

# German Stock Corporation Act, Section 161

## Declaration by the Executive and Supervisory Boards

### Concerning SAP SE's Implementation of the German Corporate Governance Code

Pursuant to the German Stock Corporation Act, section 161, the Executive Board and the Supervisory Board of SAP SE (SAP) declare as follows:

#### I. German Corporate Governance Code 2015

Since October 2015, SAP has followed the recommendations in the May 5, 2015, version of the German Corporate Governance Code, which was published in the *Bundesanzeiger* (German Federal Gazette) on June 12, 2015, and will continue to follow them, except as set out below:

##### 1. Supervisory Board directors' and officers' liability insurance policies do not provide for a deductible

In section 3.8, the German Corporate Governance Code (Code) recommends that if a company takes out directors' and officers' (D&O) liability insurance for its supervisory board members, a deductible should be agreed. SAP does not believe that the motivation and responsibility that the members of the Supervisory Board bring to their duties would be improved by such a deductible element. SAP does not therefore plan to amend its current D&O liability insurance policies in that respect.

##### 2. Executive Board appointment contracts do not cap severance payments on premature termination

The fourth paragraph in section 4.2.3 of the Code recommends that when executive board appointment contracts are concluded, care should be taken to ensure that any severance payments, including additional benefits, on premature termination, are capped at two times the annual compensation or, if less, compensation for the remaining contract term. SAP does follow the recommendation in the fifth paragraph in section 4.2.3 of the Code concerning the maximum amount payable in the event of a change of control. However, we do not believe the uniform cap on severance pay stipulated in the fourth paragraph in section 4.2.3 of the Code is appropriate for all of the circumstances the recommendation covers. In our view, aside from a change of control, there may also be other circumstances in which a contract might be terminated and in which an affected Executive Board member could have a justifiable claim to better severance terms. Moreover, we do not believe it would be feasible to apply the recommendation in the most likely circumstances, namely when the seat on the Executive Board is vacated by agreement under a termination contract. In such cases, a cap on severance pay stipulated in the appointment contract would, in practice at least, be difficult for the Company to enforce unilaterally. Also, an agreement in this respect that had been concluded in advance might not make adequate provision for the particular facts and surrounding circumstances that later actually give rise to an agreement to end an Executive Board member's work before completion of the full term.

However, we do follow the thinking behind the recommendation in the Code in that it remains our policy to negotiate severance pay that is reasonable in the circumstances if we terminate an Executive Board member's service by agreement before full term. We also have measures in place to ensure we would not pay severance to an Executive Board member whose appointment contract was terminated for breach.

##### 3. The long-term variable compensation element will be capped starting 2016

The RSU Milestone Plan 2015 is a long-term variable compensation element for SAP SE Executive Board members. Introduced in 2012, it is a performance-oriented plan in which the members of the Executive Board are allocated a number of restricted share units, or RSUs, for a given year; the number of RSUs eventually granted depends on SAP's actual performance in that year. The Code recommends (in section 4.2.3, second paragraph, sixth sentence) a cash cap on executive board members' variable compensation elements and overall compensation. SAP's compensation, including the RSU Milestone Plan 2015, follows the principle in this recommendation, as the Plan cannot pay out more than 150% of the RSUs originally allocated for the year. However, there is no cap on the SAP stock price, which is also a factor in the payout at the end of the four-year vesting period because, in our view, capping the payout is counter to the thinking behind share-based compensation. If the Code recommendation requires that the payout on share-based compensation plans also be capped, SAP does not follow this recommendation. Similarly, we possibly do not follow the recommendation contained in section 4.2.5 (third paragraph, first subpoint) of the Code to present the maximum achievable compensation for variable compensation elements in the compensation reports. As there is no cap on the amount of cash each RSU in the Plan pays out, we are unable to publish a maximum achievable compensation. Thus, the only reason for this deviation from the recommendation is this absence of a cap on the cash payout from the RSUs.

The new long-term incentive (LTI) plan, which is planned to replace the RSU Milestone Plan 2015, will have a payout cap. This means that starting 2016, SAP's compensation would follow the recommendation contained in section 4.2.3, second paragraph, sixth sentence of the Code with respect to the long-term variable compensation element for SAP SE Executive Board members. SAP would consequently also follow the recommendation contained in section 4.2.5, third paragraph, first subpoint of the Code.

##### 4. SAP has not set an age limit for members of the Executive Board

The second paragraph of section 5.1.2 in the Code recommends that an age limit be set for executive board members. SAP does not set any age limits for members of the

Executive Board because this would be a general restriction on the Supervisory Board in its choice of suitable Executive Board members and we prefer not to regard people above a set age limit as generally unsuitable for Executive Board membership.

Moreover, in view of the decision by the German Federal Supreme Court (*Bundesgerichtshof*) of April 23, 2012 (case no. II ZR 163/10), on the application of the German General Equal Treatment Act (*Allgemeines Gleichbehandlungsgesetz*) which prohibits age discrimination of a managing director of a German limited liability company, we believe that the setting of an age limit for executive board members presents legal uncertainties.

#### **5. When our Supervisory Board recommends candidates for its own membership to the competent election bodies, it does not have regard to the concrete objectives it has adopted for its own composition**

The Code recommends (in section 5.4.1, third paragraph, first sentence) that recommendations by a supervisory board to the competent election bodies should take into account the concrete objectives it has adopted regarding its own composition. Our Supervisory Board will have regard to its adopted objectives when seeking to identify suitable persons for candidacy and when choosing which candidates to propose to the General Meeting of Shareholders. In the interest of SAP, however, the Supervisory Board must be in a position to recommend to the General Meeting of Shareholders those candidates it believes are best suited for the vacant Supervisory Board seats. Ordinarily, one of the suitability criteria will be whether a person's candidacy is consistent with the concrete objectives. However, that need not always be the decisive criterion for proposing a particular candidate. Company law, which empowers the General Meeting of Shareholders to elect members to the Supervisory Board, requires neither that the Meeting adhere to the Supervisory Board's objectives nor that it elect the Supervisory Board's proposed candidates.

#### **6. No Maximum Length of Service on the Supervisory Board**

The second paragraph of section 5.4.1 in the Code recommends that a maximum length of service be set for supervisory board members. We do not consider it good practice to set such a maximum. In our view, the objective should be a supervisory board that can work effectively, with a healthy mix of both experienced and recently-elected members. Experienced and long-serving members are no less independent and no less in touch with new ideas, particularly because supervisory board work takes up only a limited amount of their time. The diversity recommended in the Code must also apply to length of service on the supervisory board and thus encourage a range in the degree of members' experience. Setting a maximum length of service applying equally to all members would be contrary to that principle because it would by implication count unjustifiably against members who serve on the supervisory board for longer.

## **II. German Corporate Governance Code 2014**

Since its last Declaration, made on October 29, 2014, SAP has in its actions followed the recommendations in the June 24, 2014, version of the Code, which was published in the *Elektronischer Bundesanzeiger* (Online German Federal Gazette) on September 30, 2014, except as set out below.

#### **1. Supervisory Board directors' and officers' liability insurance policies do not provide for a deductible**

For the reasons we do not follow section 3.8 of the Code, see I.1 (above).

#### **2. Executive Board appointment contracts do not cap severance payments on premature termination**

For the reasons we do not follow the fourth paragraph in section 4.2.3 of the Code, see I.2 (above).

#### **3. The long-term variable compensation element RSU Milestone Plan 2015 is not capped**

For the reasons we do not follow the second paragraph, sixth sentence in section 4.2.3 and the third paragraph, first subpoint in section 4.2.5 of the Code, see I.3 (above).

#### **4. SAP has not set an age limit for members of the Executive Board**

For the reasons we do not follow the second paragraph in section 5.1.2 of the Code, see I.4 (above).

#### **5. When our Supervisory Board recommends candidates for its own membership to the competent election bodies, it does not have regard to the concrete objectives it has adopted for its own composition**

For the reasons we do not follow the third paragraph, first sentence in section 5.4.1 of the Code, see I.5 (above).

#### **6. Our 2014 performance-related compensation for Supervisory Board members is not aligned to sustained growth**

The Code recommends (in section 5.4.6, second paragraph, second sentence) that performance-related compensation for Supervisory Board members be linked to sustained growth. In the absence of detailed guidance from the Code commission regarding the intended criterion, we cannot exclude the possibility that the recommendation envisages measuring performance over more than one year. By way of precaution, we therefore note that the dividend-based variable compensation we award our Supervisory Board members, most recently for fiscal year 2014, may not follow the Code recommendation in question. SAP rather doubts whether reliance on measurement of performance over several years is the only correct approach to performance-related compensation for Supervisory Board members and whether it would better motivate Supervisory Board members to further the interests of the Company and fulfill their specific duties than does the award of dividend-based compensation alongside their fixed compensation. Moreover, to avoid conflict of purpose, performance would have to be measured against the same long-term objectives that the Supervisory Board sets for the Executive Board. We believe that for the Supervisory Board this could result in conflicts of interest we seek to avoid. For this reason, the variable compensation element for Supervisory Board members at SAP is linked only to the annual dividend, which, because of our consistent dividend policy over the years, also reflects our sustained and sustainable Company growth. At the Annual General Meeting of Shareholders on May 20, 2015, the Supervisory Board resolved that commencing the fiscal year 2015, Supervisory Board members should receive only

fixed compensation. The aforementioned recommendation does not apply in the case of fixed compensation only.

Since our **February 2015 amendment** to our declaration of implementation, SAP has followed the 2014 German Corporate Governance Code recommendations subject to the following additional exception:

**7. The performance threshold in the RSU Milestone Plan 2015 has changed**

From the outset, the terms of the RSU Milestone Plan 2015 contained provisions to eliminate unforeseeable non-recurring effects when calculating performance. The elimination of such effects, however, presupposes that they are quantifiable. SAP recorded unexpectedly strong growth in its cloud business in 2014. This positive development,

however, also resulted in non-quantifiable adverse effects that prevented SAP from achieving its defined targets in the RSU Milestone Plan. As a result, the Supervisory Board at its meeting on February 12, 2015, resolved to leave the defined targets unchanged but to lower the 2014 and 2015 performance thresholds to preserve the fair and equitable nature of the Plan. In February 2015, we filed a precautionary declaration of deviation from the recommendation contained in section 4.2.3 (second paragraph, eighth sentence) of the Code in this connection.

Walldorf, October 29, 2015



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