Henning Kagermann

Co-CEO, SAP AG

Speech at the SAP AG Annual General Meeting of Shareholders

Mannheim, June 3, 2008

1. Welcome

Ladies and gentlemen,

On behalf of my colleagues on the Executive Board, I would like to welcome you to this year's Annual General Meeting of Shareholders. I would of course also like to welcome those of you who are following the Annual General Meeting of Shareholders from outside this room.

SAP was founded in this region, our roots are here, we have grown here, and we have our largest location worldwide here. We are therefore pleased to lend our name to this arena and to see so many of you here in attendance today.

2. Summary 2007

In 2007, SAP AG achieved excellent results. In contrast to the year before, we exceeded both our own growth forecasts and market expectations.

[SLIDE: 2007 – Very Good Figures]

We measure our performance against that of the competition in terms of product revenue – which is the total of software and software-related service revenue –, operating income, and market share, according to U.S. GAAP. Since our main competitors all publish their figures in U.S. dollars, the exchange rate significantly influences this comparison.

According to U.S. GAAP, our product revenue grew 17% at constant currencies last year. The forecast was 12% to 14%. Therefore, we significantly exceeded our growth target and saw the largest revenue gain since the boom in 2000.

If we had published our figures in U.S. dollars like our main competitors, we would actually have increased product revenue by approximately 24%. As a comparison: The reference group of 25 other vendors only grew 15% over the same period. This means that we significantly grew our market share, namely by four percentage points. And this, please note, was before the Business Objects acquisition.

Why is market share so important to us? It is because many other companies – not just customers and partners, but competitors too – are guided by the market leader in our industry. We can set trends, establish standards, and find partners with which we can co-innovate.

But revenue growth and market share are only one aspect of success. We must also achieve them at a profit.

In 2007, operating margin was 26.7%, taking it to the upper end of our forecast. The strong euro again had a negative impact here. Excluding currency effects, we would have even reached 27%. And in our core business – that is, not including the accelerated investments in the SAP Business ByDesign solution – profitability was more than 28%, which was higher than in the previous year.

However, when it comes to the operating margin, we are some way behind the competition. Increasing it is, therefore, very high on our list of priorities.

These key figures show that, in 2007, we extended our market leadership with strong organic and profitable revenue growth.

Unfortunately, these good results were not mirrored by a corresponding rise in the share price. On December 28, 2007, the share price closed at €35.53, compared to €40.26 the year before.

You cannot be satisfied with this trend. We are not satisfied, either. Nonetheless, we are confident that, last year, we made the right and important decisions to enable SAP AG's long-term growth.

We entered uncharted territory twice: with SAP Business ByDesign and with the acquisition of Business Objects, the largest acquisition in our history and one of the largest in the software industry overall. This is not possible without a certain amount of risk. This is partly the reason why the share price fell. We still have to work to convince the market. That is why I believe it is particularly important to explain our strategy and priorities to you today.

On behalf of the entire Executive Board and all of our employees, I would like to thank you for the confidence that you have placed in our company. We are certain that your investment in SAP is a good decision and will be much more fruitful again soon.

3. Results for 2007 in detail

Let us look at 2007 in more detail.

[SLIDE: Results – Fiscal Year 2007]

This slide shows SAP AG's key figures for the past year, reported in accordance with two different sets of accounting regulations. In 2007, like all listed companies in the European Union, we were required to prepare consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the first time.

However, we will continue to prepare consolidated financial statements in accordance with U.S. GAAP to make it easier to compare us with our international competitors. As you can see, the two sets of statements only differ slightly. The U.S. GAAP figures (and thereof derived non-GAAP) figures remain the important ones for our outlook, management of the company, and communication with the financial markets.

Total revenue grew 9% to €10.2 billion. This means SAP AG has passed the €10 billion revenue threshold for the first time – I can still recall when, in 1993, we celebrated the first billion, and that was back in the days of German marks! Back then, our revenue was almost U.S.$670 million. So we are very pleased that we have continued to grow well since then. Our revenue today is U.S.$15 billion – which represents growth by a factor of 22 since 1993.

According to U.S. GAAP, operating income grew 6% compared to the previous year, while net income rose 3%. In relation to net income, it should be noted that the 2007 effective tax rate of 32.2% was higher than the 2006 rate of 29.9%, which was particularly low due to nonrecurring effects.

Finally, an important figure for investors is the earnings per share. According to U.S. GAAP, this was €1.60 in 2007. This is a 5% increase on the previous year's figure of €1.53.

4. Customer Successes

On what is SAP's success founded?

It is based on the core of our market promise. The promise that we make to our customers is: We want to help them become a best-run business, a company that can be run with optimum business processes in accordance with the internationally proven principles of its industry.

[SLIDE: Our Customers' Success with SAP]

I would like to mention a few examples in which customers successfully deploy SAP solutions.

The first company, BASF, is based almost next door and is another German global player. Two years ago, it purchased the U.S. company Engelhard, the largest acquisition in BASF's history. Using SAP software, it was able to integrate this large company within just one year. Engelhard's ongoing IT costs were almost halved. And half of the estimated total savings of €160 million had already been achieved by the end of 2007 – with the deployment of the latest information technology from SAP playing a key role.

DuPont, another chemicals company, has been able to reduce its annual operating costs by a further U.S.$11 million simply by deploying an innovative SAP solution, SAP Solution Manager.

Graybar Electric Company and Everbright Bank of China are just two of many other examples. Our annual report contains more. Now, I would like to show you two short videos.

Last year, we successfully completed our products' transition to a new enterprise service-oriented architecture (enterprise SOA) – and were the first company in our industry to do so. I have reported regularly on this at previous Annual General Meetings of Shareholders. Take Arla Foods, for example, which shows the benefits of enterprise SOA for our customers.

[VIDEO: Arla Foods]

As you can see, the advantages of SAP software are flexibility and speed, not just for Arla Foods, which is <u>our</u> customer, but also for Arla Foods' <u>own</u> customers – the people buying in the shops. Quality, reflected in the freshness of the products, is very important to them. Such volumes of milk can only reach the shelves within 24 hours of the cows being milked thanks to state-of-the-art software!

But besides large enterprises, SAP software of course supports small businesses and midsize companies. These make up the backbone of industry, particularly here in Germany. Let us look at another example from the food industry. It shows how SAP can benefit a business with 40 employees.

[VIDEO: Metzgerei Moser]

By the way, Metzgerei Moser obtained a bank loan for a new store because it has laid down the foundations for further growth with SAP software.

[SLIDE: Product Portfolio –
for Companies of All Sizes and Every Industry]

Today, SAP has solutions for almost all companies in every country around the globe – regardless of their size or industry. We have a very broad and balanced offering, and not just in the large enterprise segment. Since 2005, we have been market leader for the midmarket, too. The key to this success is an optimum product portfolio.

On the one hand, the SAP Business Suite applications cater to large enterprises, typically those with more than 2,500 employees. This market for business software is estimated at U.S.$30 billion worldwide.

Then we have the SAP Business All-in-One solutions for midsize companies and the SAP Business One application for small businesses. These markets are worth approximately U.S.$15 billion each. Added together therefore, they are on a level with the large enterprise market.

The SAP Business ByDesign solution, catering to companies with around 100 to 500 employees, rounds off our midmarket portfolio. Overall, therefore, we offer four "suites" with which we serve companies of all sizes.

5. Strategy for Growth

A comprehensive product portfolio is not enough by itself to ensure long-term success. Companies that wish to grow faster than the market must prove themselves by means of innovation.

Our current strategy for growth has three pillars.

[SLIDE: Growth Strategy – Success with Innovation]

The first pillar is our established core business.

In recent years, we have done more than expand our market share – we have also successfully delivered innovations to the market.

The new enterprise SOA is widely deployed. There are now more than 10,000 installations of the SAP ERP 6.0 application, which represents the core of SAP Business Suite, and almost 40,000 live installations of the underlying SAP NetWeaver technology platform.

To make future innovations as straightforward as possible for our customers, we stopped the traditional software upgrades last year. Instead, we offer our customers enhancement packages, a radical new concept that is unique in the software industry. Customers can install these packages during live operation, deciding themselves which of the new functions to activate. This considerably reduces operating costs. As a result, our customers can receive product innovations in a much more simple, flexible, and cost-effective fashion.

In December 2007, we presented a new customer management system, which is powerful yet easy to operate. Analysts, the media, and customers all responded extremely positively. Thanks to our partnership with RIM, the SAP Customer Relationship Management (SAP CRM) application can now also run on BlackBerry devices. This generated significant interest at our SAPPHIRE conference two weeks ago in Berlin and before that in Orlando, Florida.

The example highlights the benefits of co-innovation with strong partners in the industry. Our other innovation networks also result in many new ideas as well as suggestions on how to turn them into reality.

In the past year, we have not limited ourselves to innovations in our traditional core business. By 2010, we want to double our addressable market. In 2007, we took crucial steps toward this by broadening our strategy for growth with two further pillars.

Last September, we presented a new product, SAP Business ByDesign. This was the first step toward developing a new field of business. And since after many years of development, the best thing is to hear what customers have to say, we have prepared a short video for you.

[VIDEO: Stemme AG]

As I have already said, SAP Business ByDesign is not just a new product whose design and numerous game-changing innovations are unparalleled in the market. We are combining it with the establishment of an additional business model, one that is new for us. By offering the solution on-demand over the Internet, we will, among other things, significantly lower the running costs for our customers. And of course we also wish to improve our own profitability. To do so, we still need to optimize a number of parameters and processes.

A few weeks ago, we therefore decided not to further accelerate the go-to-market, as we had planned last year. We will take the time we need, because quality and profitability are very important to us.

This will not put us at a disadvantage against the competition, because there has not been such a solution on the market so far. Since we will not be making some of the investments we announced at the start of 2007, we are now aiming for a greater operating margin in 2008 than originally planned.

Moreover, we will reuse the innovations, and thus the investments made in SAP Business ByDesign, for our core business.

Finally, the third pillar of our strategy for growth created some uncertainty in the financial markets.

It is true that we have repeatedly emphasized the strength of our organic growth – and rightly so, I believe. Some people concluded – rather hastily – that SAP would never consider a large acquisition.

But a company that has proven over many years that it can grow more than twice as fast as the rest of the market should not reject opportunities to expand its business in order to grow profitably even faster.

Why was the purchase of Business Objects the right decision at the right time?

First, an acquisition of this size calls for the necessary management capacities. And in the fall of last year, we as an organization were already ready for a new big step following the switch to enterprise SOA and the development of SAP Business ByDesign.

Second, the market for business intelligence – in other words, the evaluation of business data in real time – is going through a wave of consolidation. In 2007, IBM and Oracle each bought further large vendors. This is a U.S.$6 billion market with annual growth rates of 11.5% that is now being occupied. We would have needed much more time with development alone and would have gone to market too late – unlike with SAP Business ByDesign.

SAP has now acquired the market leader and thus gone straight to the top. With U.S.$1.5 billion in revenue last year and millions of people in 46,000 organizations using its products, Business Objects is definitely an asset to SAP.

I am delighted that John Schwarz is now a member of our Executive Board and I would like to thank both him and Bernard Liautaud for the excellent cooperation.

Business Objects products support all employees who, to quickly make reliable decisions together, rely on up-to-date reports drawn from huge quantities of data and a wide range of sources.

One example is Disneyland. The theme park in Paris attracted a lot of visitors at the start, but profitability was only half as good as in California and Florida. It emerged that the reason was because it rains more in France. When it starts to rain, visitors do not want to walk about or wait in line outside. They would rather go inside to get something to eat and drink or to shop for souvenirs. The park found it difficult to quickly and flexibly reassign sufficient staff to the shops and restaurants.

Business Objects helped install 900 control points to measure visitor numbers, wait times, and revenues. Disneyland Paris evaluates this data in real time, enabling it to deploy personnel so efficiently that the theme park is now the second most profitable worldwide and has the highest customer satisfaction.

Another example, Adidas, set up 120 temporary shops for soccer fans for eight weeks during the World Cup in 2006. Demand was highly dependent on the current results of the matches and on how the teams progressed through the tournament. Thanks to a solution from Business Objects, precise forecasts could be used to deliver supplies to all 120 shops to meet daily demand, ensuring fans could always buy what they wanted.

When we bought Business Objects, it was important to us that our products would fit together well. There are a few overlaps with what we have offered so far in this field. But above all, they complement each other. By the end of the year, we will have a single product portfolio.

And in combination with products such as those in SAP Business Suite, it will enable our shared customers to fully and smoothly manage their entire business with the maximum of speed and flexibility.

6. Economic Trends and the Competitive Environment

[SLIDE: Evolution in the Software Industry]

With our purchase of the market leader in business intelligence products, we are also responding to a trend in the global economy.

The world of work is changing dramatically. With the general availability of data, real-time analyses are becoming standard; mobile applications with chic and innovative user interfaces are coming to the fore; and people in different locations are increasingly working in virtual teams.

At the same time, we are observing how customers are becoming more solution oriented. To put it simply: People want a solution, not a product. Many midmarket companies do not want to "have" software, they want to use it – and preferably without setting up their own IT department. That is why software as a service is becoming increasingly popular.

Software plays a crucial role in practically all changes in the world of business. Quickly identifying global economic trends and helping shape them is therefore crucial to our future, because we are operating in a highly dynamic competitive environment with major players.

As the market leader, we are in a strong position thanks to our customer base and long-term trust, our employees, our innovativeness, and much more. But we also have to use this strong position to define an active strategy for the future. We have to prove our industry leadership to successfully conquer new markets despite our larger competitors' financial possibilities.

This is also a reason why we need the courage to make groundbreaking decisions, whether for our own innovations with which we can set new industry-wide standards or for large acquisitions. To succeed in our market, we have to use all of the opportunities for increasing the value of the company in the long term.

7. Global Image

[SLIDE: Global Reputation – SAP is Recognized as…]

SAP is not just the number one in the business software market. Over the past 35 years, the company has built up an excellent reputation all over the world. We are among the three dozen companies worldwide with the highest brand equity. We are ranked 34th on the Interbrand scoreboard of Best Global Brands. And in 2007, our brand equity rose 8%, making us the third German company (behind Mercedes and BMW) and the seventh in Europe.

The TRI*M index from TNS Infratest with which we measure our customers' satisfaction and loyalty is rising constantly around the world. It rose from 84 points in 2004 to 90 in 2006 and has now reached 92 points.

SAP is also extremely well regarded as an employer. A survey among German students found that we were the most popular IT employer in 2007. In 2006, we were only ranked fourth. In February, SAP AG was rated Germany's best employer among large companies for the fourth time in a row.

In the renowned Dow Jones Sustainability Index, SAP ranks best in the software industry. We also try to involve our large online communities in our social responsibility activities. In the SAP Developer Network, SAP makes a donation to the United Nations World Food Programme in recognition of outstanding contributions, rather than handing out the usual prizes as it did previously. For more information about our corporate citizenship activities, please refer to the annual report.

8. Employees

Our employees make the main contribution to our company's image, with many of them taking part in charitable projects in their spare time.

Last year, some 4,500 new employees joined the company. At the start of this year, we also welcomed the colleagues from Business Objects to the SAP family.

An innovative technology company like SAP needs highly qualified employees to ensure long-term success. Day after day, they are the ones who show strong commitment, competence, teamwork, and a clear customer focus to create value for our company. On behalf of the entire Executive Board, I would like to thank all of our employees for their efforts.

We support our employees in many different ways, including with training and profit sharing. About half of them also receive share-based compensation. However, I can assure you that not just these but all of our employees are keen to see the SAP share rise again significantly in the future.

9. Our Stock

Globally, the shareholder structure remains highly distributed. Here is the breakdown by region as of February.

[SLIDE: SAP Stock – Global Distribution and Relative Weighting]

At the start of this year, approximately 48 million shares were in SAP treasury ownership. That was 3.9% of all our stock. Today, this figure stands at 58 million shares, or 4.7%.

This includes the 27.8 million shares that the company has repurchased in the period since the last Annual General Meeting of Shareholders. We have paid an average of €35.59 or almost €1 billion in total for this 2.2% of the capital stock.

In 2007, we cancelled 23 million treasury shares, reducing the capital stock of SAP AG for the first time. We also used treasury shares for our stock option programs – as usual, we mainly used treasury shares to satisfy exercised conversion and subscription rights.

Due to the short life, required by law, of the authorization to repurchase shares, we would like to ask you to renew this authorization under items 7 and 8 of today's agenda.

To ensure shareholders benefit appropriately, if this Annual General Meeting of Shareholders so resolves, we will pay a dividend that provides a payout ratio of approximately 31%. The total dividend distributed to shareholders would be more than €594 million.

Since 2005, we have returned to you, our shareholders, some €4.5 billion in dividends and through buy-backs.

Nonetheless, the stock has performed disappointingly over the last year. However, the P/E ratio of SAP stock is 17, still above that of our major peers, although our lead is not so big as in previous years.

Over the last five years, from the end of 2002 to the end of 2007, SAP stock yielded an average of 14.5% – outperforming the old GSTI Software index (now the S&P North Software-Software Index), which climbed less than 9% over the same period. On the U.S. market, SAP's average yield was an even better 22%.

However, to compare us with our competitors, you have to look at the share price on the New York Stock Exchange. By the end of May, SAP had risen 14% year over year, while it had been flat in Frankfurt.

And since the beginning of the year, the stock has again surged ahead of the DAX, which it has outperformed by exactly 12%.

But of course, we do see room for further improvement in the stock price, and we are attending to two key factors in particular.

The first factor is improving the margin. In recent years we have been investing comparatively heavily in our future, transitioning to the new software architecture and developing SAP Business ByDesign. Now it is time to reap the benefit in terms of improved margin. There is no structural reason why SAP should not achieve an adjusted operating margin of 35%.

The second factor is our ability to demonstrate that we can succeed even in territory we have never ventured into before.

If we again hit our growth targets this year, it would show that we have successfully integrated Business Objects into our company.

10. Outlook and First Quarter

[SLIDE: Outlook for 2008]

Despite the difficult economy in the United States, we are staying with the outlook guidance we gave for 2008. The guidance focuses on non-GAAP measures which are based on our U.S. GAAP figures but exclude nonrecurring effects relating to acquisitions, as is customary in our industry.

On that basis, we expect our product revenue to grow between 24% and 27% at constant currencies, and we expect an operating margin of between 28.5% und 29.0%. In April we have raised our expectation for the operating margin by one percentage point compared to the outlook given at the beginning of the year, reflecting the fact that budgeted expenditure for an accelerated go-to-market of SAP Business ByDesign has been postponed.

We plan to increase headcount by about 4,000 this year. We expect our effective tax rate to be in the range of 31.0% to 31.5%. And we are planning to pay a dividend providing a payout ratio of around 31%. We also expect to repurchase stock for treasury, as we did last year.

Although the economic slowdown in the United States is also impacting the software market, we were in a position to confirm our outlook guidance after the first quarter.

[SLIDE: First Quarter 2008 – Impressive Market Share Growth]

Despite the difficult market, our share grew exceptionally during the quarter by 4.2 percentage points to 32.6%. A shade under one percentage point was organic; 3.3 points were associated with the acquisition of Business Objects. Year over year, we grew our share a very significant 7.6 percentage points. This shows the advantage of an organic strategy backed by acquisitions.

The solid lines show that, in recent years, our key competitor’s market share grew significantly as a result of acquisitions. However, if you include the market share of the acquired companies, you can see from the broken lines that organic growth has been minimal in contrast to that of SAP.

11. Three-Dimensional Growth

How can we ensure that SAP AG continues to grow profitably in the future, to build on its leading position in the market, and to create value for our customers, our employees, and of course first and foremost for you, our shareholders?

We remain focused on the large, and still growing, market for enterprise software. Our ambition for growth is three-dimensional.

[SLIDE Three-Dimensional Growth Potential]

First, we increase the segment of that market we can address with a new range of innovative products and with targeted acquisitions. By 2010, we will more than double the size of that segment compared with 2005. Currently, our share of this much expanded market segment is 16% to 17%. That is twice the share of our closest competitor, but we still see plenty of room to grow.

Second, we will continue to win new customers on a grand scale. We won more than 8,100 last year, a more than 20% increase in our customer base, which is now 47,800, or more than 70,000 including Business Objects customers.

Finally, our products and services are so good, they will persuade our customers that the more they buy, and the greater the number of their employees using them, the better for those customers. For example, as we announced in Berlin at SAPPHIRE, we have concluded a new contract with Daimler AG that will raise the number of Daimler employees using SAP solutions from 65,000 to 100,000.

12. Close

I am convinced SAP AG can successfully continue up its growth trajectory. The current year will not be an easy one, but we are sticking to our ambitious guidance. Our core business is healthy to the core, and we have created the right platform for success in the future.

That includes the Executive Board changes mentioned by the Chairman of the Supervisory Board. I especially congratulate Léo Apotheker on his new role, and I am looking forward to continuing to work with him and the other Executive Board members.

Ladies and gentlemen,
Your company is a world leader that really does lead the world: Our software is now helping more than 70,000 companies become best-run businesses, providing growth, wealth, and employment the world over. We will continue to grow, creating sustained value for our customers, employees, and you, our shareholders.