |
| Bill McDermott (co-CEO) <sup>1)</sup>     | 2006            | 46.48                           | 77,296                        | 0.10                              |                                 |   | 77,296                |   |
| Jim Hagemann Snabe (co-CEO) <sup>1)</sup> | 2006            | 46.48                           | 37,164                        | 0.10                              |                                 |   | 37,164                |   |
| Dr. Werner Brandt                         | 2006            | 46.48                           | 87,292                        | 0.10                              |                                 |   | 87,292                |   |
| Gerhard Oswald                            | 2006            | 46.48                           | 87,292                        | 0.10                              |                                 |   | 87,292                |   |
| Vishal Sikka <sup>1)</sup>                | 2006            | 46.48                           | 7,436                         | 0.10                              |                                 |   | 7,436                 |   |
| <b>Total</b>                              |                 |                                 | <b>296,480</b>                |                                   |                                 |   | <b>296,480</b>        |   |

<sup>1)</sup> The holding was allocated before appointment to the Executive Board in 2010.

**LTI Plan 2000**

Beneficiaries under the LTI Plan 2000 could choose between convertible bonds and share options. The chief difference was in the way the exercise or conversion price was determined. The bond conversion price depends on the closing price of SAP shares the day before the bond was issued, while the option strike price varies with the performance of SAP shares over time against the S&P North Software-Software Index (the successor of the GSTI Software index). The issued options have a term of ten years and could only be exercised in portions of one-third each on specified dates after two-year, three-year, or four-year vesting periods respectively.

The strike prices for LTI Plan 2000 convertible bonds reflect the prices payable by an Executive Board member for one SAP share on conversion of the bond. The strike prices are fixed and correspond to the quoted price of one SAP share on the business day immediately

preceding the grant of the convertible bond. As a result of the issue on December 21, 2006, of bonus shares at a one-to-three ratio under a capital increase from corporate funds, on conversion each bond now entitles its beneficiary to four shares. For better comparability with the price of SAP shares since implementation of the capital increase, the following table shows not the number (quantity) of convertible bonds but the number (quantity) of shares to which they entitle the holder. Consequently, the strike prices shown are prices per share and not per bond. The number of shares shown in the table is four times the number of bonds, and the strike price for a bond is four times the strike price per share shown in the table.

The right to exercise share options and convertible bonds issued in 2001 expired in February 2011. On December 31, 2011, no current member of the Executive Board held share options or convertible bonds under the LTI Plan 2000.



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**LTI Plan 2000 Convertible Bonds**

|                   | Year<br>Granted | Strike<br>Price per<br>Share | Holding on<br>January 1, 2011 |                               | Rights<br>Exercised<br>in 2011 | Price<br>on<br>Exercise<br>Date | Exercisable<br>Rights<br>of<br>Retired<br>Members<br>of the<br>Executive<br>Board | Forfeited<br>Rights   | Holding on<br>December 31,<br>2011 |                  |
|-------------------|-----------------|------------------------------|-------------------------------|-------------------------------|--------------------------------|---------------------------------|---|-----------------------|------------------------------------|------------------|
|                   |                 |                              | Quantity<br>of Shares         | Remaining<br>Term in<br>Years | Quantity<br>of Shares          |                                 | Quantity<br>of<br>Shares  | Quantity<br>of Shares | Quantity                           | Term in<br>Years |
| Dr. Werner Brandt | 2001            | 47.81                        | 20,000                        | 0.14                          |                                |                                 |   | 20,000                |                                    | 0                |
|                   | 2002            | 37.88                        | 120,000                       | 1.14                          | 120,000                        | 43.75                           |   |                       |                                    | 0.14             |
| Gerhard Oswald    | 2001            | 47.81                        | 88,000                        | 0.14                          |                                |                                 |   | 88,000                |                                    | 0                |
| <b>Total</b>      |                 |                              | <b>228,000</b>                |                               | <b>120,000</b>                 |                                 |   | <b>108,000</b>        |                                    |                  |

**Total Expense for Share-Based Payment**

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

**Total Expense for Share-Based Payment**

| thousands  | 2011           | 2010           |
|--|----------------|----------------|
| Bill McDermott (co-CEO)                          | 1,053.5        | 382.9          |
| Jim Hagemann Snabe (co-CEO)                      | 1,052.9        | 373.8          |
| Dr. Werner Brandt                                | 621.9          | 355.2          |
| Gerhard Oswald                                   | 621.9          | 355.2          |
| Vishal Sikka                                     | 652.8          | 151.8          |
| Dr. Angelika Dammann (member until July 8, 2011) | 417.3          | 28.1           |
| <b>Total</b>                                     | <b>4,420.3</b> | <b>1,647.0</b> |

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**Shareholdings and Transactions of Executive Board Members**

No member of the Executive Board holds more than 1% of the ordinary shares of SAP AG. Members of the Executive Board held a total of 20,560 SAP shares on December 31, 2011 (2010: 13,747 shares).

The table below shows transactions by Executive Board members and persons closely associated with them notified to SAP pursuant to the German Securities Trading Act, section 15a, in 2011.

**Transactions in SAP Shares**

|  | <b>Transaction Date</b> | <b>Transaction</b>           | <b>Quantity</b> | <b>Unit Price in</b> |
|--|-------------------------|------------------------------|-----------------|----------------------|
| Dr. Werner Brandt                                | February 15, 2011       | Share purchase <sup>1)</sup> | 120,000         | 37.8750              |
|  | February 15, 2011       | Share sale <sup>1)</sup>     | 120,000         | 44.0854              |
|  | June 6, 2011            | Share purchase               | 1,200           | 41.99                |
| Dr. Angelika Dammann (member until July 8, 2011) | May 30, 2011            | Share purchase               | 600             | 42.3750              |
| Gerhard Oswald                                   | May 31, 2011            | Share purchase               | 1,163           | 42.9848              |
| Bill McDermott (co-CEO)                          | June 9, 2011            | Purchase of ADRs             | 1,960           | 41,897 <sup>2)</sup> |
| Jim Hagemann Snabe (co-CEO)                      | June 9, 2011            | Share purchase               | 2,410           | 41.5965              |
| Vishal Sikka                                     | August 18, 2011         | Purchase of ADRs             | 1,500           | 34,322 <sup>3)</sup> |

<sup>1)</sup> Sale and purchase of shares in line with the LTI Plan 2000

<sup>2)</sup> Original purchase price was US\$61.229 per unit

<sup>3)</sup> Original purchase price was US\$49.317 per unit

**Executive Board: Other Information**

We did not grant any compensation advance or credit to, or enter into any commitment for the benefit of, any member of our Executive Board in 2011 or the previous year.

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

## **Compensation for Supervisory Board Members**

### **Compensation System**

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

The fixed element is 100,000 for the chairperson, 70,000 for the deputy chairperson, and 50,000 for other members. For membership of the Audit Committee, Supervisory Board members receive additional fixed annual remuneration of 15,000, and for membership of any other Supervisory Board committee 10,000, provided that the committee concerned has met

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in the year. The chairperson of the audit committee receives 25,000, and the chairpersons of the other committees receive 20,000. The fixed remuneration is payable after the end of the year.

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

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

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

**Amount of Compensation**

Subject to the resolution on the appropriation of retained earnings by the Annual General Meeting of Shareholders on May 23, 2012, the compensation paid to Supervisory Board members in respect of 2011 will be as set out in the table below:

| (000)   | 2011               |                                 |                       |       | 2010               |                                 |                       |       |
|---|--------------------|---------------------------------|-----------------------|-------|--------------------|---------------------------------|-----------------------|-------|
|   | Fixed Compensation | Compensation for Committee Work | Variable Compensation | Total | Fixed Compensation | Compensation for Committee Work | Variable Compensation | Total |
| Prof. Dr. h.c. mult. Hasso Plattner (chairperson)     | 100.0              | 100.0                           | 150.0                 | 350.0 | 100.0              | 60.0                            | 150.0                 | 310.0 |
| Lars Lamadé (deputy chairperson)                      | 70.0               | 28.3                            | 130.0                 | 228.3 | 70.0               | 1.7                             | 130.0                 | 201.7 |
| Pekka Ala-Pietilä                                     | 50.0               | 30.0                            | 100.0                 | 180.0 | 50.0               | 20.0                            | 100.0                 | 170.0 |
| Thomas Bamberger                                      | 50.0               | 15.0                            | 100.0                 | 165.0 | 50.0               | 15.0                            | 100.0                 | 165.0 |
| Panagiotis Bissiritsas                                | 50.0               | 20.0                            | 100.0                 | 170.0 | 50.0               | 20.0                            | 100.0                 | 170.0 |
| Willi Burbach (until August 7, 2011)                  | 33.3               | 16.7                            | 66.7                  | 116.7 | 50.0               | 10.0                            | 100.0                 | 160.0 |
| Prof. Dr. Wilhelm Haarmann                            | 50.0               | 50.0                            | 100.0                 | 200.0 | 50.0               | 31.7                            | 100.0                 | 181.7 |
| Peter Koop  | 50.0               | 20.0                            | 100.0                 | 170.0 | 50.0               | 10.0                            | 100.0                 | 160.0 |
| Christiane Kuntz-Mayr                                 | 50.0               | 10.0                            | 100.0                 | 160.0 | 50.0               | 10.0                            | 100.0                 | 160.0 |
| Bernard Liautaud                                      | 50.0               | 10.0                            | 100.0                 | 160.0 | 50.0               | 10.0                            | 100.0                 | 160.0 |
| Dr. Gerhard Maier                                     | 50.0               | 25.0                            | 100.0                 | 175.0 | 50.0               | 25.0                            | 100.0                 | 175.0 |
| Dr. Hans-Bernd Meier (from August 8, 2011)            | 20.8               | 0                               | 41.7                  | 62.5  |                    |                                 |                       |       |
| Dr. h.c. Hartmut Mehdorn                              | 50.0               | 10.0                            | 100.0                 | 160.0 | 50.0               | 10.0                            | 100.0                 | 160.0 |
| Prof. Dr.-Ing. Dr. h.c. Dr.-Ing. E.h. Joachim Milberg | 50.0               | 55.0                            | 100.0                 | 205.0 | 50.0               | 35.0                            | 100.0                 | 185.0 |
| Dr. Erhard Schipporeit                                | 50.0               | 35.0                            | 100.0                 | 185.0 | 50.0               | 35.0                            | 100.0                 | 185.0 |
| Stefan Schulz   | 50.0               | 30.0                            | 100.0                 | 180.0 | 50.0               | 21.7                            | 100.0                 | 171.7 |

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|  |              |              |                |                |              |              |                |                |
|--|--------------|--------------|----------------|----------------|--------------|--------------|----------------|----------------|
| Prof. Dr.-Ing. Dr.-Ing. E.h. Klaus<br>Wucherer | 50.0         | 10.0         | 100.0          | 160.0          | 50.0         | 10.0         | 100.0          | 160.0          |
| <b>Total</b>                                   | <b>874.1</b> | <b>465.0</b> | <b>1,688.3</b> | <b>3,027.5</b> | <b>870.0</b> | <b>325.0</b> | <b>1,680.0</b> | <b>2,875.0</b> |

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

The total compensation of all Supervisory Board members in 2011 for work for SAP excluding compensation relating to the office of Supervisory Board member was 1,688,300 (2010: 995,000). Those amounts are composed entirely of remuneration received by employee representatives on the Supervisory Board relating to their position as SAP employees in 2010 and 2011 respectively.

Supervisory Board member Wilhelm Haarmann is an attorney at the German bar and a partner at HAARMANN Partnerschaftsgesellschaft in Frankfurt am Main, Germany. Wilhelm Haarmann and HAARMANN Partnerschaftsgesellschaft occasionally advise SAP on particular projects, tax matters, and questions of law. In 2011, the fees for such services totaled 358,800 (2010: 73,000).

**Long-Term Incentives for the Supervisory Board**

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

**Shareholdings and Transactions of Supervisory Board Members**

Supervisory Board chairperson Hasso Plattner and the companies he controlled held 121,515,102 SAP shares on December 31, 2011 (December 31, 2010: 122,148,302 SAP shares), representing 9.895% (2010: 9.956%) of SAP's share capital. No other member of the Supervisory Board held more than 1% of the SAP AG share capital at the end of 2011 or of the previous year. Members of the Supervisory Board held a total of 121,524,139 SAP shares on December 31, 2011 (December 31, 2010: 122,156,130 SAP shares).

The table below shows transactions by Supervisory Board members and persons closely associated with them notified to SAP pursuant to the German Securities Trading Act, section 15a, in 2011:

**Transactions in SAP Shares**

|                       | Transaction Date  | Transaction                  | Quantity | Unit Price in |
|-----------------------|-------------------|------------------------------|----------|---------------|
| Christiane Kuntz-Mayr | February 15, 2011 | Share purchase <sup>1)</sup> | 3,128    | 32.3128       |
|                       | February 15, 2011 | Share sale <sup>1)</sup>     | 3,037    | 44.0854       |
| Dr. Gerhard Maier     | November 15, 2011 | Share sale <sup>1)</sup>     | 12,600   | 43.8294       |

<sup>1)</sup> Sale and purchase of shares in line with the LTI Plan 2000

**Supervisory Board: Other Information**

We did not grant any compensation advance or credit to, or enter into any commitment for the benefit of, any member of our Supervisory Board in 2011 or the previous year.

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

cost we incurred under the contract was the reimbursement of expenses.

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

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**EMPLOYEES****Headcount**

The following tables set forth the number of employees, measured in full-time equivalents by functional area and by geographic region:

| Full-time<br>equivalents                 | December 31, 2011  |               |                          |               | December 31, 2010  |               |                          |               | December 31, 2009  |               |                          |               |
|--|--------------------|---------------|--------------------------|---------------|--------------------|---------------|--------------------------|---------------|--------------------|---------------|--------------------------|---------------|
|  | EMEA <sup>1)</sup> | Americas      | Asia<br>Pacific<br>Japan | Total         | EMEA <sup>1)</sup> | Americas      | Asia<br>Pacific<br>Japan | Total         | EMEA <sup>1)</sup> | Americas      | Asia<br>Pacific<br>Japan | Total         |
| Software and software-related services   | 4,068              | 2,079         | 2,816                    | 8,963         | 3,804              | 1,827         | 2,254                    | 7,885         | 3,227              | 1,276         | 1,919                    | 6,422         |
| Professional services and other services | 6,808              | 3,963         | 2,497                    | 13,268        | 6,787              | 3,955         | 2,410                    | 13,152        | 6,635              | 3,473         | 2,240                    | 12,348        |
| Research and development                 | 8,713              | 3,028         | 4,120                    | 15,861        | 8,617              | 3,154         | 4,113                    | 15,884        | 8,525              | 2,534         | 3,755                    | 14,814        |
| Sales and marketing                      | 4,856              | 4,581         | 2,343                    | 11,780        | 4,593              | 4,214         | 2,180                    | 10,987        | 4,202              | 3,559         | 1,752                    | 9,513         |
| General and administration               | 2,073              | 1,120         | 542                      | 3,735         | 2,053              | 1,005         | 518                      | 3,576         | 1,919              | 724           | 408                      | 3,051         |
| Infrastructure                           | 1,182              | 702           | 274                      | 2,158         | 1,135              | 628           | 266                      | 2,029         | 854                | 408           | 174                      | 1,436         |
| <b>SAP Group (December 31)</b>           | <b>27,700</b>      | <b>15,473</b> | <b>12,592</b>            | <b>55,765</b> | <b>26,989</b>      | <b>14,783</b> | <b>11,741</b>            | <b>53,513</b> | <b>25,362</b>      | <b>11,974</b> | <b>10,248</b>            | <b>47,584</b> |
| Thereof Acquisitions                     | 264                | 49            | 90                       | 403           | 1,174              | 1,975         | 1,084                    | 4,233         | 158                | 73            | 0                        | 231           |
| <b>SAP Group (months end average)</b>    | <b>27,296</b>      | <b>15,010</b> | <b>12,040</b>            | <b>54,346</b> | <b>25,929</b>      | <b>13,164</b> | <b>10,877</b>            | <b>49,970</b> | <b>25,927</b>      | <b>12,288</b> | <b>10,554</b>            | <b>48,769</b> |

<sup>1)</sup> Europe, Middle East, Africa

On December 31, 2011, our total worldwide headcount expressed in FTEs was 55,765 (December 31, 2010: 53,513 FTEs). This represents an increase in headcount of 2,252 FTEs in comparison to 2010. Of the overall headcount increase in 2011, 403 resulted from acquisitions. The average number of employees in 2011 was 54,346 (2010: 49,970).

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 people who are employed by SAP but who for various reasons are not currently working are excluded from our figures. Also, certain temporary employees are not included in our figures. The number of such temporary employees is not material.

On December 31, 2011, the largest number of SAP employees (50%) were employed in the EMEA region (including 29% in Germany), while 28% were employed in the Americas region (including 19% in the United States) and 22% in the Asia Pacific Japan (APJ) region.

Because we invested in support in 2011, our support headcount increased in all regions. Our worldwide headcount in the field of software and software-related services grew 14% to 8,963 (2010: 7,885). Professional services and other services counted 13,268 employees at the end of 2011 a slight increase of 1% (2010: 13,152). Our R&D headcount remained relatively stable in comparison to the prior year at 15,861 FTEs (2010: 15,884). Sales and marketing headcount grew 7% to 11,780 at the end of the year (2010: 10,987), because we also invested in the sales and marketing of our products and services in 2011 and employed more sales staff in all regions with a strong focus on the emerging markets. Our general and administration headcount increased 4% to 3,735 full-time employees at the end of the year (2010: 3,576). Our infrastructure

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employees, who provide IT and facility management services, numbered 2,158, an increase of 6% (2010: 2,029).

In the Americas region headcount increased by 690, or 5%; in the EMEA region the increase was 711 or 3%; in the APJ region it was 851 or 7%.

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Our personnel expense per employee was approximately 108,000 in 2011 (2010: approximately 105,000). The personnel expense per employee is defined as the personnel expense divided by the average number of employees. For more information about employee compensation and a detailed overview of the number of people we employed, see the Notes to the Consolidated Financial Statements section, Note (8).

**Employee Relations and Labor Unions**

On a worldwide basis, we believe that our employee relations are excellent. Employees of SAP France S.A. and SAP Labs France S.A. are subject to a collective bargaining agreement.

On the legal entity level, the SAP AG works council represents the employees of SAP AG with 39 members; the employees of SAP Deutschland AG & Co. KG (SAP Germany) are represented by a works council with 31 members. For different areas of co-determination the entity-level works councils have elected committees. By law the works councils are entitled to consultation and, in some areas, to co-determination rights concerning labor conditions at SAP AG and SAP Germany. Other employee representatives include the group works council currently having seven members (members of the works councils of SAP AG and SAP Germany), the representatives of severely disabled persons in all entities and on group level (Germany) and the spokespersons committee as the representation of the executives.

Each of SAP France S.A., SAP Labs France S.A. and Sybase France SARL are represented by a French works council. A French works council is responsible for protecting the employees' collective interests by ensuring that management considers the interests of employees in making decisions on behalf of the company. A French works council is entitled to certain company information and to consult with management on matters that are expected to

have an impact on company structure or on the employees it represents. The union negotiates agreements with SAP France S.A. and SAP Labs France S.A. Some negotiations are compulsory under law. The staff representatives are obligated to present all individual or collective complaints regarding salary, policies or agreements between the employees and the company in question.

In addition, the employees of our subsidiaries SAP Espana S.A., SAP Belgium N.V., SAP Nederland B.V. and Sybase Nederland B.V. are also represented by works councils. Each of SAP (UK) Limited and SAP Ireland Limited has an employee consultation forum which represents the employees' interests.

In the second half of 2012 SAP AG will have an European Works Council (EWC). The EWC will represent all SAP persons employed by SAP's European entities. By law, the EWC will be entitled to consult with employees regarding transnational matters in Europe.

**SHARE OWNERSHIP**

**Beneficial Ownership of Shares**

The ordinary shares beneficially owned by the persons listed in Item 6. Directors, Senior Management and Employees' Compensation Report is disclosed in Item 7. Major Shareholders and Related-Party Transactions' Major Shareholders.

**SHARE-BASED COMPENSATION PLANS**

**Share-Based Compensation**

We maintain certain share-based compensation plans. The share-based compensation from these plans result from cash-settled and equity-settled awards issued to employees. For more information on our share-based compensation plans refer to Item 6. Directory, Senior Management and Employees' Compensation Report and Note (28) to our Consolidated Financial Statements.



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## Item 7

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS****MAJOR SHAREHOLDERS**

The share capital of SAP AG consists of ordinary shares, which are issued only in bearer form. Accordingly, SAP AG generally has no way of determining who its shareholders are or how many shares a particular shareholder owns. SAP's ordinary shares are traded in the United States by means of ADRs. Each ADR currently represents one SAP AG ordinary share. On March 8, 2012, based on information provided by the Depository there were 44,018,856 ADRs held of record by 1,167 registered holders. The ordinary shares underlying such ADRs represented 3.58% of the then-outstanding ordinary shares (including treasury stock). Because SAP's ordinary shares are issued in bearer form only, we are unable to determine the number of ordinary shares directly held by persons with U.S. addresses.

The following table sets forth certain information regarding the beneficial ownership of the ordinary shares to the extent known to SAP as of March 8, 2012 of: (i) each person or group known by SAP AG to own beneficially 5% or more of the outstanding ordinary shares; and (ii) the beneficial ownership of all members of the Supervisory Board and all members of the Executive Board, individually and as a group, in each case as reported to SAP AG by such persons. There was, as far as we are able to tell given the nature of our shares, no significant change in the percentage ownership held by any major shareholder during the past three years. None of the major shareholders have special voting rights. On August 8, 2011, BlackRock, Inc., New York, USA, informed us that on August 2, 2011 its percentage of voting rights exceeded 5% and was then 5.02%.

| Major Shareholders   | Ordinary Shares<br>Beneficially Owned |                     |
|--|---------------------------------------|---------------------|
|  | Number                                | % of<br>Outstanding |
| <b>Dietmar Hopp, collectively<sup>(1)</sup></b>  | 75,273,200                            | 6.128%              |
| <b>Hasso Plattner, Chairperson Supervisory Board, collectively<sup>(2)</sup></b>   | 121,515,102                           | 9.893%              |
| <b>Klaus Tschira, collectively<sup>(3)</sup></b>   | 93,079,595                            | 7.578%              |
| Executive Board Members as a group (5 persons)   | 20,560                                | 0.002%              |
| Supervisory Board Members as a group (16 persons)  | 121,524,206                           | 9.893%              |
| <b>Executive Board Members and Supervisory Board Members as a group (21 persons)<sup>(4)</sup></b>   | 121,544,766                           | 9.895%              |
| Options and convertible bonds that are vested and exercisable within 60 days of March 8, 2012, held by Executive Board Members and Supervisory Board Members, collectively | 0                                     | N/A                 |

<sup>(1)</sup> Represents 75,273,200 ordinary shares beneficially owned by Dietmar Hopp, including 3,404,000 ordinary shares owned by DH Besitzgesellschaft mbH & Co. KG (formerly known as Golf Club St. Leon-Rot GmbH & Co. Betriebs-oHG) of which DH Verwaltungs-GmbH is the general partner and 71,869,200 ordinary shares owned by Dietmar Hopp Stiftung, GmbH. Mr. Hopp exercises voting and dispositive powers of the ordinary shares held by such entities. The foregoing information is based solely on a Schedule 13G filed by Dietmar Hopp and Dietmar Hopp Stiftung, GmbH on February 14, 2012.

<sup>(2)</sup> Includes Hasso Plattner Förderstiftung GmbH and Hasso Plattner GmbH & Co. Beteiligungs-KG in which Hasso Plattner exercises sole voting and dispositive power.

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- (3) Includes Klaus Tschira Stiftung gGmbH and Dr. h. c. Tschira Beteiligungs GmbH & Co. KG in which Klaus Tschira exercises sole voting and dispositive power.
- (4) We believe each of the other members of the Supervisory Board and the Executive Board beneficially owns less than 1% of SAP AG's ordinary shares as of March 8, 2012.

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We at present have no knowledge about any arrangements, the operation of which may at a subsequent date result in a change in control of the company.

#### **RELATED-PARTY TRANSACTIONS**

For further information on related-party transactions see Note (31) to our Consolidated Financial Statements.

#### **ITEM 8. FINANCIAL INFORMATION**

##### **CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULE**

See Item 18. Financial Statements and pages F-1 through F-108.

##### **OTHER FINANCIAL INFORMATION**

###### **Legal Proceedings**

We are subject to a variety of legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business, including claims and lawsuits involving businesses we have acquired. In 2010, we recorded a provision of US\$ 1.3 billion for the TomorrowNow litigation. When the trial judge set aside the 2010 verdict and offered Oracle a remittitur of US\$272 million, we subsequently reduced the provision to US\$272 million. Although the outcome of such proceedings and claims cannot be predicted with certainty, management does not believe that the outcome of all other matters currently pending against us has had or will have a material adverse effect on our business, financial position, profit or cash flows. Any litigation, however, involves potential risk and potentially significant litigation costs, and therefore there can be no assurance that any litigation which is now pending or which may arise in the future will not have such a material adverse effect on our business, financial position, profit, cash flows or reputation.

See a detailed discussion of our legal proceedings in Note (24) to our Consolidated Financial Statements.

###### **Dividend Policy**

For more information on dividend policy see the disclosure in Item 3. Key Information Dividends Dividend Distribution Policy.

###### **Significant Changes**

###### **Business Combinations**

In February 2012, SAP acquired SuccessFactors, the market-leading provider of cloud-based human capital management solutions. Our cash tender offer was successfully completed on February 21, 2012. We have acquired more than 90% of the SuccessFactors ordinary shares. The acquisition has added SuccessFactors' team and technology to SAP's cloud assets, significantly boosting SAP's momentum as a provider of cloud applications, platforms, and infrastructure. In combination, SAP and SuccessFactors will offer a full range of advanced end-to-end cloud and on-premise solutions for all key business processes. For more information, see the Notes to the Consolidated Financial Statements section, Note (4).

In connection with the acquisition of SuccessFactors we used the syndicated term loan facility to partially finance the purchase price. For more information, see the Notes to the Consolidated Financial Statements section, Note (26).

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SAP has acquired software and related assets from datango, a provider of workforce performance support software. The transaction will broaden the SAP software portfolio in the education space. Headquartered in Berlin, datango was founded in 1999 and has a long-standing relationship with SAP. In recent years, datango software has been successfully deployed in the SAP Business ByDesign solution. Together, SAP and datango will capitalize on a trend in education software toward creating applications that contain tools for authors, such as e-collaboration, along with self-help scenarios and auto-teaching functions.

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**New Share-Based Compensation Plans**

In January 2012, our Supervisory Board implemented a new share-based payment plan (the LTI Plan 2015) for Executive Board members.

The Plan is designed to award members restricted share units (RSUs) each year from 2012 through 2015, with a budget of RSUs already awarded for each year at the beginning of the Plan. The number of RSUs that actually vest with the member after each year depends on our performance against objectives, defined at the beginning of the Plan, in terms of non-IFRS total revenue and non-IFRS operating profit. These objectives are derived from our Company strategy for the years through 2015. Each year, if SAP outperforms or underachieves against the objectives, the number of RSUs awarded is adjusted up or down to an actual number in the range between 80% and 150% of the initial target number. If the actual level of target achievement for a given year is below 80%, none of the initially allocated RSUs for that year vests. Each RSU that does vest entitles the beneficiary Executive Board member to a payout corresponding to the SAP share price after the end of a three-year holding period. For more information, see the Compensation Report section.

Also in January 2012, the Executive Board announced a new share-based payment plan for employees. The plan for employees, like the LTI Plan 2015 for Executive Board members, is designed to award restricted share units (RSUs). The number of RSUs that actually vest after the end of a year depends on the same objectives as are defined for the LTI Plan 2015 for Executive Board members. The Executive Board decided in December 2011 on the size of the 2012 tranche.

The total budget so far allocated for the LTI Plan 2015 and the employee plan is 179 million. The eventual financial effect cannot be estimated as it will depend on the number of vested RSUs that actually pay out and on the SAP share price, and thus the final amount paid may be above or below the budgeted amounts. All of the expense will be recorded in the period 2012 through 2015, most of it in 2012.

**ITEM 9. THE OFFER AND LISTING**

**GENERAL**

Our ordinary shares are officially listed on the Frankfurt Stock Exchange, the Berlin Stock Exchange and the Stuttgart Stock Exchange. The principal trading market for the ordinary shares is Xetra, the electronic dealing platform of Deutsche Boerse AG. The ordinary shares are issued only in bearer form.

ADRs representing SAP AG ordinary shares are listed on the New York Stock Exchange (NYSE) under the symbol SAP, and currently each ADR represents one ordinary share.

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**TRADING ON THE FRANKFURT STOCK EXCHANGE AND THE NYSE**

The table below sets forth, for the periods indicated, the high and low closing sales prices for the ordinary shares on the Xetra trading System of the Frankfurt Stock Exchange together with the closing highs and lows of the DAX, and the high and low closing sales prices for the ADRs on the NYSE (information is provided by Reuters):

|                                 | Price per Ordinary Share in |              | DAX <sup>(1)</sup> in points |                 | Price per ADR in US\$ |              |
|---------------------------------|-----------------------------|--------------|------------------------------|-----------------|-----------------------|--------------|
|                                 | High                        | Low          | High                         | Low             | High                  | Low          |
| <b>Annual Highs and Lows</b>    |                             |              |                              |                 |                       |              |
| <b>2007</b>                     | <b>42.27</b>                | <b>33.37</b> | <b>8,105.69</b>              | <b>6,447.70</b> | <b>59.86</b>          | <b>44.45</b> |
| <b>2008</b>                     | <b>39.93</b>                | <b>23.45</b> | <b>7,949.11</b>              | <b>4,127.41</b> | <b>58.98</b>          | <b>29.70</b> |
| <b>2009</b>                     | <b>35.26</b>                | <b>25.00</b> | <b>6,011.55</b>              | <b>3,666.41</b> | <b>52.37</b>          | <b>31.69</b> |
| <b>2010</b>                     | <b>38.40</b>                | <b>31.12</b> | <b>7,077.99</b>              | <b>5,434.34</b> | <b>54.08</b>          | <b>41.59</b> |
| <b>2011</b>                     | <b>45.90</b>                | <b>34.26</b> | <b>7,527.64</b>              | <b>5,072.33</b> | <b>68.31</b>          | <b>48.43</b> |
| <b>Quarterly Highs and Lows</b> |                             |              |                              |                 |                       |              |
| <b>2010</b>                     |                             |              |                              |                 |                       |              |
| First Quarter                   | 35.86                       | 31.12        | 6,156.85                     | 5,434.34        | 50.64                 | 42.81        |
| Second Quarter                  | 37.68                       | 33.97        | 6,332.10                     | 5,670.04        | 49.93                 | 41.59        |
| Third Quarter                   | 37.86                       | 34.46        | 6,351.60                     | 5,816.20        | 49.84                 | 43.54        |
| Fourth Quarter                  | 38.40                       | 35.84        | 7,077.99                     | 6,134.21        | 54.08                 | 46.93        |
| <b>2011</b>                     |                             |              |                              |                 |                       |              |
| First Quarter                   | 44.67                       | 37.45        | 7,426.81                     | 6,513.84        | 61.67                 | 48.76        |
| Second Quarter                  | 45.90                       | 41.07        | 7,527.64                     | 7,026.85        | 68.31                 | 58.19        |
| Third Quarter                   | 44.02                       | 34.26        | 7,471.44                     | 5,072.33        | 64.50                 | 48.71        |
| Fourth Quarter                  | 44.72                       | 36.87        | 6,346.19                     | 5,216.71        | 62.74                 | 48.43        |
| <b>Monthly Highs and Lows</b>   |                             |              |                              |                 |                       |              |
| <b>2011</b>                     |                             |              |                              |                 |                       |              |
| July                            | 44.02                       | 40.38        | 7,471.44                     | 7,107.92        | 64.50                 | 57.21        |
| August                          | 42.77                       | 34.26        | 6,953.98                     | 5,473.78        | 61.41                 | 48.72        |
| September                       | 38.53                       | 35.44        | 5,730.63                     | 5,072.33        | 53.76                 | 48.71        |
| October                         | 43.92                       | 36.87        | 6,346.19                     | 5,216.71        | 62.74                 | 48.43        |
| November                        | 44.39                       | 41.70        | 6,133.18                     | 5,428.11        | 62.02                 | 55.16        |
| December                        | 44.72                       | 39.92        | 6,106.09                     | 5,670.71        | 59.97                 | 52.21        |
| <b>2012</b>                     |                             |              |                              |                 |                       |              |
| January                         | 46.19                       | 41.45        | 6,539.85                     | 6,017.23        | 60.48                 | 53.25        |
| February                        | 50.65                       | 46.81        | 6,948.25                     | 6,616.64        | 68.15                 | 61.45        |
| March (through March 8, 2012)   | 51.80                       | 50.75        | 6,941.77                     | 6,633.11        | 68.80                 | 66.38        |

<sup>(1)</sup> The DAX is a continuously updated, capital-weighted performance index of 30 German blue chip companies. In principle, the shares included in the DAX are selected on the basis of their stock exchange turnover and the issuer's free-float market capitalization. Adjustments to the DAX are made for capital changes, subscription rights and dividends.

On March 8, 2012, the closing sales price per ordinary share on the Frankfurt Stock Exchange (Xetra Trading System) was 51.80 and the closing sales price per ADR on the NYSE was US \$68.80, as reported by Reuters.



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Item 10

**ITEM 10. ADDITIONAL INFORMATION**

**ARTICLES OF INCORPORATION**

**Organization and Register**

SAP AG is a stock corporation organized in the Federal Republic of Germany under the Stock Corporation Act (Aktengesetz). SAP AG is registered in the Commercial Register (Handelsregister) at the Lower Court of Mannheim, Germany, under the entry number HRB 350269. SAP AG publishes its official notices in the Internet version of the Federal Gazette ([www.ebundesanzeiger.de](http://www.ebundesanzeiger.de)).

**Objects and Purposes**

SAP's Articles of Incorporation state that our objects involve, directly or indirectly, the development, production and marketing of products and the provision of services in the field of information technology, including:

developing and marketing integrated product and service solutions for e-commerce;

developing software for information technology and the licensing of its use to others;

organization and deployment consulting, as well as user training, for e-commerce and other software solutions;

selling, leasing, renting and arranging the procurement and provision of all other forms of use of information technology systems and related equipment; and

making capital investments in enterprises active in the field of information technology to promote the opening and advancement of international markets in the field of information technology.

SAP is authorized to act in all the business areas listed above and to delegate such activities to affiliated entities within the meaning of the German Stock Corporation Act; in particular SAP is authorized to delegate its business in

whole or in part to such entities. SAP AG is authorized to establish branch offices in Germany and other countries, as well as to form, acquire or invest in other companies of the same or related kind and to enter into collaboration and joint venture agreements. SAP is further authorized to invest in enterprises of all kinds principally for the purpose of placing financial resources. SAP is authorized to dispose of investments, to consolidate the management of enterprises in which it participates, to enter into affiliation agreements with such entities, or to limit its activities to manage its shareholdings.

**CORPORATE GOVERNANCE**

**Introduction**

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SAP AG, as a German stock corporation, is governed by three separate bodies: the Supervisory Board, the Executive Board and the Annual General Meeting of Shareholders. Their rules are defined by German law, by the German Corporate Governance Code and by SAP's Articles of Incorporation (Satzung) and are summarized below. See Item 16G. Differences in Corporate Governance Practices for additional information on our corporate governance practices.

### **The Supervisory Board**

The Supervisory Board appoints and removes the members of the Executive Board and oversees and advises the management of the corporation. At regular intervals it meets to discuss current business as well as business development and planning. The SAP Executive Board must consult with the Supervisory Board concerning the corporate strategy, which is developed by the Executive Board. The Supervisory Board maintains a list of transactions for which the Executive Board requires the Supervisory Board's consent. Accordingly, the Supervisory Board must also approve the annual budget of SAP upon submission by the Executive Board and certain subsequent deviations from the approved budget.

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The Supervisory Board is also responsible for representing SAP AG in transactions between SAP AG and Executive Board members.

The Supervisory Board, based on a recommendation by its Audit Committee, provides its proposal for the election of the independent public accountant to the Annual General Meeting of Shareholders. The Supervisory Board is also responsible for monitoring the auditor's independence, a task it has delegated to its audit committee.

The German Co-determination Act of 1976 (Mitbestimmungsgesetz) requires supervisory boards of corporations with more than 2,000 employees to consist of an equal number of representatives of the shareholders and representatives of the employees. The minimum total number of supervisory board members, and thus the minimum number of shareholder representatives and employee representatives, is legally fixed and depends on the number of employees employed by the corporation and its German subsidiaries. Our Supervisory Board currently consists of sixteen members, of which eight members have been elected by SAP AG's shareholders at the Annual General Meeting of Shareholders and eight members which have been elected by the employees of the German SAP entities (i.e. entities of the SAP Group having their registered office in Germany).

Any Supervisory Board member elected by the shareholders at the Annual General Meeting of Shareholders may be removed by three-quarters of the votes cast at the Annual General Meeting of Shareholders. Any Supervisory Board member elected by the employees may be removed by three quarters of the votes cast by the employees of the German SAP entities.

The Supervisory Board elects a chairperson and a deputy chairperson among its members by a majority of vote of its members. If such majority is not reached on the first vote, the chairperson will be chosen solely by the members elected by the shareholders and the deputy chairperson will be chosen solely by the

members elected by the employees. Unless otherwise provided by law, the Supervisory Board acts by simple majority. In the case of any deadlock the chairperson has the deciding vote.

The members of the Supervisory Board cannot be elected for a term longer than approximately five years. The term expires at the close of the Annual General Meeting of Shareholders giving its formal approval of the acts of the Supervisory Board and the Executive Board in the fourth fiscal year following the year in which the Supervisory Board was elected unless the Annual General Meeting of Shareholders specifies a shorter term of office when electing individual members of the Supervisory Board or the entire Supervisory Board. Re-election is possible. Our Supervisory Board normally meets four times a year. The remuneration of the members of the Supervisory Board is determined by the Articles of Incorporation.

As stipulated in the German Corporate Governance Code (GCGC), an adequate number of our Supervisory Board members are independent. To be considered for appointment to the Supervisory Board and for as long as they serve, members must comply with certain criteria concerning independence, conflicts of interest and multiple memberships of management, supervisory and other governing bodies. They must be loyal to SAP in their conduct and must not accept any position in companies that are in competition with SAP. Members are subject to insider trading prohibitions and the respective directors' dealing rules of the German Securities Trading Act. A member of the Supervisory Board may not vote on matters relating to certain contractual agreements between such member and SAP AG. Further, as the compensation of the Supervisory Board members is laid down in the Articles of Incorporation, Supervisory Board members are unable to vote on their own compensation, with the exception that they are able to exercise voting rights in a General Meeting of Shareholders in connection with a resolution amending the Articles of Incorporation.

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Pursuant to the German Stock Corporation Act publicly traded stock corporations like SAP must have at least one independent member of the supervisory board with expertise in the fields of financial reporting or auditing. The Supervisory Board may appoint committees from among its members and may, to the extent permitted by law, entrust such committees with the authority to make decisions on behalf of the Supervisory Board. Currently the Supervisory Board maintains the following committees:

The focus of the Audit Committee (Prüfungsausschuss) is the oversight of SAP's external financial reporting as well as SAP's risk management, internal controls (including internal controls over the effectiveness of the financial reporting process), internal audit and compliance matters. According to German Law SAP's Audit Committee includes at least one independent member with specialist expertise in the fields of financial reporting or auditing. Among the tasks of the Audit Committee are the discussion of SAP's quarterly and year end financial reporting prepared under German and U.S. regulations, including this report. The Audit Committee proposes the appointment of the external auditor to the Supervisory Board, determines focus audit areas, discusses critical accounting policies and estimates with and reviews the audit reports issued and audit issues identified by the auditor. The audit committee also negotiates the audit fees with the auditor and monitors the auditor's independence. SAP's Global Internal Audit Services (GIAS), SAP's Global Compliance Office (GCO) and SAP's Risk Management Office (RMO) report upon request or at the occurrence of certain findings, but in any case at least once a year (GCO and RMO) or twice a year (GIAS), directly to the Audit Committee.

The Audit Committee has established procedures regarding the prior approval of all audit and non-audit services provided by our independent auditor. See Item 16C. Principal Accountant Fees and Services for details.

Furthermore the Audit Committee monitors the effectiveness of our internal risk management and other monitoring processes that are or need to be established.

The Supervisory Board has determined Erhard Schipporeit to be an audit committee financial expert as defined by the regulations of the SEC issued under Section 407 of the Sarbanes-Oxley Act as well as an independent financial expert as defined by the German Stock Corporation Act. See Item 16A. Audit Committee Financial Expert for details. He is also the chairperson of the Audit Committee.

The General and Compensation Committee (Präsidial und Personalausschuss) coordinates the work of the Supervisory Board, prepares its meetings and deals with corporate governance issues. In addition, it carries out the preparatory work necessary for the personnel decisions made by the Supervisory Board, notably those concerning compensation for the Executive Board members and the conclusion, amendment and termination of the Executive Board members' contracts of appointment.

The German Stock Corporation Act prohibits the Compensation Committee from deciding on the remuneration of the Executive Board members on behalf of the Supervisory Board and requires that such decision is made by the entire Supervisory Board. This Act also provides the General Meeting of Shareholders with the right to vote on the system for the remuneration of Executive Board members, such vote not being legally binding for the Supervisory Board.

The Finance and Investment Committee (Finanz- und Investitionsausschuss) addresses general financing issues. Furthermore, it regularly discusses acquisitions of intellectual property and companies, venture capital investments and other investments with the Executive Board and reports to the Supervisory Board on such investments. It is also responsible for the approval of such investments if the individual investment amount exceeds certain specified limits.

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Required by the German Co-determination Act of 1976 (Mitbestimmungsgesetz), the Mediation Committee (Vermittlungsausschuss) convenes only if the two-thirds majority required for appointing/revoking the appointment of Executive Board members is not attained. This committee has never held a meeting in SAP AG's history.

The Strategy and Technology Committee (Strategie- und Technologieausschuss) monitors technology transactions and provides the Supervisory Board with in-depth technical advice.

The Nomination Committee (Nominierungsausschuss) is exclusively composed of shareholder representatives and is responsible for identifying suitable candidates for membership of the Supervisory Board for recommendation to the Annual General Meeting of Shareholders.

The Special Committee (Sonderausschuss) is tasked with coordinating and managing the Supervisory Board's external legal advisors concerned with the investigation and analysis of the facts in connection with the legal action brought by Oracle Corporation.

The duties, procedures and committees of the Supervisory Board are specified in their respective bylaws, if any, which reflect the requirements of the German Stock Corporation Act and the recommendations of the GCGC.

According to the provisions of the Sarbanes-Oxley Act, SAP does not grant loans to the members of the Executive Board or the Supervisory Board.

**The Executive Board**

The Executive Board manages the Company's business, is responsible for preparing its strategy and represents it in dealings with third parties. The Executive Board reports regularly to the Supervisory Board about SAP operations and business strategies and prepares special reports upon request. A person may not serve on the Executive Board and on the Supervisory Board at the same time.

The Executive Board and the Supervisory Board must cooperate closely for the benefit of the Company. Without being asked, the Executive Board must provide to the Supervisory Board regular, prompt and comprehensive information about all of the essential issues affecting the SAP Group's business progress and its potential business risks. Furthermore, the Executive Board must maintain regular contact with the chairperson of the Supervisory Board. The Executive Board must inform the chairperson of the Supervisory Board promptly about exceptional events that are of significance to SAP's business. The chairperson must inform the Supervisory Board accordingly.

Pursuant to the Articles of Incorporation, the Executive Board must consist of at least two members. Currently, SAP AG's Executive Board is currently comprised of five members. Any two members of the Executive Board jointly or one member of the Executive Board and the holder of a special power of attorney (Prokurist) jointly may legally represent SAP AG. The Supervisory Board appoints each member of the Executive Board for a maximum term of five years, with the possibility of re-appointment. Under certain circumstances, a member of the Executive Board may be removed by the Supervisory Board prior to the expiration of that member's term. A member of the Executive Board may not vote on matters relating to certain contractual agreements between such member and SAP AG, and may be liable to SAP AG if such member has a material interest in any contractual agreement between SAP and a third party which was not previously disclosed to and approved by the Supervisory Board. Further, as the compensation of the Executive Board members is set by the Supervisory Board, Executive Board members are unable to vote on their own compensation, with the exception that they are able to exercise voting rights in a General Meeting of Shareholders resolving a non-binding vote on the system for the remuneration of Executive Board members.

Under German law SAP AG's Supervisory Board members and Executive Board members



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have a duty of loyalty and care towards SAP AG. They must exercise the standard of care of a prudent and diligent businessman and bear the burden of proving they did so if their actions are contested. Both bodies must consider the interest of SAP AG shareholders and our employees and, to some extent, the common good. Those who violate their duties may be held jointly and severally liable for any resulting damages, unless they acted pursuant to a lawful resolution of the Annual General Meeting of Shareholders.

SAP has implemented a Code of Business Conduct for employees (see Item 16B. Code of Ethics for details). The employee code is equally applicable to managers and members of the Executive Board.

Under German law the Executive Board of SAP AG has to assess all major risks for the SAP Group. In addition, all measures taken by management to reduce and handle the risks have to be documented. Therefore, SAP's management has adopted suitable measures such as implementing an enterprise-wide monitoring system to ensure that adverse developments endangering the corporate standing are recognized at a reasonably early point in time.

The Global Compliance Office (GCO), an extension of SAP's Global Legal Department, was created by the SAP Executive Board in 2006 to oversee and coordinate legal and regulatory policy compliance at SAP. Effective March 1, 2007, the Company appointed a Chief Global Compliance Officer who reports to the General Counsel, and also has direct communication channels and reporting obligations to the Executive Board and the Audit Committee of the Supervisory Board. The GCO manages a network of more than 100 local subsidiary Compliance Officers who act as the point of contact for local questions or issues under the SAP Code of Business Conduct for employees. The GCO provides training and communication to SAP employees to raise awareness and understanding of legal and regulatory compliance policies. Employee help lines are also supported in each region where questions

can be raised or questionable conduct can be reported without fear of retaliation.

Pursuant to Sec. 289a of the German Commercial Code (Handelsgesetzbuch) the Executive Board of publicly listed companies like SAP AG are required to issue a corporate governance declaration (Erklärung zur Unternehmensführung) every year together with its annual financial statements. Companies are free to include the corporate governance declaration in their annual report to shareholders or publish the declaration on their website. SAP has chosen to publish the declaration on its website under (<http://www.sap.com/about/governance/statement/index.epx>). As stipulated by law the declaration comprises the declaration of compliance with the recommendations of the GCGC pursuant to Sec. 161 of the German Stock Corporation Act, relevant disclosures of the company's corporate governance practices such as ethical, work and welfare standards, and a description of the Executive Board and Supervisory Board's rules of procedure as well as information on the composition and rules of procedure of their sub-committees.

**The Annual General Meeting of Shareholders**

Shareholders of the Company exercise their voting rights at shareholders' meetings. The Executive Board calls the Annual General Meeting of Shareholders, which must take place within the first eight months of each fiscal year. The Supervisory Board or the Executive Board may call an extraordinary meeting of the shareholders if the interests of the stock corporation so require. Additionally, shareholders of SAP AG holding in the aggregate a minimum of 5% of SAP AG's issued share capital may call an extraordinary meeting of the shareholders. Shareholders as of the record date are entitled to attend and participate in shareholders' meetings if they have provided timely notice of their intention to attend the meeting.

At the Annual General Meeting of Shareholders, the shareholders are asked, among

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other things, to formally approve the actions taken by the Executive Board and the Supervisory Board in the preceding fiscal year, to approve the appropriation of the corporation's distributable profits and to appoint an independent auditor. Shareholder representatives of the Supervisory Board are generally elected at the Annual General Meeting of Shareholders for a term of approximately five years. Shareholders may also be asked to grant authorization to repurchase treasury shares, to resolve on measures to raise or reduce the capital of the Company or to ratify amendments of our Articles of Incorporation. The Annual General Meeting of Shareholders can make management decisions only if requested to do so by the Executive Board.

**CHANGE IN CONTROL**

There are no provisions in the Articles of Incorporation of SAP AG that would have an effect of delaying, deferring or preventing a change in control of SAP AG and that would only operate with respect to a merger, acquisition or corporate restructuring involving it or any of its subsidiaries.

According to the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz) a bidder seeking control of a company with its corporate seat in Germany and traded on a European Union stock exchange must publish advance notice of a tender offer, submit a draft offer statement to the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) for review, and obtain certification from a qualified financial institution that adequate financing is in place to complete the offer. Once a bidder has acquired shares representing 30% of the voting power of the target company, it must make an offer for all remaining shares. The Securities Acquisition and Takeover Act requires the executive board of the target company to refrain from taking any measures that may frustrate the success of the takeover offer. However, the target executive board is permitted to take any action that a

prudent and diligent management of a company that is not the target of a takeover bid would also take. Moreover, the target executive board may search for other bidders and, with the prior approval of the supervisory board, may take other defensive measures, provided that both boards act within the parameters of their general authority under the German Stock Corporation Act. An executive board may also adopt specific defensive measures if such measures have been approved by the supervisory board and were specifically authorized by the shareholders no later than 18 months in advance of a takeover bid by resolution of 75% of the votes cast.

Under the European Takeover Directive of 2004 member states had to choose whether EU restrictions on defensive measures apply to companies that are registered in their territory. Germany decided to opt out and to retain its current restrictions on a board implementing defensive measures (as described above). As required by the Directive if a country decides to opt out the German Securities Acquisition and Takeover Act grants companies the option of voluntarily applying the European standard by a change of the Articles of Incorporation (opt-in). SAP AG has not made use of this option.

**CHANGE IN SHARE CAPITAL**

Under German law, the capital stock may be increased in consideration of contributions in cash or in kind, or by establishing authorized capital or contingent capital or by an increase of the company's capital reserves. Authorized capital provides the Executive Board with the flexibility to issue new shares for a period of up to five years. The Executive Board must obtain the approval of the Supervisory Board before issuing new shares with regard to the authorized capital. Contingent capital allows the issuance of new shares for specified purposes, including stock option plans for Executive Board members or employees and the issuance of shares upon conversion of convertible bonds and exercise of stock options. By law, the Executive Board may only issue new shares with regard to the contingent capital for the specified purposes.

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Capital increases require an approval by 75% of the votes cast at the General Meeting of Shareholders in which the increase is proposed, and requires an amendment to the Articles of Incorporation.

The share capital may be reduced by an amendment to the Articles of Incorporation approved by 75% of the votes cast at the General Meeting of Shareholders. In addition, the Executive Board of SAP AG is allowed to authorize a reduction of the company's capital stock by canceling a defined number of repurchased treasury shares if this repurchasing and the subsequent reduction have already been approved by the General Meeting of Shareholders.

The Articles of Incorporation do not contain conditions regarding changes in the share capital that are more stringent than those provided by German law.

**RIGHTS ACCOMPANYING OUR SHARES**

There are no limitations imposed by German law or the Articles of Incorporation of SAP AG on the rights to own securities, including the rights of non-residents or foreign holders to hold the ADRs or ordinary shares, to exercise voting rights or to receive dividends or other payments on such shares.

According to the German stock corporation law, the rights of shareholders cannot be amended without shareholders' consent. The Articles of Incorporation do not provide more stringent conditions regarding changes of the rights of shareholders than those provided by German law.

**Voting Rights**

Each ordinary SAP AG share represents one vote. Cumulative voting is not permitted under German law. A corporation's articles of incorporation may stipulate a majority necessary to pass a shareholders' resolution differing from the majority provided by law, unless the law does not mandatorily require a certain majority.

Section 21 (1) of SAP AG's Articles of Incorporation provides that resolutions may be passed at the General Meeting of Shareholders by the majority as provided by law. This means that resolutions may be passed by a majority of 50% plus one vote of votes cast (simple majority), unless the law provides or requires a higher majority. German law requires that the following matters, among others, be approved by at least 75% of the votes cast at the General Meeting of Shareholders in which the matter is proposed:

changing the corporate purpose of the company set out in the articles of incorporation;

capital increases and capital decreases;

excluding preemptive rights of shareholders to subscribe for new shares or for treasury shares;

dissolution;

a merger into, or a consolidation with, another company;

a transfer of all or virtually all of the assets; and

a change of corporate form.

Section 21 (3) of SAP AG's Articles of Incorporation provides that, if at an election no candidate receives a simple majority of votes during the first ballot in an election, a second, deciding ballot shall be conducted between the candidates who received the largest number of votes. If the second ballot is tied, the election shall be determined by drawing lots.

**Dividend Rights**

See Item 3. Key Information Dividends.

**Preemptive Rights**

Shareholders have preemptive rights to subscribe (Bezugsrecht) for any issue of additional shares in proportion to their shareholdings in the issued capital. The

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preemptive rights may be excluded under certain circumstances by a shareholders' resolution (approved by 75% of the votes cast at the General Meeting of Shareholders) or by the Executive Board authorized by such shareholders' resolutions and subject to the consent of the Supervisory Board.

**Liquidation**

If SAP AG were to be liquidated, any liquidation proceeds remaining after all of our liabilities were paid would be distributed to our shareholders in proportion to their shareholdings.

**Disclosure of Shareholdings**

SAP AG's Articles of Incorporation do not require shareholders to disclose their share holdings. The German Securities Trading Act (Wertpapierhandelsgesetz), however, requires holders of voting securities of SAP AG to notify SAP AG and the Federal Financial Supervisory Authority of the number or shares they hold if that number reaches, exceeds or falls below specified thresholds. These thresholds are 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% of the corporation's outstanding voting rights. In respect of certificates representing shares, the notification requirement shall apply exclusively to the holder of the certificates. In addition, the German Securities Trading Act also obliges anyone who holds, directly or indirectly, financial instruments that result in an entitlement to acquire, on one's initiative alone and under a legally binding agreement, shares in SAP AG, to notify SAP AG and the Federal Financial Supervisory Authority if the thresholds mentioned above have been reached, exceeded or fallen below, with the exception of the 3% threshold. In connection with this notification obligation positions in voting rights and other financial instruments have to be aggregated.

**Exchange Controls and Other Limitations Affecting Security Holders**

The euro is a fully convertible currency. At the present time, Germany does not restrict the export or import of capital, except for

investments in certain areas in accordance with applicable resolutions adopted by the United Nations and the European Union. However, for statistical purposes only, every individual or corporation residing in Germany ( Resident ) must report to the German Central Bank (Deutsche Bundesbank), subject only to certain immaterial exceptions, any payment received from or made to an individual or a corporation residing outside of Germany ( Non-Resident ) if such payment exceeds 12,500 (or the equivalent in a foreign currency). In addition, German Residents must report any claims against or any liabilities payable to Non-Residents if such claims or liabilities, in the aggregate, exceed 5 million (or the equivalent in a foreign currency) at the end of any calendar month. Residents are also required to report annually to the German Central Bank any shares or voting rights of 10% or more which they hold directly or indirectly in non-resident corporations with total assets of more than 3 million. Corporations residing in Germany with assets in excess of 3 million must report annually to the German Central Bank any shares or voting rights of 10% or more held directly or indirectly by a Non-Resident.

**TAXATION**

**General**

The following discussion is a summary of certain material German tax and U.S. federal income tax consequences of the acquisition, ownership and disposition of our ADRs or ordinary shares to a U.S. Holder. In general, a U.S. Holder (as hereinafter defined) is any beneficial owner of our ADRs or ordinary shares that (i) is a citizen or resident of the U.S. or a corporation organized under the laws of the U.S. or any political subdivision thereof, an estate whose income is subject to U.S. federal income tax regardless of its source or a trust, if a U.S. court can exercise primary supervision over its administration and one or more U.S. persons are authorized to control all substantial decisions of the trust; (ii) is not a resident of Germany for purposes of the income tax treaty between the



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U.S. and Germany (Convention between the Federal Republic of Germany and the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital and to certain other Taxes, as amended by the Protocol of June 1, 2006 and as published in the German Federal Law Gazette 2008 vol. II pp. 611/851; the Treaty ); (iii) owns the ADRs or ordinary shares as capital assets; (iv) does not hold the ADRs or ordinary shares as part of the business property of a permanent establishment or a fixed base in Germany; and (v) is fully entitled to the benefits under the Treaty with respect to income and gain derived in connection with the ADRs or ordinary shares.

THE FOLLOWING IS NOT A COMPREHENSIVE DISCUSSION OF ALL GERMAN TAX AND U.S. FEDERAL INCOME TAX CONSEQUENCES THAT MAY BE RELEVANT FOR U.S. HOLDERS OF OUR ADRs OR ORDINARY SHARES. THEREFORE, U.S. HOLDERS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE OVERALL GERMAN TAX AND U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF OUR ADRs OR ORDINARY SHARES IN LIGHT OF THEIR PARTICULAR CIRCUMSTANCES, INCLUDING THE EFFECT OF ANY STATE, LOCAL OR OTHER FOREIGN OR DOMESTIC LAWS.

**German Taxation**

The summary set out below is based on German tax laws, interpretations thereof and applicable tax treaties to which Germany is a party and that are in force at the date of this report; it is subject to any changes in such authority occurring after that date, potentially with retroactive effect, that could result in German tax consequences different from those discussed below. This discussion is also based, in part, on representations of the Depository and assumes that each obligation of the Deposit

Agreement and any related agreements will be performed in accordance with its terms. For additional information on the Depository and the fees associated with SAP's ADR program see Item 12. Description of Securities Other Than Equity Securities American Depository Shares.

For purposes of applying German tax law and the applicable tax treaties to which Germany is a party, a holder of ADRs will generally be treated as owning the ordinary shares represented thereby.

**German Taxation of Dividends**

Under German income tax law, the full amount of dividends distributed by a company is generally subject to German withholding tax at a domestic rate of 25% plus a solidarity surtax of 5.5% (effectively 1.375% of dividends before withholding tax), resulting in an aggregate withholding tax rate from dividends of 26.375%. Non-resident corporate shareholders will generally be entitled to a refund in the amount of two fifths of the withholding tax (including solidarity surtax). This does not preclude a further reduction of withholding tax, if any, available under a relevant tax treaty.

Generally, for many non-resident shareholders the withholding tax rate is currently reduced under applicable income tax treaties. Rates and refund procedures may vary according to the applicable treaty. To reduce the withholding tax to the applicable treaty tax rate a non-resident shareholder must apply for a refund of withholding taxes paid. Claims for refund, if any, are made on a special German claim for refund form, which must be filed with the German Federal Tax Office (Bundeszentralamt für Steuern, D-53221 Bonn, Germany; <http://www.bzst.de>). The relevant forms can be obtained from the German Federal Tax Office or from German embassies and consulates. For details, such non-resident shareholders are urged to consult their own tax advisors. Special rules apply for the refund to U.S. Holders (we refer to the below section Refund Procedures for U.S. Holders ).

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**Refund Procedures for U.S. Holders**

Under the Treaty, a partial refund of the 25% withholding tax equal to 10% of the gross amount of the dividend and a full refund of the solidarity surtax can be obtained by a U.S. Holder. Thus, for each US\$100 of gross dividends paid by SAP AG to a U.S. Holder, the dividends (which are dependent on the euro/dollar exchange rate at the time of payment) will be initially subject to a German withholding tax of US\$26.375, of which US\$11.375 may be refunded under the Treaty. As a result, a U.S. Holder effectively would receive a total dividend of US\$85 (provided the euro/dollar exchange rate at the time of payment of the dividend is the same as at the time of refund, otherwise the effective dividend may be higher or lower).

To claim the refund of amounts withheld in excess of the Treaty rate, a U.S. Holder must submit (either directly or, as described below, through the Data Medium Procedure participant) a claim for refund to the German tax authorities, with, in the case of a direct claim, the original bank voucher (or certified copy thereof) issued by the paying entity documenting the tax withheld, within four years from the end of the calendar year in which the dividend is received. Claims for refund are made on a special German claim for refund form, which must be filed with the German Federal Tax Office (Bundeszentralamt für Steuern, D-53221 Bonn, Germany). The German claim for refund form may be obtained from the German tax authorities at the same address where applications are filed, from the Embassy of the Federal Republic of Germany, 2300 M Street NW, Washington, DC 20037, or can be downloaded from the homepage of the German Federal Tax Office (<http://www.bzst.de>).

U.S. Holders must also submit to the German tax authorities a certification of their U.S. residency status (IRS Form 6166). This certification can be obtained from the Internal Revenue Service by filing a request for certification (generally on an IRS Form 8802, which will not be processed unless a user fee is paid) with the Internal Revenue Service,

P.O. Box 71052, Philadelphia, PA 19176-6052. U.S. Holders should consult their own tax advisors regarding how to obtain an IRS Form 6166.

An IT-supported quick-refund procedure is available for dividends received (the Data Medium Procedure – DMP). If the U.S. Holder's bank or broker elects to participate in the DMP, it will perform administrative functions necessary to claim the Treaty refund for the beneficiaries. The refund beneficiaries must confirm to the DMP participant that they meet the conditions of the Treaty provisions and that they authorize the DMP participant to file applications and receive notices and payments on their behalf. Further each refund beneficiary must confirm that (i) it is the beneficial owner of the dividends received; (ii) it is resident in the U.S. in the meaning of the Treaty; (iii) it does not have its domicile, residence or place of management in Germany; (iv) the dividends received do not form part of a permanent establishment or fixed base in Germany; and (v) it commits, due to its participation in the DMP, not to claim separately for refund.

The beneficiaries also must provide an IRS Form 6166 certification with the DMP participant. The DMP participant is required to keep these documents in its files and prepare and file a combined claim for refund with the German tax authorities by electronic media. The combined claim provides evidence of a U.S. Holder's personal data including its U.S. Tax Identification Number.

The German tax authorities reserve the right to audit the entitlement to tax refunds for several years following their payment pursuant to the Treaty in individual cases. The DMP participant must assist with the audit by providing the necessary details or by forwarding the queries to the respective refund beneficiaries.

The German tax authorities will issue refunds denominated in euros. In the case of shares held through banks or brokers participating in the Depository, the refunds will be issued to the Depository, which will convert

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the refunds to dollars. The resulting amounts will be paid to banks or brokers for the account of the U.S. Holders.

**German Taxation of Capital Gains**

Under German income tax law, a capital gain derived from the sale or other disposition of ADRs or ordinary shares by a non-resident shareholder is subject to income tax in Germany only if such shareholder has held, directly or indirectly, ADRs or ordinary shares representing 1% or more of the registered share capital of a company at any time during the five-year period immediately preceding the sale or other disposition.

Generally, a capital gain derived from the sale or other disposition of ADRs or ordinary shares by a non-resident corporate shareholder is, in principle, exempt from corporate income tax. However, a portion of 5% of a capital gain derived is treated as non-deductible business expenses. Therefore, effectively a portion of 95% of a capital gain derived from the sale or other disposition of ADRs or ordinary shares by a non-resident corporate shareholder is exempt and a portion of 5% of a capital gain derived is subject to corporate income tax.

However, a U.S. Holder of ADRs or ordinary shares that qualifies for benefits under the Treaty is not subject to German income or corporate income tax on the capital gain derived from the sale or other disposition of ADRs or ordinary shares.

**German Gift and Inheritance Tax**

Generally, a transfer of ADRs or ordinary shares by a shareholder at death or by way of gift will be subject to German gift or inheritance tax, respectively, if (i) the decedent or donor, or the heir, donee or other transferee is resident in Germany at the time of the transfer, or with respect to German citizens who are not resident in Germany, if the decedent or donor, or the heir, donee or other transferee has not been continuously outside of Germany for a period of more than five years; (ii) the ADRs or ordinary

shares are part of the business property of a permanent establishment or a fixed base in Germany; or (iii) the ADRs or ordinary shares subject to such transfer form part of a portfolio that represents 10% or more of the registered share capital of the Company and has been held, directly or indirectly, by the decedent or donor, respectively, at the time of the transfer, actually or constructively together with related parties.

However, the right of the German government to impose gift or inheritance tax on a non-resident shareholder may be limited by an applicable estate tax treaty. In the case of a U.S. Holder, a transfer of ADRs or ordinary shares by a U.S. Holder at death or by way of gift generally will not be subject to German gift or inheritance tax by reason of the estate tax treaty between the U.S. and Germany (Convention between the Federal Republic of Germany and the United States of America for the Avoidance of Double Taxation with respect to Estate, Gift and Inheritance Taxes, German Federal Law Gazette 1982 vol. II page 847, as amended by the Protocol of December 14, 1998 and as published on December 21, 2000, German Federal Law Gazette 2001 vol. II, page 65; the Estate Tax Treaty ) so long as the decedent or donor, or the heir, donee or other transferee was not domiciled in Germany for purposes of the Estate Tax Treaty at the time the gift was made, or at the time of the decedent's death, and the ADRs or ordinary shares were not held in connection with a permanent establishment or a fixed base in Germany. In general, the Estate Tax Treaty provides a credit against the U.S. federal gift or estate tax liability for the amount of gift or inheritance tax paid in Germany, subject to certain limitations, in a case where the ADRs or ordinary shares are subject to German gift or inheritance tax and U.S. federal gift or estate tax.

**Other German Taxes**

There are currently no German net worth, transfer, stamp or other similar taxes that would apply to a U.S. Holder on the acquisition, ownership, sale or other disposition of our ADRs or ordinary shares.



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**U.S. Taxation**

The following discussion applies to U.S. Holders only if the ADRs and ordinary shares are held as capital assets for tax purposes. It does not address tax considerations applicable to U.S. Holders that may be subject to special tax rules, such as dealers or traders in securities, financial institutions, insurance companies, tax-exempt entities, regulated investment companies, U.S. Holders that hold ordinary shares or ADRs as a part of a straddle, conversion transaction or other arrangement involving more than one position, U.S. Holders that own (or are deemed for U.S. tax purposes to own) 10% or more of the total combined voting power of all classes of voting stock of SAP AG, U.S. Holders that have a principal place of business or tax home outside the United States or U.S. Holders whose functional currency is not the dollar and U.S. Holders that hold ADRs or ordinary shares through partnerships or other pass-through entities.

The summary set out below is based upon the U.S. Internal Revenue Code of 1986, as amended (the Code), the Treaty and regulations, rulings and judicial decisions thereunder at the date of this report. Any such authority may be repealed, revoked or modified, potentially with retroactive effect, so as to result in U.S. federal income tax consequences different from those discussed below. No assurance can be given that the conclusions set out below would be sustained by a court if challenged by the IRS. The discussion below is based, in part, on representations of the Depositary, and assumes that each obligation in the Deposit Agreement and any related agreements will be performed in accordance with its terms.

For U.S. federal income tax purposes, a U.S. Holder of ADRs will be considered to own the ordinary shares represented thereby. Accordingly, unless the context otherwise requires, all references in this section to ordinary shares are deemed to refer likewise to ADRs representing an ownership interest in ordinary shares.

**U.S. Taxation of Dividends**

Subject to the discussion below under *Passive Foreign Investment Company Considerations*, distributions made by SAP AG with respect to ordinary shares (other than distributions in liquidation and certain distributions in redemption of stock), including the amount of German tax deemed to have been withheld in respect of such distributions, will generally be taxed to U.S. Holders as ordinary dividend income.

As discussed above, a U.S. Holder may obtain a refund of German withholding tax under the Treaty to the extent that the German withholding tax exceeds 15% of the dividend distributed. Thus, for each US\$100 of gross dividends paid by SAP AG to a U.S. Holder, the dividends (which are dependent on the euro/dollar exchange rate at the time of payment) will be initially subject to German withholding tax of US\$25 plus US\$1.375 solidarity surtax, and the U.S. Holder will receive US\$73.625. A U.S. Holder who obtains the Treaty refund will receive from the German tax authorities an additional amount in euro that would be equal to US\$11.375. For U.S. tax purposes, such U.S. Holder will be considered to have received a total distribution of US\$100, which will be deemed to have been subject to German withholding tax of US\$15 (15% of US\$100) resulting in the net receipt of US\$85 (provided the euro/dollar exchange rate at the time of payment of the dividend is the same as at the time of refund, otherwise the effective dividend may be higher or lower).

In the case of a distribution in euro, the amount of the distribution generally will equal the dollar value of the euro distributed (determined by reference to the spot currency exchange rate on the date of receipt of the distribution, or receipt by the Depositary in the case of a distribution on ADRs), regardless of whether the holder in fact converts the euro into dollars, and the U.S. Holder will not realize any separate foreign currency gain or loss (except to the extent that such gain or loss arises on the actual disposition of foreign currency received).

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However, a U.S. Holder may be required to recognize foreign currency gain or loss on the receipt of a refund in respect of German withholding tax to the extent the U.S. dollar value of the refund differs from the U.S. dollar equivalent of that amount on the date of receipt of the underlying dividend.

Dividends paid by SAP AG generally will constitute portfolio income for purposes of the limitations on the use of passive activity losses (and, therefore, generally may not be offset by passive activity losses) and as investment income for purposes of the limitation on the deduction of investment interest expense. Dividends paid by SAP AG will not be eligible for the dividends received deduction generally allowed to U.S. corporations under Section 243 of the Code. Dividends paid by SAP AG to an individual after December 31, 2002 and received prior to January 1, 2013 are treated as qualified dividends subject to capital gains rates, i.e. at a maximum rate of 15%, if SAP AG was not in the prior year and, is not in the year in which the dividend is paid, a passive foreign investment company ( PFIC ). Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income taxes with respect to our 2011 tax year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for the 2012 tax year.

**U.S. Taxation of Capital Gains**

In general, assuming that SAP AG at no time is a PFIC, upon a sale or exchange of ordinary shares to a person other than SAP AG, a U.S. Holder will recognize gain or loss in an amount equal to the difference between the amount realized on the sale or exchange and the U.S. Holder's adjusted tax basis in the ordinary shares. Such gain or loss will be a capital gain or loss and will be considered a long-term capital gain (taxable at a reduced rate for individuals) if

the ordinary shares were held for more than one year. The deductibility of capital losses is subject to significant limitations. Upon a sale of ordinary shares to SAP AG, a U.S. Holder may recognize a capital gain or loss or, alternatively, may be considered to have received a distribution with respect to the ordinary shares, in each case depending upon the application to such sale of the rules of Section 302 of the Code.

Deposit and withdrawal of ordinary shares in exchange for ADRs by a U.S. Holder will not result in its realization of gain or loss for U.S. federal income tax purposes.

**U.S. Foreign Tax Credit**

In general, in computing its U.S. federal income tax liability, a U.S. Holder may elect for each taxable year to claim a deduction or, subject to the limitations on foreign tax credits generally, a credit for foreign income taxes paid or accrued by it. For U.S. foreign tax credit purposes, subject to the applicable limitations under the foreign tax credit rules, German tax withheld from dividends paid to a U.S. Holder, up to the 15% provided under the Treaty, will be eligible for credit against the U.S. Holder's federal income tax liability or, if the U.S. Holder has elected to deduct such taxes, may be deducted in computing taxable income.

For U.S. foreign tax credit purposes, dividends paid by SAP AG generally will be treated as foreign-source income and as passive category income (or in the case of certain holders, as general category income). Gains or losses realized by a U.S. Holder on the sale or exchange of ordinary shares generally will be treated as U.S.-source gain or loss.

**Passive Foreign Investment Company Considerations**

Special and adverse U.S. tax rules apply to a U.S. Holder that holds an interest in a passive foreign investment company (PFIC). Based on current projections concerning the composition of SAP AG's income and assets, SAP AG does not believe that it will be treated as a PFIC for its



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current or future taxable years. However, because this conclusion is based on our current projections and expectations as to its future business activity, SAP AG can provide no assurance that it will not be treated as a PFIC in respect of its current or any future taxable years.

**MATERIAL CONTRACTS**

**SuccessFactors, Inc.**

Pursuant to the Agreement and Plan of Merger dated as of December 3, 2011 by and among SAP America, Inc., a wholly owned subsidiary of SAP AG (SAP America), Saturn Expansion Corporation, a wholly owned subsidiary of SAP America (Saturn) and SuccessFactors, Inc. (SuccessFactors), Saturn commenced a cash tender offer for all of the outstanding shares of the common stock of SuccessFactors, par value US\$0.001 per share (each a share), at a price of US\$40.00 per share, representing an enterprise value of approximately US\$3.6 billion. On February 21, 2012, SAP acquired more than 90% of the outstanding ordinary shares of SuccessFactors. Subsequent to the acceptance of the shares for payment under the tender offer, SAP effected a short-form merger under Delaware and acquired the remaining shares for the same US\$40.00 per share price that was paid in the tender offer. The transaction was funded from SAP's cash on hand and a \$1 billion credit facility.

The preceding description is a summary of the Agreement and Plan of Merger and is qualified in its entirety by the Agreement and Plan of Merger which is incorporated by reference as Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC by SuccessFactors on December 5, 2011.

**Sybase, Inc.**

Pursuant to the Merger Agreement dated May 12, 2010 by and among Sybase, Inc., SAP America, Inc., and Sheffield Acquisition Corp., a wholly owned subsidiary of SAP America, Inc., Sheffield Acquisition Corp. commenced a cash tender offer for all of the outstanding shares of Sybase common stock at US\$65.00 per share,

representing an enterprise value of approximately US\$5.9 billion. The transaction closed on July 26, 2010 after receipt of the majority of the outstanding shares of Sybase's common stock and clearance by the relevant antitrust authorities. Subsequently, SAP acquired the remaining common shares and the combination was completed on July 29, 2010. The transaction was funded from SAP's cash on hand and a euro 2.64 billion acquisition term loan facility.

The preceding description is a summary of the Merger Agreement and is qualified in its entirety by the Merger Agreement which is incorporated by reference as Exhibit 4.7 to our 2010 Annual Report on Form 20-F filed with the Commission on March 18, 2011.

**DOCUMENTS ON DISPLAY**

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we file reports and furnish other information as a foreign private issuer with the SEC. These materials, including this report and the exhibits thereto, may be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The SEC also maintains a Web site at [www.sec.gov](http://www.sec.gov) that contains reports and other information regarding registrants that file electronically with the SEC. This report as well as some of the other information submitted by us to the SEC may be accessed through this Web site. In addition, information about us is available at our Web site: [www.sap.com](http://www.sap.com).

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to various financial risks, such as market risks, including changes in foreign currency exchange rates, interest rates and equity prices, as well as credit risk and liquidity risk. We manage these risks on a Group-wide basis. Selected derivatives are exclusively used for this purpose and not for



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speculation, which is defined as entering into derivative instruments without a corresponding underlying transaction. Financial risk management is done centrally. See Notes (25), (26) and (27) to our Consolidated Financial Statements for our quantitative and qualitative disclosures about market risk.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**AMERICAN DEPOSITARY SHARES**

**Fees and Charges Payable by ADR Holders**

Deutsche Bank Trust Company Americas is the Depositary for SAP AG's ADR program. ADR holders may be required to pay the following charges:

taxes and other governmental charges;

registration fees as may be in effect from time to time for the registration of transfers of SAP ordinary shares on any applicable register to the Depositary or its nominee or the custodian or its nominee in connection with deposits or withdrawals under the Deposit Agreement;

applicable air courier, cable, telex and facsimile expenses of the Depositary;

expenses incurred by the Depositary in the conversion of foreign currency;

\$5.00 or less per 100 ADSs (or portion thereof) to the Depositary for the execution and delivery of ADRs (including in connection with the depositing of SAP ordinary shares or the exercising of rights) and the surrender of ADRs as well as for the distribution of other securities;

a maximum aggregate service fee of U.S. \$2.00 per 100 ADSs (or portion thereof) per calendar year to the Depositary for the services performed by the Depositary in administering the ADR program, including for processing any cash dividends and other cash distributions; and

\$5.00 or less per 100 ADSs (or portion thereof) to the Depositary for distribution of securities other than SAP ordinary shares or rights.

These charges are described more fully in Section 5.9 of the Amended and Restated Deposit Agreement dated November 25, 2009, incorporated by reference as Exhibit 4.1.2 to our 2010 Annual Report on Form 20-F filed with the Commission on March 18, 2011.

Applicable service fees are either deducted from any cash dividends or other cash distributions or charged separately to holders in a manner determined by the Depositary, depending on whether ADSs are registered in the name of investors (whether certificated or in book-entry form) or held in brokerage and custodian accounts (via DTC). In the case of distributions of securities other than SAP ordinary shares or rights, the Depositary charges the applicable ADS record date holder concurrent with the distribution. In the case of ADSs registered in the name of the

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investor, whether certificated or in book entry form, the Depositary sends invoices to the applicable record date ADS holders. For ADSs held in brokerage and custodian accounts via DTC, the Depositary may, if permitted by the settlement systems provided by DTC, collect the fees through those settlement systems from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in such case may in turn charge their clients' accounts the amount of the service fees paid to the Depositary.

In the event of a refusal to pay applicable fees, the Depositary may refuse the requested services until payment is received or may set off the amount of the service from any distribution to be made to the ADR holder, all in accordance with the Deposit Agreement.

If any taxes or other governmental charges are payable by the holders and/or beneficial owners of ADSs to the Depositary, the Depositary, the custodian or SAP may withhold

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or deduct from any distributions made in respect of the deposited SAP ordinary share and may sell for the account of the holder and/or beneficial owner any or all of the deposited ordinary shares and apply such distributions and sale proceeds in payment of such taxes (including applicable interest and penalties) or charges, with the holder and the beneficial owner thereof remaining fully liable for any deficiency.

**Fees and Other Payments Payable by the Depositary to SAP**

The Depositary has agreed to make certain payments to SAP as reimbursement for expenses incurred by SAP in connection with its ADR

program and in support of SAP's ongoing investor relations activities related to the ADR program. For the year ended December 31, 2011, the Depositary has made direct and indirect payments to SAP of US \$2,494,566 for investor relations activities related to the ADR program, including the production of annual reports and Form 20-F filings, 2011 NYSE listing fees, road shows, production of investor targeting, peer analysis, shareholder identification reports and perception studies, postage for mailing annual and interim reports and other communications to ADR holders and participation in retail investor activities, broker conferences, SAP sponsored analyst events and capital markets days.

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**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

**ITEM 15. CONTROLS AND PROCEDURES**

**EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Disclosure controls and procedures are controls and other procedures of SAP that are designed to ensure that information required to be disclosed by SAP in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by SAP in the reports that it files or submits under the Exchange Act is accumulated and communicated to SAP management, including SAP's principal executive and financial officers (i.e. SAP's co-chief executive officers (Co-CEOs) and chief financial officer (CFO)), or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. SAP's management evaluated, with the participation of SAP's Co-CEOs and CFO the effectiveness of SAP's disclosure controls and procedures as of December 31, 2011. The evaluation was led by SAP's Global Governance Risk & Compliance function, including dedicated SOX Champions in all of SAP's major entities and business units with the participation of process owners, SAP's key corporate senior management, senior management of each business group, and as indicated above under the supervision of SAP's Co-CEOs and CFO. Based on the foregoing, SAP's management, including SAP's Co-CEOs

and CFO, concluded that as of December 31, 2011, SAP's disclosure controls and procedures were effective.

**MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of SAP is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. SAP's internal control over financial reporting is a process designed under the supervision of SAP's Co-CEOs and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

SAP's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework.

Based on the assessment under these criteria, SAP management has concluded that, as of December 31, 2011, the Company's internal control over financial reporting was effective.

KPMG, our independent registered public accounting firm has issued its attestation report on the effectiveness of SAP's internal control over financial reporting, which is included in Item 18. Financial Statements, Report of Independent Registered Public Accounting Firm.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

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There has been no change in our internal control over financial reporting during the period covered by this report that has materially

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affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16. [RESERVED]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our Supervisory Board has determined that Erhard Schipporeit is an audit committee financial expert, as defined by the regulations of the Commission issued pursuant to Section 407 of the Sarbanes-Oxley Act of 2002 and meeting the requirements of Item 16A. He is independent, as such term is defined in Rule 10A-3 under the Exchange Act.

**ITEM 16B. CODE OF ETHICS**

In 2003, SAP adopted a Code of Business Conduct that applies to all employees (including all personnel in the accounting and controlling departments), managers and the members of SAP's Executive Board (including our CEOs and CFO). Our Code of Business Conduct constitutes a code of ethics as defined in Item 16.B of Form 20-F. Our Code of Business Conduct sets standards for all dealings with customers, partners, competitors and suppliers and includes, among others, regulations with regard to confidentiality, loyalty, preventing conflicts of interest, preventing bribery, and avoiding anti-competitive practices. International differences in culture, language, and legal and social systems make the adoption of uniform Codes of Business Conduct across an entire global company challenging. As a result, SAP has set forth a master code containing minimum standards. In turn, each company within the SAP Group has been required to adopt a similar code that meets at least these minimum standards, but may also include additional or more stringent rules of conduct. Newly acquired companies also are required to meet the minimum standards set forth in the Code of Business Conduct. Effective February 2012, SAP amended its Code of Business Conduct to address certain changes in bribery laws, and to update the intellectual

property and non-retaliation provisions. We have made our amended Code of Business Conduct publicly available by posting the full text on our Web site under <http://www.sap.com/corporate-en/investors/governance/statutes/codeofconduct.epx>.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

**AUDIT FEES, AUDIT RELATED FEES, TAX FEES AND ALL OTHER FEES**

Refer to Note (32) to our Consolidated Financial Statements for information on fees paid to our independent registered public accounting firm, KPMG, for audit services and other professional services.

**AUDIT COMMITTEE'S PRE-APPROVAL POLICIES AND PROCEDURES**

As required under German law, our shareholders appoint our independent auditors to audit our financial statements, based on a proposal that is legally required to be submitted by the Supervisory Board. The Supervisory Board's proposal is based on a proposal by the Audit Committee. See also the description in Item 10. Additional Information - Corporate Governance.

In 2002 our Audit Committee adopted a policy with regard to the pre-approval of audit and non-audit services to be provided by our independent auditors. This policy, which is designed to assure that such engagements do not impair the independence of our auditors, was amended and expanded in 2003, 2007 and 2009 (changes in 2009 only related to information requirements). The policy requires prior approval of the Audit Committee for all services to be provided by our independent auditors for any entity of the SAP Group. With regard to non-audit services the policy distinguishes among three categories of services:

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(i) Prohibited services: This category includes services that our independent auditors must not be engaged to perform. These are services that are not permitted by applicable law or that

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would be inconsistent with maintaining the auditors' independence.

(ii) Services requiring universal approval: Services of this category may be provided by our independent auditors up to a certain aggregate amount in fees per year that is determined by the Audit Committee.

(iii) Services requiring individual approval: Services of this category may only be provided by our independent auditors if they have been individually (specifically) pre-approved by the Audit Committee or an Audit Committee member who is authorized by the Audit Committee to make such approvals.

Our Chief Accounting Officer or individuals empowered by him review all individual requests to engage our independent auditors as a service provider in accordance with this policy and determines the category to which the requested service belongs. All requests for engagements with expected fees over a specified limit are additionally reviewed by our CFO. Based on the determination of the category the request is (i) declined if it is a prohibited service, (ii) approved if it is a service requiring universal approval and the maximum aggregate amount fixed by the Audit Committee has not been reached or (iii) forwarded to the Audit Committee for individual approval if the service requires individual approval or is a service requiring universal approval and the maximum aggregate amount fixed by the Audit Committee has been exceeded.

Our Audit Committee's pre-approval policies also include information requirements to ensure the Audit Committee is kept aware of the volume of engagements involving our independent auditors that were not individually pre-approved by the Audit Committee itself.

Substantially all of the work performed to audit our Consolidated Financial Statements was performed by our principal accountant's full-time, permanent employees.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Rule 10A-3 of the Exchange Act requires that all members of our audit committee be independent, subject to certain exceptions. In accordance with German law, the Audit Committee consists of both employee and shareholder elected members. Rule 10A-3 provides an exception for an employee of a foreign private issuer such as SAP who is not an executive officer of that issuer and who is elected to the supervisory board or audit committee of that issuer pursuant to the issuer's governing law. In this case, the employee is exempt from the independence requirements of Rule 10A-3 and is permitted to sit on the audit committee.

We rely on this exemption. Our Audit Committee includes two members who are non-executive employees of SAP AG, Thomas Bamberger and Gerhard Maier, who were named to our Supervisory Board pursuant to the German Co-determination Act (see Item 6. Directors, Senior Management and Employees. for details). We believe that the reliance on this exemption does not materially adversely affect the ability of our Audit Committee to act independently and to satisfy the other requirements of Rule 10A-3.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

We did not purchase any ADRs in 2011. The following table sets out information concerning repurchases of our ordinary shares, which we mainly use to serve our employee discount stock purchase programs, Long-Term Incentive Plans, Stock Option Plans and other such plans. The maximum number of shares that may yet be purchased under these plans and programs as of December 31, 2011 was 85,042,489.

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| Period                    | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share (in ) | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans and Programs | (d) Maximum Number of Shares that May Yet Be Purchased Under these Plans and Programs |
|---------------------------|--------------------------------------|--|---|---|
| January 1/1/11 1/31/11    | 0                                    |  | 0   | 83,559,544  |
| February 2/1/11 2/28/11   | 2,770,000                            | 44.10                                  | 2,770,000   | 83,664,603  |
| March 3/1/11 3/31/11      | 835,000                              | 42.96                                  | 835,000   | 83,758,905  |
| April 4/1/11 4/30/11      | 0                                    |  | 0   | 83,793,112  |
| May 5/1/11 5/31/11        | 0                                    |  | 0   | 83,824,592  |
| June 6/1/11 6/30/11       | 0                                    |  | 0   | 84,659,971  |
| July 7/1/11 7/31/11       | 0                                    |  | 0   | 84,695,541  |
| August 8/1/11 8/31/11     | 0                                    |  | 0   | 84,774,390  |
| September 9/1/11 9/30/11  | 0                                    |  | 0   | 84,832,133  |
| October 10/1/11 10/31/11  | 0                                    |  | 0   | 84,878,750  |
| November 11/1/11 11/30/11 | 1,200,000                            | 43.89                                  | 1,200,000   | 84,983,252  |
| December 12/1/11 12/31/11 | 810,000                              | 43.56                                  | 810,000   | 85,042,489  |
| <b>Total</b>              | <b>5,615,000</b>                     | <b>43.81</b>                           | <b>5,615,000</b>  |   |

Purchases between January 1, 2011 and December 31, 2011 were made in accordance with the authorization to acquire and use treasury shares granted at the Annual General Meeting of Shareholders on June 8 2010, pursuant to which the Executive Board was authorized to acquire, on or before June 30, 2013, up to 120 million shares of SAP. The authorization from June 8, 2010 replaced the authorization from May 19, 2009.

Both authorizations were subject to the provision that the shares to be purchased, together with any other shares already acquired and held by SAP, do not account for more than 10% of SAP's capital stock.

**ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. DIFFERENCES IN CORPORATE GOVERNANCE PRACTICES**

The following summarizes the principal ways in which our corporate governance practices differ from the New York Stock Exchange (NYSE) corporate governance rules applicable to U.S. domestic issuers (the NYSE Rules).

**INTRODUCTION**

SAP is incorporated under the laws of Germany, with securities publicly traded on markets in Germany, including the Frankfurt Exchange and in the United States on the NYSE.

The NYSE Rules permit foreign private issuers to follow applicable home country corporate governance practices in lieu of the NYSE corporate governance standards, subject to certain exceptions. Foreign private issuers electing to follow home country corporate governance rules are required to disclose the principal differences in their corporate governance practices from those required under the NYSE Rules. This Item 16G summarizes the principal ways in which SAP's corporate governance practices differ from the NYSE Rules applicable to domestic issuers.

**LEGAL FRAMEWORK**

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The primary source of law relating to the corporate governance of a German stock corporation is the German Stock Corporation Act (Aktengesetz). Additionally, the Securities Trading Act (Wertpapierhandelsgesetz), the German Securities Purchase and Take Over Act (Wertpapiererwerbs- und Übernahmegesetz), the Stock Exchange Admission Regulations, the

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German Commercial Code (Handelsgesetzbuch) and certain other German statutes contain corporate governance rules applicable to SAP. In addition to these mandatory rules, the German Corporate Governance Code ( GCGC ) summarizes the mandatory statutory corporate governance principles found in the German Stock Corporation Act and other provisions of German law. Further, the GCGC contains supplemental recommendations and suggestions for standards on responsible corporate governance intended to reflect generally accepted best practices.

The German Stock Corporation Act requires the executive and the supervisory board of publicly listed companies like SAP to declare annually that the recommendations set forth in the GCGC have been and are being complied with or which of the recommendations have not been or are not being complied with and why not. SAP has disclosed and reasoned deviations from a few of the GCGC recommendations in its Declaration of Compliance on a yearly basis since 2003. Declarations from 2006 forward are available on the SAP website ([http://www.sap.com/corporate-en/investors/governance/statutes/declarationof implementation.epx](http://www.sap.com/corporate-en/investors/governance/statutes/declarationofimplementation.epx)).

**SIGNIFICANT DIFFERENCES**

We believe the following to be the significant differences between German corporate governance practices, as SAP has implemented them, and those applicable to domestic companies under the NYSE Rules.

**GERMAN STOCK CORPORATIONS ARE REQUIRED TO HAVE A TWO-TIER BOARD SYSTEM**

SAP is governed by three separate bodies: (i) the Supervisory Board, which counsels, supervises and controls the Executive Board; (ii) the Executive Board, which is responsible for the management of SAP; and (iii) the General Meeting of Shareholders. The rules applicable to these governing bodies are defined by German law and by SAP's Articles of Incorporation. This corporate structure differs from the unitary board

of directors established by the relevant laws of all U.S. states and the NYSE Rules. Under the German Stock Corporation Act, the Supervisory Board and Executive Board are separate and no individual may be a member of both boards. See Item 10. Additional Information Corporate Governance for additional information on the corporate structure.

**DIRECTOR INDEPENDENCE RULES**

The NYSE Rules require that a majority of the members of the board of directors of a listed issuer and each member of its nominating, corporate governance, compensation and audit committee be independent. The NYSE Rules stipulate that no director qualifies as independent unless the board of directors has made an affirmative determination that the director has no material direct or indirect relationship with the listed company. However, under the NYSE Rules a director may still be deemed independent even if the director or a member of a director's immediate family has received during a 12 month period within the prior three years up to \$120,000 in direct compensation. In addition, a director may also be deemed independent even if a member of the director's immediate family works for the company's auditor in a non-partner capacity and not on the company's audit. By contrast, the GCGC requires that the Supervisory Board ensure that proposed candidates are persons with the necessary knowledge, competencies and applicable experience, and that the Supervisory Board includes what it considers an adequate number of independent members. A Supervisory Board member is considered independent if he or she has no business or personal relations with SAP or its Executive Board that could give rise to a conflict of interest. The members of the Supervisory Board must have enough time to perform their board duties and must carry out their duties carefully and in good faith. For as long as they serve, they must comply with the criteria that are enumerated in relation to the selection of candidates for the Supervisory Board concerning independence, conflict of interest and multiple memberships of

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management, supervisory and other governing bodies. They must be loyal to SAP in their conduct and they must not accept appointment in companies that are in competition with SAP. Supervisory Board members must disclose any planned non-ordinary course business transactions with SAP to the Supervisory Board promptly. The Supervisory Board members cannot carry out such transactions before the Supervisory Board has given its permission. The Supervisory Board may grant its permission for any such transaction only if the transaction is based on terms and conditions that are standard for the type of transaction in question and if the transaction is not contrary to SAP's interest. SAP complies with these GCGC director independence requirements.

German corporate law requires that for publicly listed stock corporations at least one member of the Supervisory Board who has expert knowledge in the areas of financial accounting and audit of financial statements must be independent. Mr. Erhard Schipporeit who is the Chairman of SAP's Audit Committee meets these requirements. However, German corporate law and the GCGC do not require the Supervisory Board to make an affirmative determination for each individual member that is independent or that a majority of Supervisory Board members or the members of a specific committee are independent.

The NYSE independence requirements are closely linked with risks specific to unitary boards of directors that are customary for U.S. companies. In contrast, the two-tier board structure requires a strict separation of the executive board and supervisory board. In addition, the supervisory board of large German stock corporations is subject to the principle of employee codetermination as outlined in the German Co-Determination Act of 1976 (Mitbestimmungsgesetz). As a result, the Supervisory Board of SAP AG consists of 16 members, of which eight have been elected by SAP AG's shareholders at the Annual General Meeting and eight members have been elected by employees of SAP AG and its German

subsidiaries. Typically, the chairperson of the supervisory board is a shareholder representative. In case of a tie vote, the supervisory board chairperson may cast the decisive tie-breaking vote. This board structure creates a different system of checks and balances, including employee participation, and cannot be directly compared with a unitary board system.

**AUDIT COMMITTEE INDEPENDENCE**

As a foreign private issuer, the NYSE Rules require SAP to establish an Audit Committee that satisfies the requirements of Rule 10A-3 of the Exchange Act with respect to audit committee independence. SAP is in compliance with these requirements. The Chairman of SAP's Audit Committee and Mr. Joachim Milberg meet the independence requirements of Rule 10A-3 of the Exchange Act. The other two Audit Committee members, Messrs. Thomas Bamberger and Gerhard Maier, are employee representatives who are eligible for the exemption provided by Rule 10A-3 (b) (1) (iv) (C) (see Item 16D Exemptions from the listing standards for audit committees for details).

The Audit Committee independence requirements are similar to the Board independence requirements under German corporate law and GCGC. See the section above under Director Independence Rules. Nonetheless, SAP meets the NYSE Rules on audit committee independence applicable to foreign private issuers.

**RULES ON NON-MANAGEMENT BOARD MEETINGS ARE DIFFERENT**

Section 303 A.03 of the NYSE Rules stipulates that the non-management board of each listed issuer must meet at regularly scheduled executive sessions without the management. Under German corporate law and the GCGC the Supervisory Board is entitled but not required to exclude Executive Board members from its meetings. The Supervisory Board exercises this right temporarily during its meetings, for example when it discusses or decides Executive Board member affairs like the appointment of new Executive Board members.

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**RULES ON ESTABLISHING COMMITTEES DIFFER**

Pursuant to Section 303 A.04 and 303 A.05 of the NYSE Rules listed companies are required to set up a Nominating/Corporate Governance Committee and a Compensation Committee, each composed entirely of independent directors and having a written charter specifying the committee's purpose and responsibilities. In addition, each committee's performance must be reviewed annually. With one exception, German corporate law does not mandate the creation of specific supervisory board committees. Required by the German Co-Determination Act of 1976 (Mitbestimmungsgesetz), the Mediation Committee (Vermittlungsausschuss) convenes only if the 2/3 majority required for appointing/revoking the appointment of Executive Board Members is not attained. This committee has never been convened in SAP's history. In addition, the GCGC recommends that the Supervisory Board establish an Audit Committee and a Nomination Committee. In addition to the legally required Mediation Committee, SAP has the following committees, which are in compliance with the GCGC: General and Compensation Committee, Audit Committee, Strategy and Technology Committee, Finance and Investment Committee, Nomination Committee, and Special Committee (See Item 10. Additional Information Corporate Governance for more information).

**RULES ON SHAREHOLDERS' COMPULSORY APPROVAL ARE DIFFERENT**

Section 312 of the NYSE Rules requires U.S. companies to seek shareholder approval of all equity-compensation plans, including certain material revisions thereto (subject to certain exemptions as described in the rules), issuances of common stock, including convertible stock, if the common stock has, or will have upon issuance, voting power of or in excess of 20% of the then outstanding common stock, and issuances of common stock if they trigger a change of control.

According to the German Stock Corporation Act and other applicable German laws, shareholder approval is required for a broad range of matters, such as amendments to the articles of association, certain significant corporate transactions (including inter-company agreements and material restructurings), the offering of stock options and similar equity compensation to its Executive Board members or its employees by a way of a conditional capital increase or by using treasury shares (including significant aspects of such an equity compensation plan as well as the exercise thresholds), the issuance of new shares, the authorization to purchase the corporation's own shares, and other essential issues, such as transfers of all, or substantially all, of the assets of the stock corporation, including shareholdings in subsidiaries.

**SPECIFIC PRINCIPLES OF CORPORATE GOVERNANCE**

Under the NYSE Rules Section 303A.09 listed companies must adopt and disclose corporate guidelines. Since October 2007, SAP has applied, with few exceptions, the recommended corporate governance standards of the GCGC rather than company-specific principles of corporate governance. The GCGC recommendations differ from the NYSE Standards primarily as outlined in this Item 16G.

**SPECIFIC CODE OF BUSINESS CONDUCT**

NYSE Rules Section 303 A.10 requires listed companies to adopt and disclose a code of business conduct and ethics for directors, officers and employees, and to disclose promptly any waivers of the code for directors or executive officers. Although not required under German law, SAP has adopted a Code of Business Conduct, which is equally applicable to employees, managers and members of the Executive Board. SAP complies with the requirement to disclose the Code of Business Conduct and any waivers of the code with respect to directors and executive officers. See Item 16B. Code of Ethics for details.

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**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

The Consolidate Financial Statements are included herein on pages F-1 through F-105.

The following are filed as part of this report:

Report of Independent Registered Public Accounting Firm.

Consolidated Financial Statements

Consolidated Income Statements for the years ended 2011, 2010 and 2009.

Consolidated Statements of Comprehensive Income for the years ended December 31, 2011, 2010 and 2009.

Consolidated Statements of Financial Position as of December 31, 2011 and 2010.

Consolidated Statements of Changes in Equity for the years ended December 31, 2011, 2010 and 2009.

Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009.

Notes to the Consolidated Financial Statements.

**ITEM 19. EXHIBITS**

The following documents are filed as exhibits to this report:

## Edgar Filing: SAP AG - Form 20-F

- 1 Articles of Incorporation (Satzung) of SAP AG, as amended effective October 13, 2011 (English translation).
- 2.1 Form of global share certificate for ordinary shares (English translation).<sup>(1)</sup>

Certain instruments which define rights of holders of long-term debt of SAP AG and its subsidiaries are not being filed because the total amount of securities authorized under each such instrument does not exceed 10% of the total consolidated assets of SAP AG and its subsidiaries. SAP AG and its subsidiaries hereby agree to furnish a copy of each such instrument to the Securities and Exchange Commission upon request.
- 4.1.2 Amended and Restated Deposit Agreement dated as of November 25, 2009 among SAP AG, Deutsche Bank Trust Company Americas as Depositary, and all owners and holders from time to time of American Depositary Receipts issued thereunder, including the form of American Depositary Receipts.<sup>(2)</sup>
- 4.7 Merger Agreement dated May 12, 2010 by and among SAP America, Inc., Sheffield Acquisition Corp. and Sybase, Inc.<sup>(3)</sup>
- 4.8 Agreement and Plan of Merger dated December 3, 2011 by and among SAP America, Inc., Saturn Expansion Corporation, SAP AG and SuccessFactors, Inc.<sup>(4)</sup>
- 8 For a list of our subsidiaries see Note (34) to our Consolidated Financial Statements in Item 18. Financial Statements .
- 12.1 Certification of Bill McDermott, Co-Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a).

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- 12.2 Certification of Jim Hagemann Snabe, Co-Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a).
- 12.3 Certification of Werner Brandt, Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a).
- 13.1 Certification of Bill McDermott, Co-Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification of Jim Hagemann Snabe, Co-Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.3 Certification of Werner Brandt, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 15 Consent of Independent Registered Public Accounting Firm.

(1) Incorporated by reference to Exhibit 2.1 of SAP AG's Annual Report on Form 20-F filed on March 22, 2006.

(2) Incorporated by reference to Exhibit 99(A) of Post Effective Amendment #1 to SAP AG's Registration Statement on Form F-6 filed on November 25, 2009.

(3) Incorporated by reference to Exhibit 2.1 to Sybase, Inc.'s Current Report on Form 8-K filed on May 13, 2010.

(4) Incorporated by reference to Exhibit 2.1 to SuccessFactors, Inc.'s Current Report on Form 8-K filed on December 5, 2011.

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**SIGNATURES**

The Registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this report on its behalf.

SAP AG

(Registrant)

By: /s/ BILL MCDERMOTT

Name: Bill McDermott

Title: Co-Chief Executive Officer

Dated: March 22, 2012

By: /s/ JIM HAGEMANN SNABE

Name: Jim Hagemann Snabe

Title: Co-Chief Executive Officer

Dated: March 22, 2012

By: /s/ WERNER BRANDT

Name: Dr. Werner Brandt

Title: Chief Financial Officer

Dated March 22, 2012

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**SAP AG AND SUBSIDIARIES**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Supervisory Board of SAP AG:

We have audited the accompanying consolidated statements of financial position of SAP AG and subsidiaries ( SAP or the Company ) as of December 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited SAP's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). SAP's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SAP AG and subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB). Also in our opinion, SAP AG maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the COSO.

/s/ KPMG AG  
Wirtschaftsprüfungsgesellschaft

Mannheim, Germany

February 23, 2012

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for the years ended December 31,

|   | Note | (Unaudited)<br>2011 <sup>(1)</sup><br>US\$ | 2011          | 2010          | 2009          |
|---|------|--|---------------|---------------|---------------|
| millions, unless otherwise stated                       |      |  |               |               |               |
| Software revenue  |      | 5,152                                      | 3,971         | 3,265         | 2,607         |
| Support revenue   |      | 9,038                                      | 6,967         | 6,133         | 5,285         |
| Subscription and other software-related service revenue |      | 494  | 381           | 396           | 306           |
| <b>Software and software-related service revenue</b>    |      | <b>14,684</b>                              | <b>11,319</b> | <b>9,794</b>  | <b>8,198</b>  |
| Consulting revenue                                      |      | 3,037                                      | 2,341         | 2,197         | 2,074         |
| Other service revenue                                   |      | 743  | 573           | 473           | 400           |
| <b>Professional services and other service revenue</b>  |      | <b>3,780</b>                               | <b>2,914</b>  | <b>2,670</b>  | <b>2,474</b>  |
| <b>Total revenue</b>                                    | (5)  | <b>18,464</b>                              | <b>14,233</b> | <b>12,464</b> | <b>10,672</b> |
| Cost of software and software-related services          |      | 2,733                                      | 2,107         | 1,823         | 1,658         |
| Cost of professional services and other services        |      | 2,916                                      | 2,248         | 2,071         | 1,851         |
| Research and development                                |      | 2,515                                      | 1,939         | 1,729         | 1,591         |
| Sales and marketing                                     |      | 3,997                                      | 3,081         | 2,645         | 2,199         |
| General and administration                              |      | 928  | 715           | 636           | 564           |
| Restructuring   | (6)  | 5  | 4             | 3             | 198           |
| TomorrowNow litigation                                  | (24) | 930  | 717           | 981           | 56            |
| Other operating income/expense, net                     | (7)  | 32   | 25            | 9             | 33            |
| <b>Total operating expenses</b>                         |      | <b>12,132</b>                              | <b>9,352</b>  | <b>9,873</b>  | <b>8,084</b>  |
| <b>Operating profit</b>                                 |      | <b>6,332</b>                               | <b>4,881</b>  | <b>2,591</b>  | <b>2,588</b>  |
| <b>Other non-operating income/expense, net</b>          | (9)  | <b>97</b>                                  | <b>75</b>     | <b>186</b>    | <b>73</b>     |
| Finance income  |      | 160  | 123           | 73            | 37            |
| Finance costs TomorrowNow litigation                    |      | 10   | 8             | 12            | 0             |
| Other finance costs                                     |      | 219  | 169           | 128           | 117           |
| Finance costs   |      | 209  | 161           | 140           | 117           |
| <b>Financial income, net</b>                            | (10) | <b>49</b>                                  | <b>38</b>     | <b>67</b>     | <b>80</b>     |
| <b>Profit before tax</b>                                |      | <b>6,186</b>                               | <b>4,768</b>  | <b>2,338</b>  | <b>2,435</b>  |
| Income tax TomorrowNow litigation                       |      | 365  | 281           | 377           | 20            |
| Other income tax expense                                |      | 1,360                                      | 1,048         | 902           | 705           |
| Income tax expense                                      | (11) | 1,724                                      | 1,329         | 525           | 685           |
| <b>Profit after tax</b>                                 |      | <b>4,461</b>                               | <b>3,439</b>  | <b>1,813</b>  | <b>1,750</b>  |
| Profit attributable to owners of parent                 |      | 4,460                                      | 3,438         | 1,811         | 1,748         |
| Profit attributable to non-controlling interests        |      | 1  | 1             | 2             | 2             |
| <b>Basic earnings per share, in</b>                     | (12) | <b>3.75</b>                                | <b>2.89</b>   | <b>1.52</b>   | <b>1.47</b>   |
| <b>Diluted earnings per share, in</b>                   | (12) | <b>3.75</b>                                | <b>2.89</b>   | <b>1.52</b>   | <b>1.47</b>   |

<sup>(1)</sup> The 2011 figures have been translated solely for the convenience of the reader at an exchange rate of US\$1.2973 to 1.00, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 30, 2011.

The accompanying Notes are an integral part of these Consolidated Financial Statements.



**Table of Contents****SAP AG AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OF SAP GROUP**

for the years ended December 31,

|   | Notes       | 2011         | 2010<br>millions | 2009         |
|---|-------------|--------------|------------------|--------------|
| <b>Profit after tax</b>   |             | <b>3,439</b> | <b>1,813</b>     | <b>1,750</b> |
| <b>Items that will not be reclassified to profit or loss</b>  |             |              |                  |              |
| Actuarial gains (losses) on defined benefit pension plans   | (19)        | 12           | 39               | 6            |
| Income tax relating to items that will not be reclassified  | (11)        | 5            | 18               | 0            |
| <b>Other comprehensive income after tax for items that will not be reclassified to profit or loss</b> |             | <b>7</b>     | <b>21</b>        | <b>6</b>     |
| <b>Items that will be reclassified subsequently to profit or loss</b>                                 | <b>(21)</b> |              |                  |              |
| Exchange differences on translations  |             | 106          | 193              | 74           |
| Available-for-sale financial assets   | (27)        | 7            | 3                | 15           |
| Cash flow hedges  | (26)        | 1            | 21               | 43           |
| Income tax relating to items that will be reclassified  | (11)        | 7            | 0                | 12           |
| <b>Other comprehensive income after tax for items that will be reclassified to profit or loss</b>     |             | <b>105</b>   | <b>175</b>       | <b>120</b>   |
| <b>Other comprehensive income net of tax</b>  |             | <b>98</b>    | <b>154</b>       | <b>114</b>   |
| <b>TOTAL COMPREHENSIVE INCOME</b>   |             | <b>3,537</b> | <b>1,967</b>     | <b>1,864</b> |
| attributable to owners of parent  |             | 3,536        | 1,965            | 1,862        |
| attributable to non-controlling interests   |             | 1            | 2                | 2            |

The accompanying Notes are an integral part of these Consolidated Financial Statements.

**Table of Contents****SAP AG AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF SAP GROUP**

as at December 31,

|  | Note | (Unaudited)<br>2011 <sup>(1)</sup><br>US\$ | 2011          | 2010          |
|--|------|--|---------------|---------------|
|  |      |  | millions      |               |
| <b>Cash and cash equivalents</b>               |      | <b>6,441</b>                               | <b>4,965</b>  | <b>3,518</b>  |
| <b>Other financial assets</b>                  | (13) | <b>1,060</b>                               | <b>817</b>    | <b>158</b>    |
| <b>Trade and other receivables</b>             | (14) | <b>4,531</b>                               | <b>3,493</b>  | <b>3,099</b>  |
| <b>Other non-financial assets</b>              | (15) | <b>243</b>                                 | <b>187</b>    | <b>181</b>    |
| <b>Tax assets</b>                              |      | <b>269</b>                                 | <b>207</b>    | <b>187</b>    |
| <b>Total current assets</b>                    |      | <b>12,544</b>                              | <b>9,669</b>  | <b>7,143</b>  |
| <b>Goodwill</b>                                | (16) | <b>11,298</b>                              | <b>8,709</b>  | <b>8,428</b>  |
| <b>Intangible assets</b>                       | (16) | <b>2,626</b>                               | <b>2,024</b>  | <b>2,376</b>  |
| <b>Property, plant, and equipment</b>          | (17) | <b>2,012</b>                               | <b>1,551</b>  | <b>1,449</b>  |
| <b>Other financial assets</b>                  | (13) | <b>698</b>                                 | <b>538</b>    | <b>475</b>    |
| <b>Trade and other receivables</b>             | (14) | <b>109</b>                                 | <b>84</b>     | <b>78</b>     |
| <b>Other non-financial assets</b>              | (15) | <b>51</b>                                  | <b>39</b>     | <b>31</b>     |
| <b>Tax assets</b>                              |      | <b>189</b>                                 | <b>146</b>    | <b>122</b>    |
| <b>Deferred tax assets</b>                     | (11) | <b>603</b>                                 | <b>465</b>    | <b>737</b>    |
| <b>Total non-current assets</b>                |      | <b>17,586</b>                              | <b>13,556</b> | <b>13,696</b> |
| <b>Total assets</b>                            |      | <b>30,130</b>                              | <b>23,225</b> | <b>20,839</b> |
| <b>Trade and other payables</b>                | (18) | <b>1,216</b>                               | <b>937</b>    | <b>923</b>    |
| <b>Tax liabilities</b>                         |      | <b>531</b>                                 | <b>409</b>    | <b>164</b>    |
| <b>Financial liabilities</b>                   | (18) | <b>1,727</b>                               | <b>1,331</b>  | <b>142</b>    |
| <b>Other non-financial liabilities</b>         | (18) | <b>2,570</b>                               | <b>1,981</b>  | <b>1,726</b>  |
| <b>Provision TomorrowNow litigation</b>        | (24) | <b>300</b>                                 | <b>231</b>    | <b>997</b>    |
| <b>Other provisions</b>                        |      | <b>429</b>                                 | <b>331</b>    | <b>290</b>    |
| <b>Provisions</b>                              | (19) | <b>729</b>                                 | <b>562</b>    | <b>1,287</b>  |
| <b>Deferred income</b>                         | (20) | <b>1,357</b>                               | <b>1,046</b>  | <b>911</b>    |
| <b>Total current liabilities</b>               |      | <b>8,129</b>                               | <b>6,266</b>  | <b>5,153</b>  |
| <b>Trade and other payables</b>                | (18) | <b>56</b>                                  | <b>43</b>     | <b>30</b>     |
| <b>Tax liabilities</b>                         |      | <b>529</b>                                 | <b>408</b>    | <b>369</b>    |
| <b>Financial liabilities</b>                   | (18) | <b>3,795</b>                               | <b>2,925</b>  | <b>4,449</b>  |
| <b>Other non-financial liabilities</b>         | (18) | <b>119</b>                                 | <b>92</b>     | <b>85</b>     |
| <b>Provisions</b>                              | (19) | <b>345</b>                                 | <b>266</b>    | <b>292</b>    |
| <b>Deferred tax liabilities</b>                | (11) | <b>615</b>                                 | <b>474</b>    | <b>574</b>    |
| <b>Deferred income</b>                         | (20) | <b>57</b>                                  | <b>44</b>     | <b>63</b>     |
| <b>Total non-current liabilities</b>           |      | <b>5,516</b>                               | <b>4,252</b>  | <b>5,862</b>  |
| <b>Total liabilities</b>                       |      | <b>13,645</b>                              | <b>10,518</b> | <b>11,015</b> |
| <b>Issued capital</b>                          |      | <b>1,593</b>                               | <b>1,228</b>  | <b>1,227</b>  |
| <b>Share premium</b>                           |      | <b>544</b>                                 | <b>419</b>    | <b>337</b>    |
| <b>Retained earnings</b>                       |      | <b>16,172</b>                              | <b>12,466</b> | <b>9,767</b>  |
| <b>Other components of equity</b>              |      | <b>48</b>                                  | <b>37</b>     | <b>142</b>    |
| <b>Treasury shares</b>                         |      | <b>1,786</b>                               | <b>1,377</b>  | <b>1,382</b>  |
| <b>Equity attributable to owners of parent</b> |      | <b>16,474</b>                              | <b>12,699</b> | <b>9,807</b>  |
| <b>Non-controlling interests</b>               |      | <b>10</b>                                  | <b>8</b>      | <b>17</b>     |
| <b>Total equity</b>                            | (21) | <b>16,485</b>                              | <b>12,707</b> | <b>9,824</b>  |
| <b>Equity and liabilities</b>                  |      | <b>30,130</b>                              | <b>23,225</b> | <b>20,839</b> |

- <sup>(1)</sup> The 2011 figures have been translated solely for the convenience of the reader at an exchange rate of US\$1.2973 to 1.00, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 30, 2011.

The accompanying Notes are an integral part of these Consolidated Financial Statements.

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**Table of Contents****SAP AG AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY OF SAP GROUP**

as at December 31,

| Note Reference  | Equity Attributable to Owners of Parent<br>Other Components of<br>Equity Available-<br>for-Sale |                  |                      |                         |                     |                        |                    |               |                                  |                 |
|---|---|------------------|----------------------|-------------------------|---------------------|------------------------|--------------------|---------------|----------------------------------|-----------------|
|   | Issued<br>Capital   | Share<br>Premium | Retained<br>Earnings | Exchange<br>Differences | Financial<br>Assets | Cash<br>Flow<br>Hedges | Treasury<br>Shares | Total         | Non-<br>Controlling<br>Interests | Total<br>Equity |
|   | Statement of<br>comprehensive income  |                  |                      |                         |                     |                        |                    |               |                                  |                 |
|   | (21)  | (21)             | (21)                 |                         |                     |                        | (21)               |               |                                  |                 |
| <b>January 1, 2009</b>  | <b>1,226</b>  | <b>320</b>       | <b>7,422</b>         | <b>393</b>              | <b>1</b>            | <b>43</b>              | <b>1,362</b>       | <b>7,169</b>  | <b>2</b>                         | <b>7,171</b>    |
| Profit after tax  |   |                  | 1,748                |                         |                     |                        |                    | 1,748         | 2                                | 1,750           |
| Other comprehensive income  |   |                  | 6                    | 74                      | 14                  | 32                     |                    | 114           |                                  | 114             |
| <b>Comprehensive income</b>                                       | <b>0</b>  | <b>0</b>         | <b>1,742</b>         | <b>74</b>               | <b>14</b>           | <b>32</b>              | <b>0</b>           | <b>1,862</b>  | <b>2</b>                         | <b>1,864</b>    |
| Dividends   |   |                  | 594                  |                         |                     |                        |                    | 594           |                                  | 594             |
| Issuance of shares under share-based payments programs            |   | 5                |                      |                         |                     |                        |                    | 5             |                                  | 5               |
| Reissuance of treasury shares under share-based payments programs |   | 8                |                      |                         |                     |                        | 42                 | 34            |                                  | 34              |
| Addition of non-controlling interests                             |   |                  |                      |                         |                     |                        |                    | 0             | 10                               | 10              |
| Other   |   |                  | 1                    |                         |                     |                        |                    | 1             |                                  | 1               |
| <b>December 31, 2009</b>  | <b>1,226</b>  | <b>317</b>       | <b>8,571</b>         | <b>319</b>              | <b>13</b>           | <b>11</b>              | <b>1,320</b>       | <b>8,477</b>  | <b>14</b>                        | <b>8,491</b>    |
| Profit after tax  |   |                  | 1,811                |                         |                     |                        |                    | 1,811         | 2                                | 1,813           |
| Other comprehensive income  |   |                  | 21                   | 188                     | 3                   | 16                     |                    | 154           |                                  | 154             |
| <b>Comprehensive income</b>                                       | <b>0</b>  | <b>0</b>         | <b>1,790</b>         | <b>188</b>              | <b>3</b>            | <b>16</b>              | <b>0</b>           | <b>1,965</b>  | <b>2</b>                         | <b>1,967</b>    |
| Share-based payments  |   | 2                |                      |                         |                     |                        |                    | 2             |                                  | 2               |
| Dividends   |   |                  | 594                  |                         |                     |                        |                    | 594           |                                  | 594             |
| Issuance of shares under share-based payments programs            | 1   | 23               |                      |                         |                     |                        |                    | 24            |                                  | 24              |
| Purchase of treasury shares                                       |   |                  |                      |                         |                     |                        | 220                | 220           |                                  | 220             |
| Reissuance of treasury shares under share-based payments programs |   | 5                |                      |                         |                     |                        | 158                | 153           |                                  | 153             |
| Other   |   |                  |                      |                         |                     |                        |                    | 0             | 1                                | 1               |
| <b>December 31, 2010</b>  | <b>1,227</b>  | <b>337</b>       | <b>9,767</b>         | <b>131</b>              | <b>16</b>           | <b>27</b>              | <b>1,382</b>       | <b>9,807</b>  | <b>17</b>                        | <b>9,824</b>    |
| Profit after tax  |   |                  | 3,438                |                         |                     |                        |                    | 3,438         | 1                                | 3,439           |
| Other comprehensive income  |   |                  | 7                    | 112                     | 7                   | 0                      |                    | 98            |                                  | 98              |
| <b>Comprehensive income</b>                                       | <b>0</b>  | <b>0</b>         | <b>3,431</b>         | <b>112</b>              | <b>7</b>            | <b>0</b>               | <b>0</b>           | <b>3,536</b>  | <b>1</b>                         | <b>3,537</b>    |
| Share-based payments  |   | 9                |                      |                         |                     |                        |                    | 9             |                                  | 9               |
| Dividends   |   |                  | 713                  |                         |                     |                        |                    | 713           |                                  | 713             |
| Issuance of shares under share-based payments programs            | 1   | 46               |                      |                         |                     |                        |                    | 47            |                                  | 47              |
| Purchase of treasury shares                                       |   |                  |                      |                         |                     |                        | 246                | 246           |                                  | 246             |
| Reissuance of treasury shares under share-based payments programs |   | 27               |                      |                         |                     |                        | 251                | 278           |                                  | 278             |
| Change in non-controlling interests                               |   |                  | 19                   |                         |                     |                        |                    | 19            | 10                               | 29              |
| <b>December 31, 2011</b>  | <b>1,228</b>  | <b>419</b>       | <b>12,466</b>        | <b>19</b>               | <b>9</b>            | <b>27</b>              | <b>1,377</b>       | <b>12,699</b> | <b>8</b>                         | <b>12,707</b>   |

The accompanying Notes are an integral part of these Consolidated Financial Statements.



**Table of Contents****SAP AG AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS OF SAP GROUP**

as at December 31,

|   | Note      | (Unaudited)<br>2011 <sup>(1)</sup><br>US\$ | 2011         | 2010         | 2009         |
|---|-----------|--|--------------|--------------|--------------|
| millions  |           |  |              |              |              |
| <b>Profit after tax</b>   |           | <b>4,461</b>                               | <b>3,439</b> | <b>1,813</b> | <b>1,750</b> |
| Adjustments to reconcile profit after tax to net cash provided by operating activities: |           |  |              |              |              |
| Depreciation and amortization   | (16),(17) | 939  | 724          | 534          | 499          |
| Income tax expense  | (11)      | 1,724                                      | 1,329        | 525          | 685          |
| Financial income, net   | (10)      | 49   | 38           | 67           | 80           |
| Decrease/increase in sales and bad debt allowances on trade receivables                 |           | 23   | 18           | 49           | 64           |
| Other adjustments for non-cash items  |           | 18   | 14           | 29           | 3            |
| Decrease/increase in trade receivables  |           | 553  | 426          | 123          | 593          |
| Decrease/increase in other assets   |           | 77   | 59           | 122          | 209          |
| Decrease/increase in trade payables, provisions and other liabilities                   |           | 493  | 380          | 1,116        | 124          |
| Decrease/increase in deferred income  |           | 157  | 121          | 66           | 48           |
| Cash outflows due to TomorrowNow litigation   | (24)      | 67   | 52           | 102          | 19           |
| Interest paid   |           | 180  | 139          | 66           | 69           |
| Interest received   |           | 119  | 92           | 52           | 22           |
| Income taxes paid, net of refunds   |           | 1,178                                      | 908          | 818          | 722          |
| <b>Net cash flows from operating activities</b>   |           | <b>4,897</b>                               | <b>3,775</b> | <b>2,922</b> | <b>3,019</b> |
| Business combinations, net of cash and cash equivalents acquired                        | (4)       | 244  | 188          | 4,194        | 73           |
| Purchase of intangible assets and property, plant, and equipment                        |           | 577  | 445          | 334          | 225          |
| Proceeds from sales of intangible assets or property, plant and equipment               |           | 71   | 55           | 44           | 45           |
| Purchase of equity or debt instruments of other entities                                |           | 2,654                                      | 2,046        | 842          | 1,073        |
| Proceeds from sales of equity or debt instruments of other entities                     |           | 1,814                                      | 1,398        | 1,332        | 1,027        |
| <b>Net cash flows from investing activities</b>   |           | <b>1,590</b>                               | <b>1,226</b> | <b>3,994</b> | <b>299</b>   |
| Purchase of non-controlling interests   |           | 36   | 28           | 0            | 0            |
| Dividends paid  | (22)      | 925  | 713          | 594          | 594          |
| Purchase of treasury shares   | (22)      | 319  | 246          | 220          | 0            |
| Proceeds from reissuance of treasury shares   |           | 326  | 251          | 127          | 24           |
| Proceeds from issuing shares (share-based compensation)                                 |           | 60   | 46           | 23           | 6            |
| Proceeds from borrowings  |           | 673  | 519          | 5,380        | 697          |
| Repayments of borrowings  |           | 1,304                                      | 1,005        | 2,196        | 2,303        |
| <b>Net cash flows from financing activities</b>   |           | <b>1,526</b>                               | <b>1,176</b> | <b>2,520</b> | <b>2,170</b> |
| <b>Effect of foreign currency exchange rates on cash and cash equivalents</b>           |           | <b>96</b>                                  | <b>74</b>    | <b>186</b>   | <b>54</b>    |
| <b>Net decrease/increase in cash and cash equivalents</b>                               |           | <b>1,877</b>                               | <b>1,447</b> | <b>1,634</b> | <b>604</b>   |
| <b>Cash and cash equivalents at the beginning of the period</b>                         | (22)      | <b>4,564</b>                               | <b>3,518</b> | <b>1,884</b> | <b>1,280</b> |
| <b>Cash and cash equivalents at the end of the period</b>                               | (22)      | <b>6,441</b>                               | <b>4,965</b> | <b>3,518</b> | <b>1,884</b> |

(1) The 2011 figures have been translated solely for the convenience of the reader at an exchange rate of US\$1.2973 to 1.00, the Noon Buying Rate certified by the Federal Reserve Bank of New York on December 30, 2011.

The accompanying Notes are an integral part of these Consolidated Financial Statements.



**Table of Contents****SAP AG AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****(1) GENERAL INFORMATION ABOUT CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying Consolidated Financial Statements of SAP AG and its subsidiaries (collectively, we, us, our, SAP, Group, and Company) have been prepared in accordance with International Financial Reporting Standards (IFRS). The designation IFRS includes all standards issued by the International Accounting Standards Board (IASB) and related interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

We have applied all standards and interpretations that were effective on and endorsed by the European Union (EU) as at December 31, 2011. There were no standards or interpretations impacting our Consolidated Financial Statements for the years ended December 31, 2011, 2010, and 2009, that were effective but not yet endorsed. Therefore our Consolidated Financial Statements comply with both IFRS as issued by the IASB and with IFRS as endorsed by the EU.

Our Executive Board approved the Consolidated Financial Statements on

February 23, 2012, for submission to our Supervisory Board.

All amounts included in the Consolidated Financial Statements are reported in millions of euros ( millions) except where otherwise stated. Due to rounding, numbers presented throughout this document may not add up precisely to the totals we provide and percentages may not precisely reflect the absolute figures.

**(2) SCOPE OF CONSOLIDATION**

The Consolidated Financial Statements include SAP AG and all subsidiaries of SAP AG. Subsidiaries are all entities that are controlled directly or indirectly by SAP AG.

The financial statements of SAP AG and its subsidiaries used in the preparation of the Consolidated Financial Statements have December 31 as their reporting date. All financial statements were prepared applying the same IFRS Group accounting policies. Intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the SAP Group are eliminated in full.

The following table summarizes the changes in the number of entities included in the Consolidated Financial Statements.

**Entities Consolidated in the Financial Statements**

|                          | <b>German</b> | <b>Foreign</b> | <b>Total</b> |
|--------------------------|---------------|----------------|--------------|
| December 31, 2009        | 19            | 144            | 163          |
| Additions                | 4             | 58             | 62           |
| Disposals                | 2             | 20             | 22           |
| <b>December 31, 2010</b> | <b>21</b>     | <b>182</b>     | <b>203</b>   |
| Additions                | 4             | 9              | 13           |
| Disposals                | 2             | 15             | 17           |
| <b>December 31, 2011</b> | <b>23</b>     | <b>176</b>     | <b>199</b>   |

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The additions relate to legal entities added in connection with acquisitions and foundations. The disposals are due to sales, mergers, and liquidations of consolidated or acquired legal entities.

In 2010, we acquired Sybase, which is significant to some positions in our financial

statements and may affect comparability of our 2011 Consolidated Financial Statements with our 2010 and 2009 Consolidated Financial Statements. For more information about our business combinations and the effect on our Consolidated Financial Statements, see Note (4).

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**(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(3a) Bases of Measurement**

The Consolidated Financial Statements have been prepared on the historical cost basis except for the following:

Derivative financial instruments, available-for-sale financial assets (except for investments in certain equity instruments without a quoted market price), and liabilities for cash-settled share-based payment arrangements are measured at fair value.

Foreign exchange receivables and payables are translated at period-end exchange rates.

Pensions are measured according to IAS 19(Employee Benefits) as described in Note (19a).

Where applicable, information about the methods and assumptions used in determining the respective measurement bases and fair values is disclosed in the Notes specific to that asset or liability.

**(3b) Relevant Accounting Policies**

**Business Combinations and Goodwill**

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred. The consideration transferred in an acquisition is measured at the fair value of the assets transferred and liabilities incurred at the date of transfer of control. Settlements of pre-existing relationships are not included in the consideration transferred. Such amounts are recognized in profit and loss. Identifiable assets acquired and liabilities assumed in a business combination (including contingent consideration) are measured at their fair values at the acquisition date. Changes in contingent consideration classified as a liability at the acquisition date are recognized in profit and loss. We decide on a transaction-by-transaction basis

whether to measure the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Where a business combination is achieved in stages SAP recognizes the gain or loss from remeasuring the equity interest to fair value in finance income. Acquisition-related costs incurred are expensed and included in general and administration expenses.

The excess of the consideration transferred in a business combination over the fair value of the SAP share of the identifiable net assets acquired is recorded as goodwill.

In respect to at-equity investments, the carrying amount of goodwill is included in the carrying amount of the investment.

**Foreign Currencies**

Assets and liabilities of our foreign subsidiaries that use a functional currency other than the euro are translated at the closing rate at the date of the Statement of Financial Position. Income and expenses are translated at average rates of exchange computed on a monthly basis. All resulting exchange differences are recognized in other comprehensive income. Exchange differences from monetary items denominated in foreign currency transactions that are part of a long-term investment are also included in other comprehensive income in our Consolidated Statements of Financial Position. When a foreign operation is disposed of, liquidated, or abandoned, the foreign currency translation adjustments applicable to that entity are reclassified from other comprehensive income to profit or loss.

On initial recognition, foreign currency transactions are recorded in the respective functional currencies of Group entities by applying to the foreign currency amount the exchange rate at the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are remeasured at the period-end closing rate. Resulting exchange differences are recognized, in the period in which they arise, in other non-operating expense, net in the Consolidated Income Statements.



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Operating cash flows of foreign subsidiaries are translated into euros using average rates of exchange computed on a monthly basis. Investing and financing cash flows of foreign subsidiaries are translated into euros using the exchange rates in effect at the time of the respective transaction. The effect of exchange rate changes on cash is reported in a separate line in the Consolidated Statements of Cash Flows.

Any goodwill arising from the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising from the acquisition are treated as assets and liabilities of the foreign operation and translated at the respective closing rates.

The exchange rates of key currencies affecting the Company were as follows:

**Exchange Rates**

| Equivalent to 1   |     | Closing Rate as at<br>December 31, |        | Annual Average Exchange Rate |        |        |
|-------------------|-----|------------------------------------|--------|------------------------------|--------|--------|
|                   |     | 2011                               | 2010   | 2011                         | 2010   | 2009   |
| U.S. dollar       | USD | 1.2939                             | 1.3362 | 1.3863                       | 1.3201 | 1.3962 |
| Pound sterling    | GBP | 0.8353                             | 0.8608 | 0.8656                       | 0.8570 | 0.8901 |
| Japanese yen      | JPY | 100.20                             | 108.65 | 110.17                       | 115.07 | 130.66 |
| Swiss franc       | CHF | 1.2156                             | 1.2504 | 1.2299                       | 1.3699 | 1.5097 |
| Canadian dollar   | CAD | 1.3215                             | 1.3322 | 1.3739                       | 1.3583 | 1.5832 |
| Australian dollar | AUD | 1.2723                             | 1.3136 | 1.3436                       | 1.4198 | 1.7394 |

**Revenue Recognition**

We derive our revenue from the sale or license of our software products and of support, subscription, consulting, development, training, and other services. The vast majority of our software arrangements include support services, and many also include professional services and other elements.

Software and software-related service revenue, as shown in our Consolidated Income Statements, is the sum of our software revenue, support revenue, and revenue from subscriptions, cloud subscriptions and support, and other software-related services. Professional services and other service revenue as shown in our Consolidated Income Statements is the sum of our consulting revenue and other service revenue. Other service revenue as shown in our Consolidated Income Statements mainly consists of revenue from training services, messaging services, and SAP marketing events. Revenue information by segment and geographic region is disclosed in Note (29).

If, for any of our product or service offerings, we determine at the outset of an

arrangement that the amount of revenue cannot be measured reliably, we conclude that the inflow of economic benefits associated with the transaction is not probable, and we defer revenue until the arrangement fee becomes due and payable by the customer. If, at the outset of an arrangement, we determine that collectability is not probable, we conclude that the inflow of economic benefits associated with the transaction is not probable, and we defer revenue recognition until the earlier of when collectability becomes probable or payment is received. If collectability becomes unlikely before all revenue from an arrangement is recognized, we recognize revenue only to the extent of the fees that are successfully collected unless collectability becomes reasonably assured again. If a customer is specifically identified as a bad debtor, we stop recognizing revenue except to the extent of the fees that have already been collected.

We account for out-of-pocket expenses invoiced by SAP and reimbursed by customers as support, consulting, or training revenue, depending on the nature of the service for which the out-of-pocket expenses were incurred.



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Software revenue represents fees earned from the sale or license of software to customers. Revenue from the sale of perpetual licenses of our standard products is recognized in line with the requirements for selling goods stated in IAS 18 (Revenue) when evidence of an arrangement exists, delivery has occurred, the risks and rewards of ownership have been transferred to the customer, the amount of revenue and associated costs can be measured reliably, and collection of the related receivable is reasonably assured. The sale is recognized net of returns and allowances, trade discounts, and volume rebates. We usually sell or license software on a perpetual basis.

Occasionally, we license software for a specified time. Revenue from short-term time-based licenses, which usually include support services during the license period, is recognized ratably over the license term. Revenue from multi-year time-based licenses that include support services, whether separately priced or not, is recognized ratably over the license term unless a substantive support service renewal rate exists; if this is the case, the amount allocated to the delivered software is recognized as software revenue based on the residual method once the basic criteria described above have been met. In general, our software license agreements do not include acceptance-testing provisions. If an arrangement allows for customer acceptance-testing of the software, we defer revenue until the earlier of customer acceptance or when the acceptance right lapses. We usually recognize revenue from software arrangements involving resellers on evidence of sell-through by the reseller to the end-customer, because the inflow of the economic benefits associated with the arrangements to us is not probable before sell-through has occurred.

Sometimes we enter into customer-specific software development agreements. We recognize software revenue in connection with these arrangements using the percentage-of-completion method based on contract costs incurred to date as a percentage of total estimated contract costs required to complete the development work. If we do not have a sufficient basis to reasonably

measure the progress of completion or to estimate the total contract revenue and costs, revenue is recognized only to the extent of the contract costs incurred for which we believe recoverability to be probable. When it becomes probable that total contract costs exceed total contract revenue in an arrangement, the expected losses are recognized immediately as an expense based on the costs attributable to the contract.

Support revenue represents fees earned from providing customers with unspecified future software updates, upgrades, and enhancements, and technical product support. We recognize support revenue for most of our services ratably over the term of the support arrangement. We do not separately sell technical product support or unspecified software upgrades, updates, and enhancements. Accordingly, we do not distinguish within software and software-related service revenue or within cost of software and software-related services the amounts attributable to technical support services and unspecified software upgrades, updates, and enhancements.

Subscription and other software-related service revenue represents fees earned from subscription and software rental arrangements, cloud subscriptions and support, and other software-related services. Subscription contracts combine software and support service elements, as under these contracts the customer is provided with current software products, rights to receive unspecified future software products, and rights to support services during the subscription term. Customers pay a periodic fee for a defined subscription term, and we recognize such fees ratably over the term of the arrangement beginning with the delivery of the first product.

Software rental contracts also combine software and support service elements. Under such contracts the customer is provided with current software products and support, but not with the right to receive unspecified future software products. Customers pay a periodic fee over the rental term and we recognize fees from software rental contracts ratably over the term of the arrangement.

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Revenue from cloud subscriptions relates to software hosting arrangements that provide the customer with the right to use certain software functionality, but do not include the right to terminate the hosting contract and take possession of the software without significant penalty. Cloud subscription revenue as well as revenue from support services provided for our cloud offerings is generally recognized ratably over the term of the arrangement.

Other software-related service revenue mainly results from software-related revenue-sharing agreements with other software vendors.

We recognize consulting and other service revenue when the services are performed. Consulting revenue primarily results from implementation contracts to install and configure our software products. Usually, our consulting contracts do not involve significant production, modification, or customization of software and are recognized using the percentage-of-completion method of accounting as outlined above.

Other service revenue consists of fees from training services, cancelable hosting contracts, application management services (AMS), messaging services, revenue from SAP marketing events, and referral fees.

Training services provide educational services to customers and partners regarding the use of our software products. We recognize training revenue when the services are rendered. Cancelable hosting contracts allow the customer to terminate a software hosting arrangement at any time and to take possession of the hosted software without significant penalty. In these contracts revenue is allocated to the hosting element and to the software element. The hosting revenue is recognized ratably over the agreed hosting period. Our AMS contracts provide post-implementation application support, optimization, and improvements to a customer's IT solution. We recognize revenue from AMS services when the services are rendered. Messaging revenue mainly represents fees earned from transmitting electronic text messages from one mobile phone provider to another. We recognize revenue from message

services based upon the number of messages successfully processed and delivered. Revenue from fixed-price messaging arrangements is recognized ratably over the contractual term of the arrangement. Revenue from marketing events hosted by SAP, for which SAP sells tickets to its customers, is recognized after the marketing event takes place. Fees from referral services are commissions from partners to which we have referred customers.

The vast majority of our software arrangements form multiple-element arrangements, as they include support services, and many also include professional services and other elements. As authorized by IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8), we follow the guidance provided by FASB ASC Subtopic 985-605, Software Revenue Recognition, as amended, in order to determine the recognizable amount of license revenue in multiple-element arrangements. Revenue from multiple-element arrangements is recognized using the residual method of revenue recognition when company-specific objective evidence of fair value exists for all of the undelivered elements (for example, support services, consulting services, or other services) in the arrangement, but does not exist for one or more delivered elements (generally software). We determine the fair value of and allocate revenue to each undelivered element based on its company-specific objective evidence of fair value, which is the price charged when that element is sold separately or, for elements not yet sold separately, the price established by our management if it is probable that the price will not change before the element is sold separately. We allocate revenue to undelivered support services based on the rates charged to renew the support services annually after an initial period. Such renewal rates generally represent a fixed percentage of the discounted software license fee charged to the customer. The vast majority of our customers renew their annual support service contracts at these rates. We allocate revenue to future incremental discounts whenever customers are granted the right to license additional software at a higher discount than the one given within the initial

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software license arrangement, or to purchase or renew support or services at rates below company-specific objective evidence of fair value of the service.

We defer revenue for all undelivered elements and recognize the residual amount of the arrangement fee attributable to the delivered elements, if any, when the revenue recognition criteria described above have been met and company-specific objective evidence of fair value for the undelivered elements exists.

Combining or segmenting multiple-element arrangements consisting of software and consulting or other professional services depends on:

Whether the arrangement involves significant production, modification, or customization of the software, and

Whether the services are not available from third-party vendors and are therefore deemed essential to the software. If neither of the above is the case, revenue for the software element and the other element is recognized separately. In contrast, if one or both of the above is the case, the elements of the arrangement are combined and accounted for as a single unit of accounting, and the entire arrangement fee is recognized using the percentage-of-completion method as outlined above. If the arrangement includes multiple elements, we exclude those elements from contract accounting that meet the criteria for separate recognition (for example support services or training), provided that the elements have stand-alone value.

Our contributions to resellers that allow our resellers to execute qualified and approved marketing activities are recognized as an offset to revenue, unless we obtain a separate identifiable benefit for the contribution, and the fair value of the benefit is reasonably estimable.

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

Cost of software and software-related services includes the cost incurred in producing

the goods and providing the services that generate software and software-related service revenue. Consequently this line item includes employee expenses relating to these services, amortization of acquired intangibles, third-party licenses, shipping and ramp-up cost, etc.

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

Cost of professional services and other services includes the cost incurred in providing the services that generate professional service and other service revenue including messaging revenues. The item also includes sales and marketing expenses related to our professional services and other services that result from sales and marketing efforts that cannot be clearly separated from providing the services.

### **Research and Development**

Research and development includes the costs incurred by activities related to the development of software solutions (new products, updates, and enhancements) including resource and hardware costs for the development systems.

Development activities involve the application of research findings or other knowledge to a plan or design of new or substantially improved software products before the start of commercial use. Development expenditures are capitalized only if all of the following criteria are met:

The development cost can be measured reliably.

The product is technically and commercially feasible.

Future economic benefits are probable.

We intend to complete development and market the product.

We have determined that the conditions for recognizing internally generated intangible assets from our software development activities are not met until shortly before the products are available for sale. Development costs incurred after the recognition criteria are met have not

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been material. Consequently, all research and development costs are expensed as incurred.

### **Sales and Marketing**

Sales and marketing includes costs incurred for the selling and marketing activities related to our software solutions, software-related service portfolio and messaging business.

### **General and Administration**

General and administration includes costs related to finance and administrative functions, human resources and general management as long as they are not directly attributable to one of the other operating expense line items.

### **Leases**

We are a lessee of property, plant, and equipment, mainly buildings, hardware, and vehicles, under operating leases that do not transfer to us the substantive risks and rewards of ownership. Rent expense on operating leases is recognized on a straight-line basis over the life of the lease including renewal terms if, at inception of the lease, renewal is reasonably assured.

Some of our operating leases contain lessee incentives, such as up-front payments of costs or free or reduced periods of rent. The incentives are amortized over the life of the lease and the rent expense is recognized on a straight-line basis over the life of the lease. The same applies to contractually-agreed future increases of rents.

### **Income Tax**

Deferred taxes are accounted for under the liability method. We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities in the Statements of Financial Position and their respective tax bases and on the carryforwards of unused tax losses and unused tax credits. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the

deductible temporary differences, unused tax losses, and unused tax credits can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss, unless related to items directly recognized in equity, in the period that includes the respective enactment date.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax assets to be utilized.

### **Share-Based Compensation**

Share-based compensation covers cash-settled and equity-settled awards issued to our employees. The fair values of both equity-settled and cash-settled awards are measured at grant date using an option-pricing model.

The fair value of equity-settled awards is not subsequently remeasured. The grant-date fair value of equity-settled awards is recognized as personnel expense in profit or loss over the period in which the employees become unconditionally entitled to the rights, with a corresponding increase in share premium. The amount recognized as an expense is adjusted to reflect the actual number of equity-settled awards that ultimately vest. We grant our employees discounts on certain share-based compensation plans. Since those discounts are not dependent on future services to be provided by our employees, the discount is recognized as an expense when the rights are granted.

For the share-based payment plans that are settled by paying cash rather than by issuing equity instruments, a provision is recorded for the rights granted reflecting the vested portion of the fair value of the rights at the reporting date. Personnel expense is accrued over the period the



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beneficiaries are expected to perform the related service (vesting period), with a corresponding increase in provisions. Cash-settled awards are remeasured to fair value at each Statement of Financial Position date until the award is settled. Any changes in the fair value of the provision are recognized as personnel expense in profit or loss. The amount of unrecognized compensation expense related to non-vested share-based payment arrangements granted under our cash-settled plans is dependent on the final intrinsic value of the awards. The amount of unrecognized compensation expense is dependent on the future price of our common shares which we cannot reasonably predict.

In the event we hedge our exposure to cash-settled awards, changes in the fair value of the respective hedging instruments are also recognized as personnel expense in profit or loss. The fair values for hedged programs are based on market data reflecting current market expectations.

For more information about our share-based compensation plans, see Note (28).

## **Other Components of Equity**

Other components of equity include:

Currency effects arising from the translation of the financial statements of our foreign operations as well as the currency effects from intercompany long-term monetary items for which settlement is neither planned nor likely to occur in the foreseeable future.

Unrealized gains and losses on available-for-sale financial assets.

Gains and losses on cash flow hedges comprising the net change in fair value of the effective portion of the respective cash flow hedges that have not yet impacted profit or loss.

## **Treasury Shares**

Treasury shares are recorded at acquisition cost and are presented as a deduction from total

equity. Gains and losses on the subsequent reissuance of treasury shares are credited or charged to share premium on an after-tax basis. On cancellation of treasury shares any excess of their carrying amount over the calculated par value is charged to retained earnings.

## **Non Controlling Interest**

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. Changes in non-controlling interest result from changes in equity of the respective subsidiary as well as changes in ownership. Upon a change in ownership the carrying amount of the controlling and non controlling interest is adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount of adjustment to non-controlling interest and the fair value of the consideration paid or received is recognized directly in retained earnings.

## **Earnings per Share**

We present basic and diluted earnings per share (EPS). Basic earnings per share is determined by dividing profit after tax attributable to equity holders of SAP AG by the weighted average number of common shares outstanding during the respective year. Diluted earnings per share reflect the potential dilution that would occur if all in the money securities to issue common shares were exercised or converted. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options is based on quoted market prices for the period during which the options were outstanding.

## **Financial Assets**

Our financial assets comprise cash and cash equivalents (highly liquid investments with original maturities of three months or less), loans and receivables, acquired equity and debt investments, and derivative financial instruments (derivatives) with positive fair values.



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These assets are recognized and measured in accordance with IAS 39 (Financial Instruments: Recognition and Measurement ). Accordingly, financial assets are recognized in the Consolidated Statements of Financial Position if we have a contractual right to receive cash or other financial assets from another entity. Regular way purchases or sales of financial assets are recorded at the trade date. Financial assets are initially recognized at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Interest-free or below-market-rate loans and receivables are initially measured at the present value of the expected future cash flows. The subsequent measurement depends on the classification of our financial assets to the following categories according to IAS 39:

**Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are neither quoted in an active market nor intended to be sold in the near term. This category comprises trade receivables, receivables and loans included in other financial assets, and cash and cash equivalents. We carry loans and receivables at amortized cost less impairment losses. Interest income from items assigned to this category is determined using the effective interest method if the time value of money is material. For further information on trade receivables see the Trade and Other Receivables section.

**Available-for-sale financial assets:** Available-for-sale financial assets are non-derivative financial assets that are not assigned to either of the two other categories and mainly include equity investments and debt investments. If readily determinable from market data, available-for-sale financial assets are measured at fair value, with changes in fair value being reported net of tax in other comprehensive income. Fair value changes are not recognized in profit or loss until the assets are sold or impaired. Available-for-sale financial assets for which no market price is available and whose fair value cannot be reliably estimated in the absence of an active market are carried at cost less impairment losses.

**Financial assets at fair value through profit or loss:** Financial assets at fair value through profit or loss comprise only those financial assets that are held for trading, as we do not designate financial assets at fair value through profit or loss on initial recognition. This category solely contains embedded and freestanding derivatives with positive fair values, except where hedge accounting is applied. All changes in the fair value of financial assets in this category are immediately recognized in profit or loss. For more information about derivatives, see the Derivatives section.

All financial assets not accounted for at fair value through profit or loss are assessed for impairment at each reporting date or if we become aware of objective evidence of impairment as a result of one or more events that indicate that the carrying amount of the asset may not be recoverable. Objective evidence includes but is not limited to a significant or prolonged decline of the fair value below its carrying amount, a high probability of insolvency, or a material breach of contract by the issuer such as a significant delay or a shortfall in payments due. Impairment charges in the amount of the difference of an asset's carrying amount and the present value of the expected future cash flows or current fair value, respectively, are recognized in finance income, net. For available-for-sale financial assets such impairment charges directly reduce an asset's carrying amount while impairments on loans and receivables are recorded using allowance accounts. Account balances are charged off against the respective allowance after all collection efforts have been exhausted and the likelihood of recovery is considered remote. Impairment losses are reversed if the reason for

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the original impairment loss no longer exists. No such reversals are made for available-for-sale equity investments.

Income/expenses and gains/losses on financial assets consist of impairment charges and reversals, interest income and expenses, dividends, and gains and losses from the disposal of such assets. Dividend income is recognized when earned. Interest income is recognized based on the effective interest method. Neither dividend nor interest income is included in net gains/losses at the time of disposal of an asset. Financial assets are derecognized when contractual rights to receive cash flows from the financial assets expire or the financial assets are transferred together with all material risks and benefits.

### **Investments in Associates**

Companies in which we do not have a controlling financial interest, but over which we can exercise significant operating and financial influence (associates) are accounted for using the equity method.

### **Derivatives**

We account for derivatives and hedging activities in accordance with IAS 39 at fair value.

#### **Derivatives without Designated Hedge Relationship**

Many transactions constitute economic hedges, and therefore contribute effectively to the securing of financial risks but do not qualify for hedge accounting under IAS 39. For the hedging of currency risks inherent in foreign currency denominated and recognized monetary assets and liabilities, we do not designate our held-for-trading derivative financial instruments as accounting hedges, as the realized profits and losses from the underlying transactions are recognized in profit or loss in the same periods as the realized profits or losses from the derivatives.

#### **Embedded Derivatives**

We occasionally have contracts that require payment streams in currencies other than the functional currency of either party to the contract. Such embedded foreign currency derivatives are separated from the host contract and accounted for separately if the following are met:

The economic characteristics and risks of the host contract and the embedded derivative are not closely related.

A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

The combined instrument is not measured at fair value through profit or loss.

#### **Derivatives with Designated Cash Flow Hedge Relationship**

Derivatives that are part of a hedging relationship that qualifies for hedge accounting under IAS 39 are carried at their fair value. We designate and document the hedge relationship, including the nature of the risk, the identification of the hedged item, the hedging instrument, and how we will assess the hedge effectiveness. The accounting for changes in fair value of the hedging instrument depends on the effectiveness of the hedging relationship. The effective portion of the unrealized gain or loss on the derivative instrument determined to be an effective hedge is recognized in other comprehensive income. We subsequently reclassify the portion of gains or losses from other comprehensive income to profit or loss when the hedged transaction affects profit or loss. The ineffective portion of gains or losses is recognized in profit or loss immediately. For more information about our hedges, see Note (26).

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### **Valuation and Testing of Effectiveness**

The fair value of our derivatives is calculated by discounting the expected future cash flows using relevant interest rates, and spot rates over the remaining lifetime of the contracts.

Gains or losses on the spot price and the intrinsic values of the derivatives designated and qualifying as cash flow hedges are recognized directly in other comprehensive income, while gains and losses on the interest element and on those time values excluded from the hedging relationship are recognized in profit or loss immediately.

The effectiveness of the hedging relationship is tested prospectively and retrospectively. Prospectively, we apply the critical terms match for our foreign currency hedges as currencies, maturities, and the amounts are identical for the forecasted transactions and the spot element of the forward exchange rate contract or intrinsic value of the currency options, respectively. For interest rate swaps, we also apply the critical terms match as the notional amounts, currencies, maturities, basis of the variable legs (EURIBOR), reset dates, and the dates of the interest and principal payments are identical for the debt instrument and the corresponding interest rate swaps. Therefore, over the life of the hedging instrument, the changes in cash flows of the hedging relationship components will offset the impact of fluctuations of the underlying forecasted transactions.

Retrospectively, effectiveness is tested on a cumulative basis applying the Dollar Offset Method by using the Hypothetical Derivative Method. Under this approach, the change in fair value of a constructed hypothetical derivative with terms reflecting the relevant terms of the hedged item is compared to the change in the fair value of the hedging instrument employing its relevant terms. The hedge is deemed highly effective if the results are within the range 80% to 125%.

### **Trade and Other Receivables**

Trade receivables are recorded at invoiced amounts less sales allowances and allowances for doubtful accounts. We record these allowances based on a specific review of all significant outstanding invoices. When analyzing the recoverability of our trade receivables, we consider the following factors:

First, we consider the financial solvency of specific customers and record an allowance for specific customer balances when we believe it is probable that we will not collect the amount due according to the contractual terms of the arrangement.

Second, we evaluate homogenous portfolios of trade receivables according to their default risk primarily based on the age of the receivable and historical loss experience, but also taking into consideration general market factors that might impact our trade receivable portfolio. We record a general bad debt allowance to record impairment losses for a portfolio of trade receivables when we believe that the age of the receivables indicates that it is probable that a loss has occurred and we will not collect some or all of the amounts due.

Account balances are written off, that is, charged off against the allowance after all collection efforts have been exhausted and the likelihood of recovery is considered remote.

In our Consolidated Income Statements, expenses from recording bad debt allowances for a portfolio of trade receivables are classified as other operating income, net, whereas expenses from recording bad debt allowances for specific customer balances are classified as cost of software and software-related services or cost of professional services and other services, depending on the transaction from which the respective trade receivable results. Sales allowances are recorded as an offset to the respective revenue item.

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Included in trade receivables are unbilled receivables related to fixed-fee and time-and-material consulting arrangements for contract work performed to date.

**Other Non-Financial Assets**

Other non-financial assets are recorded at amortized cost, which approximates fair value due to their short-term nature.

We capitalize the discount of our loans to employees as prepaid expenses and release it ratably to personnel expenses.

**Intangible Assets**

We classify intangible assets according to their nature and use in our operation. Software and database licenses consist primarily of technology for internal use, whereas acquired technology consists primarily of purchased software to be incorporated into our product offerings and in-process research and development. Other intangibles consist primarily of acquired trademark licenses and customer contracts.

Purchased intangible assets with finite useful lives are recorded at acquisition cost and are amortized either based on expected usage or on a straight-line basis over their estimated useful lives ranging from two to 16 years. All of

our intangible assets, with the exception of goodwill, have finite useful lives and are therefore subject to amortization.

We recognize acquired in-process research and development projects as an intangible asset separate from goodwill if a project meets the definition of an asset. Amortization for these intangible assets starts when the projects are complete and the developed software is taken to the market. We typically amortize these intangibles over five to seven years.

Amortization expenses of intangible assets are classified as cost of software and software-related services, cost of professional services and other services, research and development, sales and marketing, and general and administration depending on their use.

**Property, Plant, and Equipment**

Property, plant, and equipment are carried at acquisition cost plus the fair value of related asset retirement costs, if any and if reasonably estimable, and less accumulated depreciation. Interest incurred during the construction of qualifying assets is capitalized and amortized over the related assets' estimated useful lives.

Property, plant, and equipment are depreciated over their expected useful lives, generally using the straight-line method. Land is not depreciated.

**Useful Lives of Property, Plant, and Equipment**

|                                  | <b>Useful Lives of Property,<br/>Plant, and Equipment</b> |
|----------------------------------|---|
| Buildings                        | 25 to 50 years  |
| Leasehold improvements           | Based on the lease contract                               |
| Information technology equipment | 3 to 5 years  |
| Office furniture                 | 4 to 20 years   |
| Automobiles                      | 4 to 5 years  |

Leasehold improvements are depreciated using the straight-line method over the shorter of the term of the lease or the useful life of the asset. If a renewal option exists, the term used

reflects the additional time covered by the option if exercise is reasonably assured when the leasehold improvement is first put into operation.

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### **Impairment of Goodwill and Non-Current Assets**

We test goodwill for impairment at least annually and when events occur or changes in circumstances indicate that the recoverable amount of a cash-generating unit to which goodwill has been allocated to is less than its carrying value.

The recoverable amount of goodwill is estimated each year at the same time. The goodwill impairment test is performed at the level of our operating segments since there are no lower levels in SAP at which goodwill is monitored for internal management purposes.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the operating segments that are expected to benefit from the synergies of the combination. If the carrying amount of the operating segment to which the goodwill is allocated exceeds the recoverable amount, an impairment loss on goodwill allocated to this operating segment is recognized. The recoverable amount is the higher of the operating segment's fair value less cost to sell and its value in use. These values are generally determined based on discounted cash flow calculations. We determine the recoverable amount of a segment based on its value in use. Impairment losses on goodwill are not reversed in future periods if the recoverable amounts exceed the carrying amount.

We review non-current assets, such as property, plant, equipment, and acquired intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Intangible assets not yet available for use are tested for impairment annually.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. If assets do not generate cash inflows that are

largely independent of those from other assets or groups of assets, the impairment test is not performed at an individual asset level; instead, it is performed at the level of the cash-generating unit (CGU) to which the asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. The recoverable amount of an asset or its CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognized in other operating income, net in profit or loss.

Impairment losses for non-current assets recognized in the prior periods are assessed at each reporting date for indicators that the loss has decreased or no longer exists. Accordingly, if there is an indication that the reasons that caused the impairment no longer exist, we would consider the need to reverse all or a portion of the impairment through profit or loss.

### **Contingent Assets**

We carry insurance policies amongst others to offset the expenses associated with defending against litigation matters as well as other risks. To mitigate the risk of customer default, our trade receivables are partially covered by merchandise credit insurance. We recognize the respective reimbursements in profit or loss when it is virtually certain that the reimbursement will be received and retained by us.

### **Liabilities**

#### **Financial Liabilities**

Financial liabilities include trade and other payables, bank loans, issued bonds, private placements and other financial liabilities which comprise derivative and non-derivative financial liabilities.

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Financial liabilities are recognized and measured in accordance with IAS 39. Accordingly, they are recognized in the Consolidated Financial Statements if we have a contractual obligation to transfer cash or another financial asset to another party. Financial liabilities are initially recognized at fair value. In the case of financial liabilities not at fair value through profit or loss this includes directly attributable transaction costs. If material, financial liabilities are discounted to present value based on prevailing market rates adjusted for credit risk, with the discount being recognized over time as interest expense. The subsequent measurement depends on the allocation of financial liabilities to the following categories according to IAS 39:

Financial liabilities at fair value through profit or loss only comprise those financial liabilities that are held for trading, as we do not designate financial liabilities at fair value through profit or loss on initial recognition. This category solely contains embedded and other derivatives with negative fair values, except where hedge accounting is applied. All changes in the fair value of financial liabilities in this category are immediately recognized in profit or loss. For more information about derivatives, see the Derivatives section.

Financial liabilities at amortized cost include all non-derivative financial liabilities not quoted in an active market which are measured at amortized cost using the effective interest method.

Expenses and gains/losses on financial liabilities consist of interest expenses, and gains and losses from the disposal of such liabilities. Interest expense is recognized based on the effective interest method.

Financial liabilities are derecognized when the contractual obligation is discharged, canceled or has expired.

## **Non-Financial Liabilities**

Other non-financial liabilities with fixed or determinable payments that are not quoted in an active market are mainly the result of obligations to employees and fiscal authorities and are generally measured at amortized cost.

## **Provisions**

Provisions are recorded when:

It is more likely than not that we have a legal or constructive obligation to third parties as a result of a past event.

The amount can be reasonably estimated.

It is probable that there will be an outflow of future economic benefits to settle the obligation, while there may be uncertainty about the timing or amount of the future expenditure required in the settlement.

We regularly adjust provisions as further information becomes available or circumstances change. Non-current provisions are reported at the present value of their expected settlement amounts as at the reporting date. Discount rates are regularly adjusted to current market interest rates.

## **Post-Employment Benefits**

We measure our pension-benefit liabilities and other post-employment benefits based on actuarial computations using the projected-unit-credit method in accordance with IAS 19. The assumptions used to calculate pension liabilities and costs are disclosed in Note (19a). As a result of the actuarial calculation for each plan we recognize an asset or liability for the overfunded or underfunded status of the respective defined benefit plan. We classify a portion of the liability as current (determined on a plan-by-plan basis) if the amount by which the actuarial present value of benefits included in the benefit obligation payable within the next 12 months exceeds the fair value of plan assets. Changes in the amount of the defined benefit obligation or plan assets



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resulting from demographic and financial data different than originally assumed and from changes in assumptions can result in actuarial gains and losses. We recognize all actuarial gains and losses directly in retained earnings.

SAP's pension benefits are classified as defined contribution plans if the payment to a separate fund relieves SAP of all obligations from the pension plan. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss when paid or due.

Certain of our foreign subsidiaries are required to provide termination indemnity benefits to their employees regardless of the reason for termination (retirement, voluntary, or involuntary). We treat these plans as defined benefit pension plans if the substance of the post-employment plan is a pension-type arrangement. Most of these arrangements provide the employee with a one-time payout based on compensation levels, age, and years of service on termination independent of the reason (retirement, voluntary, or involuntary).

### **Deferred Income**

Deferred income is recognized as software revenue, support revenue, subscription revenue, consulting revenue, development revenue, training revenue, or other service revenue, depending on the reasons for the deferral, once the basic applicable revenue recognition criteria have been met, for example, when the related services are performed or when the discounts are used.

### **Presentation in the Consolidated Statements of Cash Flows**

We classify interest and taxes paid as well as interest and dividends received as cash flows from operating activities. Dividends paid are classified as financing activities.

Certain comparative amounts in the Consolidated Statement of Cash Flows have been reclassified to conform with the current year's presentation. Such reclassifications are considered immaterial to the financial statements.

### **(3c) Management Judgments and Sources of Estimation Uncertainty**

The preparation of the Consolidated Financial Statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities.

We base our judgments, estimates, and assumptions on historical and forecast information, as well as regional and industry economic conditions in which we or our customers operate, changes to which could adversely affect our estimates. Although we believe we have made reasonable estimates about the ultimate resolution of the underlying uncertainties, no assurance can be given that the final outcome of these matters will be consistent with what is reflected in our assets, liabilities, revenues, and expenses. Actual results could differ from original estimates.

The accounting policies that most frequently require us to make judgments, estimates, and assumptions, and therefore are critical to understanding our results of operations, are:

Revenue recognition

Valuation of trade receivables

Accounting for share-based compensation

Accounting for income tax

Accounting for