

# Message from Professor Hasso Plattner, Chairman, SAP Supervisory Board

March 31, 2021

## Dear Shareholders,

2020 posed challenges that were unexpected and unprecedented. While the world has not fully overcome the pandemic and its effects, I feel SAP has handled the crisis in the best possible way. First, we ensured the safety of our employees. Second, we ensured business continuity. Third, we accelerated innovation as our customers' needs changed.

Making decisions in a crisis is difficult. Last year, we were forced to move to a nearly all virtual operating model. We transitioned to a sole CEO. We announced an accelerated shift to the cloud, impacting our medium-term guidance.

In the midst of these developments, engagement with shareholders is more important than ever. In 2020, I continued the ongoing dialog with institutional investors on strategic and corporate governance topics. Strong corporate governance is something we strive for. At the same time, a supervisory board must make the right decisions for the company's long-term success. Sometimes general corporate governance standards have to be reconciled with the specific circumstances faced by a company. When this happens, it is my view that companies must clearly explain the decisions made to bring both to a balance. At the same time, investors must consider the decisions in the business and strategic context in which the company operates. In the spirit of transparency, I would like to share the content of these discussions with you ahead of our Annual General Meeting of Shareholders (AGM), which will be held as a virtual event on May 12, 2021.

## Accelerated shift to the cloud

In October 2020, the Executive Board announced a strategic shift to support the business transformation of our customers by taking them faster to the cloud. Customers were already moving in this direction, and this trend was accelerated by the COVID-19 pandemic. By changing how their businesses operate end-to-end, customers can achieve the resilience needed in today's environment. I am convinced that responding decisively to the requirements of our customers in a fast-changing world helps ensure the long-term success of our company. To this end, SAP introduced "RISE with SAP" in January 2021. This is a new holistic offering that supports a customer's transformation journey to an intelligent enterprise.

These strategic decisions, in particular the accelerated transition to the cloud, will have an impact on our financials. By addressing market needs and accelerating the cloud transition we expect to almost triple our cloud revenue to more than €22 billion by 2025. The incremental growth resulting from this accelerated cloud transition is expected to be even more profitable by 2025.

The announcement in October created uncertainty for some investors and the SAP share price decreased by over 20%. I understand this was painful. As SAP's largest individual shareholder, I felt this pain, too. Nonetheless, I fully support the bold moves the Executive Board made. With the context of further announcements we have made, such as introducing the "RISE with SAP" offering, I believe SAP's path is much clearer for the markets. These were the right decisions to make SAP successful, and with it more valuable, in the long run.

## Executive Board

Over the past year there has been change in the SAP Executive Board. With the fast-moving developments during the pandemic, it became more critical that the company be aligned under one strategic direction as quickly as possible. Moving to a sole CEO model became necessary at the time. Since the change, the Executive Board has come together and made tough decisions. We have a strong team with the skills to lead SAP and its customers to success. With the contractual extensions of our CFO Luka Mucic (until March 2026) and our CTO Dr. Jürgen Müller (until December 2024), we have ensured continuity in two critical leadership roles at SAP. Three recent additions further enhance the Executive Board's leadership: Sabine Bendiek as Chief People Officer; Scott Russell, leading Customer Success; and Julia White, leading Marketing, Communications, and Solutions.

## Supervisory Board composition

Over the past four years we have significantly transformed the Supervisory Board to position the Company to meet the challenges of the next decade. SAP has aligned the members' skills with a holistic Profile of Skills and Expertise, reduced average tenure, increased the number of independent members, and increased diversity. Further, SAP made the term lengths more flexible, thus enabling SAP to react more quickly when changes in the Supervisory Board composition are needed and allowing shareholders to elect their representatives more frequently. This year, we continue this transformation of the Supervisory Board.

Diane Greene resigned from the Supervisory Board effective December 2020 and Dr. Pekka Ala-Pietilä announced he will resign effective the close of the Annual General Meeting of Shareholders in May 2021. I want to thank both Diane and Pekka for their contributions over the years.

Dr. Qi Lu of Beijing, China, was appointed to the Supervisory Board by the Local Court of Mannheim effective December 21, 2020. He will stand for election as successor to Diane Greene. Dr. Lu brings with him extensive experience in the U.S. and Chinese software industry, in particular in research and development. I am convinced that enhancing the Supervisory Board with expertise in both Asia and the software industry will be of great benefit.

The Supervisory Board has nominated Dr. Rouven Westphal of Potsdam, Germany, to succeed Dr. Ala-Pietilä. Dr. Westphal has extensive experience in technology, deep financial and accounting expertise, and has clearly demonstrated business acumen as a strategic thinker. He understands SAP's business and the competitive environment. His entrepreneurial spirit has been demonstrated by his co-founding of technology start-ups, and investment in more than 50 public and private companies.

I am sure both candidates will be strong, independent voices on the Supervisory Board.

Further changes are targeted from 2022, depending on the needs of the company regarding skills, member independence, and diversity.

## Executive Board Compensation

We continue to receive feedback on the structure of executive compensation. While a large majority of shareholders approved the compensation system in 2020, there still was some dissent. Based on investor feedback, we have further increased the level of transparency in the Compensation Report. Starting with the [SAP Integrated Report 2020](#), we now publish 100% target amounts for the short-term incentive program. Further, we have discussed the feedback to the compensation system in the context of our unique position as a European company operating in a U.S.-centered industry. While we have not yet decided on further changes, I felt it was important to let you know that we continue to discuss and evaluate the feedback from the investor community.

## Supplementary Compensation

As I stated above, the Executive Board made bold decisions over the past year that we feel were absolutely necessary to ensure the sustainable success of SAP. As the Executive Board focused on ensuring safety of our employees, continuity of business for our customers, and using our software to address the new challenges posed by the crisis, they simultaneously focused on moving the business forward. They addressed customer feedback and improved integration, reflected in a 10-point gain in Customer Net Promoter Score. They accelerated innovation. They forged new partnerships, such as Microsoft Teams integration. Further, the company delivered a solid year, including record cash flow, despite all the macroeconomic headwinds and practical challenges such as travel restrictions. In fact, Cloud revenue continued to be the major growth driver. Excluding Intelligent Spend, which was impacted by a decline in transactional revenue related to the pandemic restrictions, revenue growth in our SaaS/PaaS business was 27%.

For these reasons, we have decided to honor the Executive Board members for exceptional achievements in extraordinary times with supplementary compensation. We do not take compensation decisions lightly. We feel it is fair to take this decision in these exceptional times, as a positive signal to current and future members of the Executive Board.

A fair approach with all stakeholders is also important. SAP did not take large state aid packages, consider large-scale layoffs, or reduce employee hours. Employee targets were adjusted to allow for a chance to meet their objectives given the impacts of COVID-19, and due to the company's subsequent strong performance in particular in the fourth quarter of 2020 employees' bonus payout ultimately ended up over 100%. By contrast, the Supervisory Board did

not adjust the targets for the Executive Board, resulting in a 0% payout for the short-term incentive. Further, investors received an increased dividend (payout ratio 55%) and the company conducted a €1.5 billion share buyback in 2020. In 2021, we have again proposed an increased dividend. Finally, to ensure shareholder alignment, the Executive Board members are required to invest the net supplementary compensation amount in SAP shares and hold these for three years.

### **In Closing**

In closing, I want to thank you for your support and investment in SAP. The years ahead will bring challenges – external ones such as navigating the end of the pandemic as well as internal ones, as SAP transitions to the next generation of leadership. Despite these challenges, I am extremely confident that SAP has the right strategy and the right team to drive for continued success in the years to come.

For the Supervisory Board,

Professor Hasso Plattner  
(Chairman)

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