



# **SAP'S PRINCIPLES OF** **CORPORATE GOVERNANCE**

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## **1. Introduction**

The purpose of SAP's Principles of Corporate Governance, reflecting the accepted rationale of corporate governance, is to provide a framework for responsible, value-oriented management and control of the SAP group of companies, according with – or where necessary complementing – the applicable provisions of the law.

It is SAP's firm conviction that in adopting and following such corporate governance guidelines and standards, the company is materially reinforcing the long-term confidence of shareholders, customers, employees, and other stakeholders in the leadership of the company and underpinning SAP's standing in the capital markets. These corporate standards bind not only the Supervisory and Executive Boards but also SAP's employees. The Executive Board is charged with the responsibility of ensuring that these Principles of Corporate Governance are respected throughout the SAP group.

Corporate governance is not a directive to be set in stone for all time; rather, it is an ongoing process. From time to time SAP's Principles of Corporate Governance will therefore be reviewed – and if necessary amended – in the light of experience gained, the needs of the day, the law, and national and international standards.

## **2. Principles for the Work of the SAP Executive Board**

### **2.1 Guidelines for the work of the Executive Board**

Subject to the requirements of the law, the SAP Executive Board is committed to the corporate interest and bound by SAP company policies and the generally accepted principles of proper management. The aim of its work in managing the company is the sustained growth of SAP's corporate value. For this purpose, SAP's corporate value is measured in terms of the company's ability to satisfy the needs of its stakeholders (customers, shareholders, employees, creditors, vendors, and the public).

In consultation with the SAP Supervisory Board, the Executive Board is responsible for developing and implementing SAP's strategy. It is responsible for ensuring that a suitable infrastructure is maintained for the value process and that the measures that it takes to achieve sustainable growth of SAP's corporate value are effective and efficient. It is also responsible for ensuring that effective planning, budgeting, controlling, and risk management systems are in place and are continuously developed.

The SAP Executive Board is responsible for ensuring that all of the measures it takes comply with the law. It must ensure that the requirements of the law and SAP's corporate governance principles are observed throughout the SAP group. It must appoint a corporate governance officer to continuously develop the corporate governance principles and monitor compliance with them. The officer must report to the Supervisory Board annually on alterations to and the implementation of the corporate governance principles.

The SAP Executive Board must have regard to SAP's social responsibilities in suitable measure.

The following guidelines govern SAP Executive Board members' working methods and decision-making processes:

- Each member has an equal voice in the management of the company.
- Responsibilities must be assigned to individual members in such a way that all of the material functions, products, and markets are represented on the Executive Board.
- The Extended Management Board, which comprises managers nominated by the Executive Board to be responsible for major business areas, must be closely involved in the work of the Executive Board. Extended Management Board members attend in the meetings of the Executive Board.
- Decisions on major principles (matters of fundamental importance for SAP) must be made by the Executive Board as a body. In appropriate circumstances the Executive Board may delegate to its individual members decisions that give practical effect to those major principles.
- In normal circumstances, the SAP Executive Board must make its decisions on the basis of:
  - Systematic, results-oriented preparatory work
  - Appropriate analyses of expected benefits and risks
  - Open discussions

The SAP Executive Board must have standing rules to specify its working methods in detail.

## **2.2 Requirements on SAP Executive Board members**

SAP Executive Board members must put their entire effort at the disposal of SAP.

SAP Executive Board members must always be loyal to SAP in their personal conduct. In the work they do managing the company they must not pursue any interests of their own that conflict with the interests of SAP. They must not, for their own benefit or for the benefit of persons with whom or companies with which they are connected, directly or indirectly exploit any business opportunity available to SAP. The Executive Board must ensure that SAP employees also observe these requirements.

For the duration of their time with SAP, Executive Board members are subject to a total embargo on activity that competes with SAP. They must not, when performing duties for SAP or otherwise, conduct transactions that conflict with SAP's interests, whether on their own behalf or on behalf of persons with whom they are connected. The SAP Executive Board must ensure that senior managers also comply with these requirements.

SAP Executive Board members must not accept any gift or other benefit in connection with their work for themselves or for third parties if doing so could prejudice the interests of SAP or its customers. The Executive Board must issue appropriate guidelines to ensure that SAP employees also observe these requirements.

The SAP Executive Board must observe the applicable insider trading regulations and issue appropriate insider trading guidelines to ensure that SAP's employees also observe the regulations. It must appoint a compliance officer to advise the Executive Board on insider trading issues, monitor compliance with the insider trading regulations, and be responsible for the relevant contacts with the concerned authorities.

The members of the SAP Executive Board must disclose their business transactions with each other (except transactions of a routine day-to-day nature) to the full Executive Board.

### **2.3 SAP Executive Board members' remuneration**

The amount of remuneration that SAP Executive Board members receive must be reasonable and appropriate. The criteria for determining reasonable and appropriate remuneration are the responsibilities and the work performed by the concerned member, and the size and importance of SAP, the company's economic situation, successes, and prospects for the future.

The remuneration of Executive Board members must comprise fixed and variable elements and include sufficient incentives for long-term corporate value creation. This must include remuneration plans that are oriented to the share price and meet the following requirements:

- Rights carried by stock options and convertible or warrant bonds must be subject to a freeze period lasting two years or longer.
- Exercise times must be stipulated that ensure compliance with insider trading law.

The SAP Executive Board must ensure that these principles are also applied to the remuneration of senior managers.

## **3. Principles for the Work of the SAP Supervisory Board**

### **3.1 Guidelines for the work of the Supervisory Board**

The SAP Supervisory Board's primary tasks are appointing members to and regularly advising the SAP Executive Board, and supervising the management of the company and the achievement of the company's long-term goals.

To fulfill its supervisory function:

- The SAP Supervisory Board must adopt standing rules for its business.
- The SAP Supervisory Board must make certain transactions subject to its approval; transactions subject to such approval include new or changed strategies, and – above a certain size – investment projects, loans, the establishment of subsidiaries, and shareholdings.
- The Supervisory Board must stipulate the duties of the Executive Board with regard to provision of information and reports; these duties must reflect the statutory reporting duties and particularize them with regard to the subject matter and, where appropriate, to the frequency and form of the information that must be provided.

At least once per year the SAP Supervisory Board must subject its work to a systematic evaluation to continuously test for potential improvements.

The SAP Supervisory Board must establish committees to fulfill certain special consultative and supervisory tasks. These include among others an Audit Committee for matters concerning the financial statements and the auditing of the accounts, and a Compensation Committee to carry out preparatory work on the personnel decisions required to be made by the Supervisory Board. SAP must announce the existing committees and their areas of responsibility on the Internet. In appointing the members of committees, the SAP Supervisory Board must have regard to the suitability of the Supervisory Board members concerned in terms of their respective fields of expertise.

The efforts of the shareholder and of the employee representatives working together on Supervisory Board must be guided by the consensus principle.

### **3.2 Requirements on SAP Supervisory Board members**

Subject to the requirements of the law, in determining the size and composition of the SAP Supervisory Board consideration must be given to efficiency in the Supervisory Board's work.

When selecting candidates to be proposed for election to the Supervisory Board by the general meeting of shareholders, the Supervisory Board must ensure that

- The proposed candidates are persons with the necessary knowledge, competencies, and applicable experience.
- The proposed candidates are not persons who are
  - Members of the executive board, managers, or employees of a company that has a member of the SAP Executive Board in its supervisory body
  - Members of the executive or supervisory body of a subsidiary company of SAP AG.
- There are enough members of the Supervisory Board who are not, and have not in the past been, connected with the company.

The members of the Supervisory Board must have enough time to do their work and must carry out their work carefully and conscientiously. They must be loyal to SAP in their conduct, they must not accept appointments in companies that are in competition with SAP, and they are subject to SAP's insider trading rules. It is for the SAP Executive Board to judge whether a company is in competition with SAP.

In making their decisions SAP Supervisory Board members must not pursue any interests of their own that conflict with the interests of SAP. They must not, for their own benefit or for the benefit of persons with whom or companies with which they are connected, exploit any business opportunity available to SAP. SAP Supervisory Board members must disclose any conflict of interest to the Chairperson of the Supervisory Board. The Chairperson must decide whether such information is to be shared, and in appropriate cases must make preparations for the Supervisory Board to decide whether the concerned member should participate in upcoming Supervisory Board meetings. The concerned Supervisory Board member must abstain from votings related to his or her conflict of interest.

SAP Supervisory Board members must disclose their planned business transactions (not including transactions of a routine day-to-day nature) with SAP to the Chairperson in good time. The Chairperson of the Supervisory Board must ensure that such transactions are not carried out except with the SAP Supervisory Board's prior permission. The SAP Supervisory Board is justified in granting its permission for such a transaction only if the transaction is on conditions that regularly apply in the industry and it is not contrary to SAP's interests.

SAP Supervisory Board members must not accept any gift or other benefit in connection with their work for themselves or for third parties if doing so could prejudice the interests of SAP or its customers.

Members of the SAP Supervisory Board must not disclose SAP's confidential information or secrets.

### **3.3 SAP Supervisory Board remuneration**

The remuneration of SAP Supervisory Board members must be reasonable and appropriate to their responsibilities and the scope of their work. The criteria for determining reasonable and appropriate remuneration are the scope of their tasks (by taking into account the positions of Chairperson and Deputy Chairperson), and the Company's performance (by including a variable element in the remuneration related to the dividend).

In order to maintain a proper arm's length relationship to the SAP Executive Board's incentive measures, SAP Supervisory Board members must not receive remuneration related to the share price for their work in the Supervisory Board.

### **3.4 Cooperation with the independent public accountants**

The SAP Supervisory Board regards the audit of the financial statements as an independent guarantor of openness to SAP's stakeholders, and the independent public accountant as a supporting partner in the process of monitoring SAP's public financial reporting and the company's risk management system.

Before mandating the independent public accountant as required by law, the SAP Supervisory Board must consider whether additional audit issues should be defined that extend the scope and focus of the audit. To ensure the independence of the public accountant, the SAP Supervisory Board must check that the independent public accountant is not subject to any conflict of interest and that not more than 30 % of its total revenue derives from mandates for SAP and SAP's associated companies.

The Chairperson of the SAP Supervisory Board must ensure that:

- Every member of the SAP Supervisory Board receives the audit reports in good time before the pertinent Supervisory Board meetings.
- The independent public accountant is present at the pertinent Supervisory Board and Audit Committee meetings.

## **4. Principles of Cooperation Between the SAP Executive Board and the SAP Supervisory Board**

Without being asked, the SAP Executive Board must provide to the SAP Supervisory Board regular, prompt, and comprehensive information about all of the essential issues affecting the SAP group's business progress and its potential business risks. The SAP Executive Board must inform the Chairperson of the Supervisory Board without delay if exceptional events occur that are of importance in evaluating SAP's situation and progress or for its management. The Chairperson must inform the SAP Supervisory Board accordingly.

The SAP Executive Board must consult with the Supervisory Board concerning the strategy for SAP that the Executive Board must develop.

At the beginning of each fiscal year the SAP Executive Board must submit the budget to the Supervisory Board for approval. At its subsequent meetings the SAP Supervisory Board must be informed of any variance of actual values from the approved budget and any alteration of the budget. If any sudden, substantial variance from the approved budget arises, the SAP Executive Board must notify the Chairperson of the Supervisory Board without delay. In appropriate cases the Chairperson must call an extraordinary meeting of the Supervisory Board.

Spoken reports given by the SAP Executive Board to the SAP Supervisory Board must be accompanied by written documentation. In principle the SAP Executive Board must, in consultation with the Chairperson of the Supervisory Board, forward such documentation to the members of the SAP Supervisory Board in good time before the pertinent Supervisory Board meeting so that the Supervisory Board members can thoroughly prepare for the meeting.

In discharging its duty to appoint members to the SAP Executive Board, the SAP Supervisory Board must:

- Ensure that the various members contribute to the Executive Board a balance of different competencies and that all members are able to work effectively in a team
- Plan the membership with the SAP Executive Board for the long term
- Limit the period for which new members are appointed to the Executive Board to not more than three years under normal circumstances
- Ensure that serving members' work is assessed objectively to provide a basis on which to make decisions about the prolongation of their term of office

Members of the SAP Executive Board who have a substantial interest in SAP's transactions or who are subject to other conflicts of interest must disclose their interest to the Chairperson of the Supervisory Board without delay and the Chairperson must decide whether such information is to be shared with the Supervisory Board.

The SAP Executive Board must disclose to the Supervisory Board any planned business transactions (not including transactions of a routine day-to-day nature) between SAP and Executive Board members in good time and must ensure that such transactions are only carried out with the SAP Supervisory Board's prior agreement. The SAP Supervisory Board is justified in granting its permission for such a transaction only if the transaction is on conditions that regularly apply in the industry and it is not contrary to SAP's interests. If such transactions are concluded, it must be by the Supervisory Board acting for SAP.

Except with the prior agreement of both the SAP Executive Board and the SAP Supervisory Board, SAP must not give credit to SAP Executive Board or Supervisory Board members, their spouses, their life companions, or their children (being minors), or to companies in which such persons hold a majority stake.

The SAP Executive Board must disclose to the Supervisory Board any planned business transactions (not including transactions of a routine day-to-day nature) between SAP Executive Board members in good time. Such transactions require the prior permission of the SAP Supervisory Board.

Other work by members of the SAP Executive Board, in particular the acceptance of any appointment to the supervisory board of a company that does not belong to SAP, requires the agreement of the SAP Supervisory Board.

The SAP Executive Board must ensure that the insider trading compliance officer reports to the Supervisory Board at least once per year.

The SAP Executive Board must report to the Supervisory Board at least once per year on all gifts of whatever magnitude that SAP makes to political parties and allied organizations, and on other gifts above a level that the Supervisory Board must define.

## **5. Principles for Relations Between SAP and Its Shareholders**

As far as is within its powers and subject to the law, SAP must observe the rights of its shareholders and ensure that those rights are given effect. In this context, the essential rights of shareholders include:

- The freedom to buy and sell shares
- Equal voting rights for all shares (“one share, one vote”)
- Participation in and voting at general shareholders’ meetings
- Satisfaction of reasonable information requirements
- Appropriate dividends

The right to vote at general shareholders’ meetings safeguards the shareholders’ input on major decisions affecting the company, such as changes to the Articles of Incorporation, changes in capitalization, and the election of shareholder representatives to the Supervisory Board.

Where capitalization is increased, in principle shareholders have a right to preemptive subscription reflecting the size of their holding. SAP must only make use of legal provisions permitting the exclusion of preemptive rights where this is necessary in the interest of the company and therefore in the interest of the company’s shareholders. The Executive Board and the Supervisory Board must diligently ascertain if these preconditions are met in the circumstances of each particular case.

The SAP Executive Board must ensure that the following are available on the Internet in English and German:

- Before a general shareholders’ meeting: the invitation, agenda, any motions and candidacies proposed by SAP shareholders, and responses to them from SAP’s management
- After a general shareholders’ meeting: the results of votes and elections and (after they have been entered in the commercial register) the updated Articles of Incorporation

## **6. Principles of Communication with the Public**

In communicating information to parties outside the company, the SAP Executive Board must have regard to the principles of transparency, timeliness, openness, clarity, and, where appropriate, equal

treatment. It must ensure that there are effective communication systems in place covering the provision of information to potential and actual investors and customers and to the general public.

The SAP Executive Board must disclose to the public any new facts concerning SAP's field of activity that are not yet public knowledge without delay if, because of their impact on SAP's assets and finances or its business in general, those facts could substantially influence the SAP share price or the price of other quoted securities issued by SAP companies.

The SAP Executive Board must ensure the timeliness of SAP's regular financial reporting. SAP must publish preliminary quarterly and annual financial reports within 30 days of the end of each reporting period and final quarterly and annual financial reports within 90 days of the end of each reporting period.

The SAP Executive Board must ensure that SAP compiles its group annual and quarterly financial reports in accordance with internationally accepted accounting principles and that it does not merely comply with the minimum requirements of the concerned accounting principles. Group financial reports must contain the following voluntary information (among others):

- List of all companies in which SAP AG or any of its subsidiaries holds a stake greater than 5 % of the subscribed capital
- List of all persons who and institutions that, to SAP's knowledge, hold a stake in SAP AG greater than 5 %
- Details of SAP Executive Board and Supervisory Board members' SAP shareholdings, where these are greater than 1 % of SAP's capital stock
- Details of rights granted under employee participation plans, broken down into grants to SAP Executive Board members and other SAP employees; Additionally, in respect of grants to SAP Executive Board members, details of exercise prices and times
- Details of the ratio of fixed to variable elements in SAP Executive Board members' total remuneration
- Note, where applicable, to indicate that a member of the SAP Supervisory Board failed to participate in person or via electronic media in more than half of the Supervisory Board's ordinary meetings in a fiscal year after these Principles entered force

The SAP Executive Board must report at regular intervals on corporate strategy and SAP's anticipated future progress, and on risks in current and planned future business activities.

The SAP Executive Board must ensure that the anticipated dates of the important recurrent events and publications (in particular the dates of the annual general shareholders' meeting and of publication of quarterly and annual financial reports) are published at least one year in advance in a financial calendar and are available on the Internet.

The SAP Executive Board must ensure that the current text of SAP's Principles of Corporate Governance is available to the public on the Internet.

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