

ANNUAL REPORT 2015  
LETTER FROM THE CEO

# Reimagine Your Business



The Best-Run Businesses Run SAP®

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# Letter from the CEO



Dear Stakeholders,

I'm honored to present the SAP Integrated Report 2015.

Six years ago, we charted a bold new course for SAP. We set a vision to help the world run better and improve people's lives. We designed a strategy to transform SAP into THE cloud company powered by SAP HANA. We redoubled our focus on helping businesses grow and prosper in 25 distinctly different industries.

2010 was the year we started on this journey. 2015 was the year we proved it is the right one for the stakeholders of SAP – a course that is worthy of the rich traditions of market leadership that date back to our five original innovators and their audacious dream for a better way.

The history of SAP was especially meaningful last year as we mourned the loss of Klaus Tschira. More than four decades ago, Hasso Plattner, Dietmar Hopp, Claus Wellenreuther, Hans-Werner Hector and Klaus founded SAP by innovating a new way for businesses to run better. In honoring Klaus's memory, we are reminded that we stand on the shoulders of giants. As part of the SAP family, we have a solemn obligation to constantly push the boundaries of what's possible; to be curious and courageous; and to never tire of rising beyond the highest expectations for what our company can achieve. Those five partners set a course 44 years ago; we continue to follow it to this day.

## **THE BACKDROP: A FAST-CHANGING DIGITAL ECONOMY**

In the spirit of design thinking and innovation, the mission of SAP is always driven by the state of the world.

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The theme of the 2016 World Economic Forum in Davos, Switzerland, said it all: we live and work in the midst of the "Fourth Industrial Revolution." The world is changing faster today than ever. By 2020, 21 billion devices will be connected in the Internet of Things (IoT). Thriving economies like China are investing in digital technologies to deliver efficiency and accelerate growth. Industry lines are blurring as legacy businesses invent new business models to strengthen their long-term prospects.

In each and every example, yesterday's technologies are not keeping pace with tomorrow's opportunities.

SAP customers no longer compete in a business-to-business economy. It's now a consumer-to-business economy that is generating unprecedented quantities of structured and unstructured information. In this era, individual consumers expect businesses to deliver relevant, personalized experiences to them – wherever they are, whenever they want. Businesses that rise to this expectation will win. Those that can't, or choose not to, will lose.

As we have done many times in our history, SAP delivered a fundamentally new architecture engineered for a new economy. With SAP HANA, SAP is able to break with a 45+ old tradition: enterprise systems based on three data pillars – master data, transactional data and aggregations of transactional data – were the foundation for all these years. The real time management of aggregated data was the cornerstone of the system, enabling users to have instant insights along predefined hierarchies. Any change of these aggregations required programming and painful data restructuring. This new architecture is based on the assumption that all reports, statutory or analytical, key figures, prediction, simulation and optimization are a mapping between millions to billions of data and presentations of a few hundred characters.

This makes it possible to achieve transformative technology and business outcomes:

- Data entry transaction can run in parallel without database locking
- Much higher transactional performance and much lower data footprint
- Monitoring of social media data and IoT data in combination with marketing initiatives
- Analysis of point of sales data for signals and trends in real time
- Predictive analytics for forecasting new planning applications with more intelligence and speed
- New applications for simulation and optimization
- Real-time monitoring of company's performance in a Digital Boardroom
- A new multi-channel approach to customer engagement and commerce

We have paved the way to bring simplicity into every aspect of enterprise computing – from the legacy IT stack to new, context-aware applications. As a trusted innovator, we have moved beyond the limitations of the past into a period of limitless possibilities for the digital, inter-connected future of the world.

#### **HOW WE ARE LEADING: COMPLETENESS OF VISION**

From the database to core applications, to the cloud and to business networks, SAP's offerings are truly end-to-end.

##### **The database**

We engineered our entire software portfolio for the SAP HANA platform, the only true in-memory column store database in the marketplace. In just a few short years, nearly 10,000 customers and startup companies chose to innovate on SAP HANA, momentum that continued to accelerate in 2015 with the release of SAP HANA Vora. The in-memory revolution is real and SAP is several years ahead of our competition.

##### **The core applications**

With this massive new processing power, we turned our attention to SAP's flagship suite of core business applications for finance and logistics. In February 2015, we made history by unveiling SAP S/4HANA, our next-generation suite engineered specifically to realize unprecedented functionality increases made possible by SAP HANA. SAP S/4HANA is delivering 25x higher transactional performance, nearly 13x reductions in data footprint and dramatically simplified application code, to name only a few. In less than one year, more than 2,700 customers adopted SAP S/4HANA, beginning a once-in-decades innovation cycle and proving that enterprise resource planning (ERP) has shifted from a system of record to a system of innovation. It took SAP R/3 two years to take off; SAP S/4HANA is already off to a much faster start.

##### **The cloud**

Whether for human capital management, customer engagement or to run an entire enterprise, SAP is excelling in the cloud. Because many companies want faster innovation cycles and time to value, we focused on choice of consumption as a major priority for SAP. Today, customers can run SAP software in a multitenant public cloud, their own private cloud, or with the SAP HANA Enterprise Cloud service. Our SAP SuccessFactors solutions, for example, combined with SAP Fieldglass solutions, are best-in-class applications to manage a total workforce, including temporary workers. Anchored by SAP Hybris solutions, our customer engagement and commerce solutions go way beyond the administrative functions of traditional customer relationship management (CRM). Altogether, SAP now reaches more than 95 million cloud users, more than any other company in enterprise software.

Another critical piece of our cloud story is our Platform-as-a-Service, the SAP HANA Cloud Platform (HCP). HCP is a standards based, open platform that allows customers to easily

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extend and integrate any and all SAP applications (cloud and on-premise) including SAP S/4HANA, SAP SuccessFactors and business networks. Thousands of our customers are using HCP to maximize their investment in SAP applications and simultaneously empower their developers with the power of in-memory computing to build and deploy next-generation digital applications.

### **The business networks**

Finally, we recognized that businesses would need to think about partnerships in an entirely new way. Whether procuring materials or hiring new workers, digital connections would need to be made more seamless than ever before. For a longstanding challenge like business travel and expense management, we needed a network approach that allows multiple businesses to collaborate for the ultimate benefit of the end user. With SAP Ariba, SAP Fieldglass, and Concur solutions, our business network companies are best-in-class and focused on extending the walls of a digital enterprise. These companies are magnets for other businesses in their respective categories – building new ecosystems to develop applications and create new value streams.

CEOs of large businesses and small businesses alike have made it clear: narrowly focused IT solutions have made things more complicated. They need full alignment between the supply chain and the demand chain. They need to run businesses based on live data and have the agility to make fast decisions. They need an intuitive user experience that empowers every employee and unleashes their unique abilities.

SAP is committed to delivering on these expectations.

### **SAP IS A PROFITABLE GROWTH COMPANY**

The proof of our successful strategy lies in our 2015 achievements.

Non-IFRS total revenue for SAP was €20.8 billion, a 12% CAGR since we started in 2010. Even during the transformation of our company, our full-year non-IFRS operating profit was €6.35 billion, a 10% CAGR since 2010. Very few companies can claim this rate of growth on both the top and the bottom line. In addition, as SAP's percentage of more predictable revenues increase, we are aggressively managing this transformation to protect our margin profile and ensure continued shareholder value.

In virtually every financial metric, 2015 was a record year. We grew our full-year non-IFRS cloud subscription and support revenue by 109%. Our full-year non-IFRS cloud and software revenue increased by 20%. Our fourth quarter was SAP's best quarter ever, with all regions performing at record levels, despite continued uncertainty in many geographic markets.

Our core business has been accelerated by the fast adoption of SAP S/4HANA and the transformative business outcomes it is

already enabling. Our cloud applications – led by the momentum of the SAP SuccessFactors Employee Central – are soaring. Our business network companies are shaping the future of commerce and growing in triple digits.

Through our direct-to-consumer business unit, SAP Digital, more than 50,000 transactions in 32 countries were processed in 2015 alone. We see this volume only accelerating as SAP develops even more offerings that can be bought and used with little or no human interaction, such as SAP Lumira and SAP Anywhere.

According to our employee survey, we finished the year with a 10-year high in employee engagement (81%), along with increases in leadership trust and work-life balance, including employee health. We also remained committed to our high standards for reducing carbon emissions and introduced new programs to support employees battling cancer. We continued our focus on building great careers for the people of SAP, whether they come to us direct from university or as experienced professionals. Our University Alliance program has momentum everywhere in the world, building on the 2,400+ university partnerships we already have and opening new doors in places like China, Russia and the Middle East. Our Autism at Work program continued as a role model for the world, proving that there is no limit to what any person can achieve when they are given the opportunity to share their unique talents.

On the world stage we acted with purpose as a true global market leader. We engaged with policy makers to forge a compromise on data sharing standards and joined the United Nations in setting clear benchmarks for a more sustainable planet. With the We Are Family Foundation, we gave brilliant young innovators the chance to be heard at TedxTeen. Through the unprecedented #One4 project, we stood with the refugees who escaped warzones in search of a more peaceful and promising future.

For SAP, doing well has always been about enabling us to do good. We've never been more committed to doing both.

### **THE ROAD AHEAD**

The only constant in technology is change. With breakthroughs such as SAP HANA and SAP S/4HANA only just scratching the surface of their full potential, SAP is strongly positioned to shape the future.

Businesses are hungry for growth and looking to the Internet of Things, robotics, artificial intelligence, and context-rich applications. Smart cities and connected manufacturing are making it possible to deliver mass personalization at scale for end consumers. Industries like healthcare are about to experience wide-scale disruption as technology finally converges around a common vision for personalized medicine. Healthcare, in particular, is a vivid illustration of SAP's long-term growth potential. The American Society of Clinical Oncology

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(ASCO) and the National Center for Tumor Diseases (NCT) in Germany are already transforming the treatment and effort to cure cancer with SAP HANA. The raw computing power of SAP HANA means that doctors can rely on genome sequencing at a fraction of the time and cost. It also means that data from diagnostic procedures and clinical trials can be aggregated and searched for powerful insights about how to treat specific tumors.

SAP is charging into this future with optimism. We'll continue leading the reinvention of business technology as we look to help solve the world's greatest challenges because we see them as our greatest opportunities.

### **IN SUMMARY**

Over the past six years, whether you measure us on the basis of our customer satisfaction, extraordinary top line growth, dramatic expansion of operating profit, the successful management of our business model transformation, or our consistent commitment to corporate citizenship, SAP has never been in a stronger position. Our 77,000 colleagues are firmly united in purpose to serve the more than 300,000 customers who have placed their trust in SAP. Together with our open partner ecosystem, we are reshaping every sector of the modern economy in nearly every country.

This integrated report seeks to expand on this story in vivid detail. It also reflects our commitment to unprecedented transparency. We believe that our stakeholders deserve to

understand the market conditions, strategy and software that will power SAP to deliver on our short, mid, and long-term expectations. We also believe that the full measure of a great business is not just in its financial results, but also in its social responsibility. That's why we include metrics like environmental impact and diversity alongside revenue and operating income – to give you the full picture of an ambitious, successful, and sustainable company.

SAP's vision is to help the world run better and improve people's lives. We're passionate in service to this enduring purpose. We also know that vision isn't just what we see – it's what we feel and how we make other people feel. Whether you rely on SAP as a customer, invest in us as a shareholder, work for us as an employee, or partner with us in the ecosystem, we work every day to make you feel proud of our success and confident in our future. We will never lose our sense of urgency. We'll always be driven to rise even higher and to earn the privilege of following in the footsteps of our founders. Indeed, we aspire to leave footprints of our own for others to follow.

Thank you for your interest in and support of SAP.

Bill McDermott

Chief Executive Officer