

# German Stock Corporation Act, Section 161

## Declaration by the Executive and Supervisory Boards

### Concerning SAP'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 AG (SAP) declare as follows:

#### I. German Corporate Governance Code 2013

Since October 2013, SAP has followed the recommendations in the May 13, 2013, version of the German Corporate Governance Code, which was published in the *Bundesanzeiger* (German Federal Gazette) on June 10, 2013, 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

At section 3.8, the German Corporate Governance Code (Code) recommends that if a company takes out directors' and officers' liability (D&O) 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 insurance policies in that respect.

##### 2. Co-chief executive officer Jim Hagemann Snabe will not receive variable compensation in 2013 and 2014

The Code (at section 4.2.3, second paragraph, second sentence) recommends that executive board members' cash compensation comprise fixed and variable elements.

SAP generally follows this recommendation. Exceptionally, however, the 2013 and 2014 compensation arrangements for co-CEO Jim Hagemann Snabe do not follow this recommendation because it is intended that Mr. Snabe transfer to the Supervisory Board at the end of the next Annual General Meeting of Shareholders, scheduled for May 21, 2014. Under the agreement with Mr. Snabe, he receives only fixed cash compensation elements for his membership of the Executive Board in 2013 and 2014; some of the cash compensation elements granted for 2013 do not pay out if certain targets are not achieved. An advantage of the agreed fixed cash compensation elements is that they avoid a conflict of interest for Mr. Snabe. If Mr. Snabe were to receive the variable compensation elements SAP ordinarily pays its Executive Board members, such a conflict of interest would arise on his transfer to the Supervisory Board because (some) elements of his Supervisory Board compensation package would converge with those of the remaining Executive Board members. Mr. Snabe would only transfer to the Supervisory Board if the conditions of the German Stock Corporation Act, section 100 (2)(4) are fulfilled and the Annual General Meeting of Shareholders elects him.

##### 3. 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.

##### 4. The Long-Term Incentive Plan (LTI Plan) 2015 variable compensation is not capped

The Code (at section 4.2.3, second paragraph, sixth sentence) recommends a cash cap on executive board members' variable compensation elements and overall compensation. SAP follows this recommendation, also for the LTI Plan 2015. Though the Plan cannot pay out more than 150% of the restricted stock units (RSUs) allocated for each year, 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 report for fiscal years beginning on or after January 1, 2014. As the cash payout from the RSUs in the Plan is not capped, we are therefore unable to publish the maximum achievable compensation. Thus, the only reason for this deviation is that there is no additional cap.

#### **5. 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 over 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 23 April 2012 (case no. II ZR 163/10) on the application of the German General Equal Treatment Act (*Allgemeines Gleichbehandlungsgesetz*) containing a prohibition of age discrimination to 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.

#### **6. 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 (at 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. The 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.

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

The Code recommends (at 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 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 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 set up conflicts of interest we seek to avoid. For this reason, the variable component of compensation 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.

## II. German Corporate Governance Code 2012

Since its last Declaration, made on October 29, 2012, SAP has followed the recommendations in the May 15, 2012, version of the Code, which was published in the *Bundesanzeiger* (German Federal Gazette) on June 15, 2012, 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.3 (above).

### 3. 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.5 (above).

### 4. 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 of section 5.4.1 of the Code, see I.6 (above).

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

For the reasons we do not follow the second paragraph, second sentence of section 5.4.6 of the Code, see I.7 (above).

Since our September 2013 amendment to our declaration of implementation, SAP has followed the 2012 German Corporate Governance Code recommendations subject to the following additional exception:

### 6. Co-chief executive officer Jim Hagemann Snabe will not receive variable compensation in 2013 and 2014

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

Walldorf, October 29, 2013



For the Executive Board  
Jim Hagemann Snabe



For the Executive Board  
Bill McDermott



For the Supervisory Board  
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