

SAP SE
Form 20-F
March 29, 2016
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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

p **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2015

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 SE

(Exact name of Registrant as specified in its charter)

SAP EUROPEAN COMPANY

(Translation of Registrant's name into English)

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Federal Republic of Germany

(Jurisdiction of incorporation or organization)

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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 one Ordinary Share, without nominal value	New York Stock Exchange
Ordinary Shares, without nominal value	New York Stock Exchange*

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

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

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

Ordinary Shares, without nominal value: 1,228,504,232 (as of December 31, 2015)**

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

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

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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 30,551,035 treasury shares.

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INTRODUCTION

SAP SE is a European Company (Societas Europaea, or SE) and is referred to in this report, together with its subsidiaries, as SAP, or as Company, Group, we, or us.

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 euro, which is the currency of our home country, Germany. Certain amounts that appear in this report may not add up because of differences due to rounding.

Unless otherwise specified herein, euro financial data have been converted into dollars at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on December 31, 2015, which was US\$1.0859 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 International Financial Reporting Standards (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 11, 2016, the Noon Buying Rate for converting euro to dollars was US\$1.1180 per 1.00.

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

SAP, ABAP, Adaptive Server, Advantage Database Server, Afaia, Ariba, Business ByDesign, BusinessObjects, ByDesign, Concur, Crystal Reports, ExpenseIt, Fieldglass, hybris, PartnerEdge, PowerBuilder, PowerDesigner, Quadrem, R/3, Replication Server, SAP BusinessObjects Explorer, SAP Business Workflow, SAP EarlyWatch, SAP Fiori, SAP HANA, SAP Jam, SAP Lumira, SAP NetWeaver, SAP S/4HANA, SAPPHIRE, SAPPHIRE NOW, SQL Anywhere, Sybase, SuccessFactors, The Best-Run Businesses Run

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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.

FORWARD-LOOKING STATEMENTS

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

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

Third parties have claimed, and might claim in the future, that we infringe their intellectual property rights, which could lead to damages being awarded against us and limit our ability to use certain technologies in the future.

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

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

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

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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, development, estimate, expect, forecast, future trends, may, might, outlook, plan, project, predict, seek, should, strategy, want, will, would, and similar expressions as they relate to us are intended to represent 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 section, Expected Developments section; Risk Factors section; and other forward-looking information appearing in other parts of this report. To fully consider the factors that could affect our future financial results, both this report and our Annual Report should be considered, as well as all of our other filings with the Securities and Exchange Commission (SEC). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date specified or the date of this report. We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information that we receive about conditions that existed upon issuance of this report, future events, or otherwise unless we are required to do so by law.

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

PERFORMANCE MANAGEMENT SYSTEM

We use various performance measures to help manage our performance with regard to our primary financial goals, which are growth and profitability, and our primary

non-financial goals, which are customer loyalty and employee engagement. We view growth and profitability as indicators for our current performance, while customer loyalty and employee engagement are indicators for our future performance.

Measures We Use to Manage Our Financial Performance

Changes to Income Statement Structure

Starting with the first quarter of 2015, we modified our overall income statement structure. We reclassified premium support revenue and related costs to the respective services line items to align our financial reporting with the changes in our services business. We further simplified and clarified the labeling of several income statement line items. For more information about the changes to our income statement structure, see the Notes to the Consolidated Financial Statements section, Note (3).

Measures We Use to Manage Our Operating Financial Performance

In 2015, we used the following key measures to manage our operating financial performance:

Cloud subscriptions and support revenue (non-IFRS): This revenue driver comprises the main revenues of our fast-growing cloud business. We generate cloud subscriptions and support revenue when we provide software functionality in a cloud-based infrastructure (SaaS) to our customers, when we provide our customers with access to a cloud-based infrastructure to develop, run, and manage applications (PaaS) and also when we provide hosting services for software hosted by SAP (IaaS). Cloud subscriptions and support revenue is also generated when providing additional premium cloud subscription support beyond the regular support, which is embedded in the basic cloud subscription fees as well as business network services to our customers. We use the measure cloud subscriptions and support revenue (non-IFRS) both at actual currency and at constant currency.

Cloud and software revenue (non-IFRS): We use cloud and software revenue (non-IFRS) and constant currency cloud and software revenue (non-IFRS) to measure our revenue growth. Our cloud and software revenue includes cloud subscriptions and support revenue plus software licenses and support revenue. Cloud subscriptions and support revenue and software revenue are our key revenue drivers because they tend to affect our other revenue streams. Generally, customers that buy software licenses also enter into related support contracts, and these generate recurring revenue in the form of support revenue after the software sale. Support contracts cover standardized support services that comprise unspecified future software updates and

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enhancements. Software licenses revenue as well as cloud subscriptions and support revenue also tend to stimulate services revenue earned from providing customers with professional services, premium support services, training services, messaging services, and payment services.

New cloud bookings: For our cloud activities, we also look at new cloud bookings. This measure reflects the committed order entry from new customers and from incremental purchases by existing customers for offerings that generate cloud subscriptions and support revenue. In this way, it is an indicator for cloud-related sales success in a given period and for secured future cloud subscriptions and support revenue. We focus primarily on the average contract value variant of the new cloud bookings measure that takes into account annualized amounts for multiyear contracts. Additionally, we monitor the total contract value variant of the new cloud bookings measure that takes into account the total committed order entry amounts regardless of contract durations. There are no comparable IFRS measures for these bookings metrics.

Operating profit (non-IFRS): We use operating profit (non-IFRS) and constant currency operating profit (non-IFRS) to measure our overall operational process efficiency and overall business performance. See below for more information on the IFRS and non-IFRS measures we use.

Cloud subscriptions and support gross margin (non-IFRS): We use our cloud subscriptions and support gross margin (non-IFRS) to measure our process efficiency and our performance in our cloud business. Cloud subscriptions and support gross margin (non-IFRS) is the ratio of our cloud subscriptions and support gross profit (non-IFRS) to cloud subscriptions and support revenue (non-IFRS), expressed as a percentage.

Measures We Use to Manage Our Non-Operating Financial Performance

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

Financial income, net: This measure provides insight 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 assets and capital investment portfolio, and the average rate of interest at which assets are invested. We also monitor average outstanding borrowings and associated finance costs.

Days Sales Outstanding (DSO): We manage working capital by controlling the days sales outstanding (DSO) for operating receivables (defined as the average number of days from the raised invoice to cash receipt from the customer).

Measures We Use to Manage Overall Financial Performance

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

Earnings per share (EPS): EPS measures our overall performance because it captures all operating and non-operating elements of profit as well as income tax expense. It represents the portion of profit after tax allocable to each SAP share outstanding. EPS is influenced not only by our operating and non-operating business as well as income taxes but also by the number of shares outstanding.

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 and free cash flow: Our consolidated statement of cash flows provides insight as to how we generated and used cash and cash equivalents. When applied 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 to adapt to changing circumstances and opportunities. We use our free cash flow measure to determine 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.

Measures We Use to Manage Our Non-Financial Performance

In 2015, we used the following key measures to manage our non-financial performance in the areas of employee engagement, customer loyalty and leadership trust:

Employee Engagement Index: We use this index to measure the motivation and loyalty of our employees, how proud they are of our company, and how strongly they identify with SAP. The index is derived from surveys conducted among our employees. Applying this measure is recognition that our growth strategy depends on engaged employees.

Customer Net Promoter Score (NPS): This score measures the willingness of our customers to

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recommend or promote SAP to others. It is derived from our annual customer survey that identifies, on a scale of 0–10, whether a customer is loyal and likely to recommend SAP to friends or colleagues, is neutral, or is unhappy. We introduced this measure in 2012, as we are convinced that we can achieve our financial goals only when our customers are loyal to, and satisfied with, SAP and our solutions. To derive the Customer NPS, we start with the percentage of promoters of SAP—those who give us a score of 9 or 10 on a scale of 0–10. We then subtract the percentage of detractors—those who give us a score of 0 to 6. The method ignores passives, who give us a score of 7 or 8. Due to changes in sampling, resulting from ongoing efforts to implement the survey process holistically in recently acquired entities, the 2015 score is not fully comparable with the prior year's score.

Leadership Trust Score: We use this score to further enhance accountability and to measure our collective effort to foster a work environment based on trust. It is derived from a question in our annual global employee survey that gauges employees' trust in our leaders. We measure leadership trust by using the Net Promoter Score (NPS) methodology.

Value-Based Management

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

SAP's long-term strategic plans are the point of reference for our other planning and controlling processes, including a multiyear plan through 2020. We identify future growth and profitability drivers at a highly aggregated level. This process is intended to identify the best areas in which to target sustained investment. Next, we evaluate our multiyear plans for our support and development functions and break down the customer-facing plans by sales region. Based on our detailed annual plans, we determine the budget for the respective year. We also have processes in place to forecast revenue and profit on a quarterly basis, to quantify whether we expect to realize our financial goals, and to identify any deviations from plan. We continuously monitor the concerned units in the Group to analyze these developments and define any appropriate actions.

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

Non-IFRS Financial Measures Cited in This Report

As in previous years, we provided our 2015 financial outlook on the basis of certain non-IFRS measures. Therefore, this report contains a non-IFRS based comparison of our actual performance in 2015 against our outlook in the Performance Against Outlook for 2015 (Non-IFRS) section.

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Reconciliations of IFRS to Non-IFRS Financial Measures for 2015 and 2014

The following table reconciles our IFRS financial measures to the respective and most comparable non-IFRS financial measures of this report for each of 2015 and 2014. Due to rounding, the sum of the numbers presented in this table might not precisely equal the totals we provide.

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

millions, unless otherwise stated						2015			2014
						Non-IFRS			
						Currency	Constant		
	IFRS	Adj.	Non-IFRS	Impact	Currency	IFRS	Adj.	Non-IFRS	
Revenue measures									
Cloud subscriptions and support	2,286	10	2,296	297	1,999	1,087	14	1,101	
Software licenses	4,835	1	4,836	255	4,581	4,399	0	4,399	
Software support	10,093	0	10,094	678	9,416	8,829	5	8,834	
Software licenses and support	14,928	2	14,930						