

## **Annual General Meeting of Shareholders on May 19, 2009**

### **Speech by Henning Kagermann**

#### **1. Welcome**

Good morning ladies and gentlemen,

On behalf of my colleagues on the Executive Board, I would like to welcome you to SAP AG's 2009 Annual General Meeting of Shareholders.

#### **2. Importance of the General Economic Crisis for SAP**

We find ourselves in an extraordinary situation: The financial crisis broke a year ago before developing into a global economic crisis last fall.

Since we are a relatively young company, we are experiencing a crisis of this magnitude for the first time in our history. In the past, we have been able to compensate for less widespread crises thanks to our broad reach across all industries and regions.

Sometimes, we have even benefited because companies were able to achieve significant savings by implementing SAP software: for example, to replace in-house developments or to standardize their IT landscape globally.

Of course we can also see opportunities for growth in the current crisis: The strategic importance of business software continues to increase. Doing business successfully is no longer possible without modern IT: To achieve transparency, growth, profitability, and innovation in products and business models, companies need SAP.

We can be proud of that. We do not operate in a niche market. Instead, we are a global player with more than 86,000 customers all over the world today. We can also say that we've done a good job: We would not be the global market leader otherwise.

The functional range and reliability of our solutions allow our customers today to use their SAP software longer and extract greater value and benefits from existing installations – focusing further innovations only where they really need to. To put it plainly: during financially difficult times, customers opt for smaller projects, which in turn directly impacting our order books.

Having successfully broadened our customer base, we have created a good financial cushion of stable, recurring revenues. Over the past 10 years, their share has risen from 19% to 42%. (In the first quarter of 2009, this figure even reached 55%.)

In contrast to many other companies, we are thus able to maintain our profitability and achieve solid income and good cash flow despite the major crisis that we are currently experiencing.

On the other hand, we are also seeing a “flight to quality” in our industry and among our customers. Continual growth in our customer satisfaction proves that our efforts are paying off. Our customers are aware of the advantages of working with the market leader and are still investing in their long-term strategic relationships with SAP.

This is clearly reflected in the growing investments in our support services. The increasing proportion of mainly stable recurring revenue is evidence that we have established long-term relationships with our customers and that our business model is fit for the future.

SAP is therefore well positioned to emerge from this crisis successfully, too. And with the next Executive Board, the company is in good hands.

### **3. Summary 2008**

So how did we do last year? It was a year with two faces.

[SLIDE: 2008 – A Year with Two Faces]

#### a. Revenue, Profit: First Half vs. Second Half

The first half of the year was excellent, and we were even on course to enjoy one of the best years in our history.

Until well into the third quarter, the financial crisis did not have an impact on us. The decline came immediately after the collapse of U.S. investment bank Lehman Brothers. In my entire time at SAP, I have never seen so many contracts about to be signed that were then not brought to a close.

Growth of software and software-related service revenues was thus cut in half from the first half of 2008 to the second. Software revenues remained even stable in the second half compared to the same period a year before.

Nevertheless, after a reasonable fourth quarter, we again ended the full year with double-digit growth.

[SLIDE: Results – Fiscal Year 2008]

In 2008, non-GAAP SSRS revenue rose 16% year on year, or even 20% at constant currencies.

“Non-GAAP” means that, for better comparability, this figure excludes a nonrecurring deferred support revenue writedown from the acquisition of Business Objects and acquisition-related charges.

b. Cost-Saving Measures, Margin

We did not simply sit and watch as our revenues succumbed to the pressures of the economic crisis. Instead, we proved that we are in control of our spending and can quickly adapt to a new situation.

Despite the difficult conditions, we therefore succeeded in improving our non-GAAP operating margin by 0.9 percentage points in the end, or 1.1 percentage points at constant currencies, thereby slightly exceeding our forecast.

At the time, we were heavily criticized for imposing cost savings too quickly and too severely. We now know that we did the right thing. If you wait too long, you pay the price later. There are plenty of examples of this at the moment.

Due to the uncertainty of the economy, we prepared ourselves for the worst – without shutting off possible opportunities that we can seize if there is a sudden upturn.

c. Market Share

In the fourth quarter, our market share declined slightly by 0.6 percentage points, but that is no reason to worry. Over the full year, market share increased significantly, gaining 4.4 percentage points. We achieved 0.9 percentage points with organic growth and around 3.5 percentage points due to the extremely successful acquisition of Business Objects. As a result, our market share is about double that of our nearest competitor.

The Business Objects acquisition was the third largest in the history of the software industry. Since SAP had not had any experience of acquisitions on this scale before,

our announcement was greeted with great skepticism – after all, the statistics show that more than half of all acquisitions are not successful.

Today, everyone agrees that this friendly takeover is a total success story. The integration went very smoothly, we made the most of the possible synergies, and the Business Objects portfolio has turned into a real revenue driver for SAP in the first year.

What is especially important though is that we have broadened our strategic options: People now trust SAP to grow not only by innovating but also by making acquisitions of this size.

d. Shares

[SLIDE: Shares]

Ladies and gentlemen,

Share prices were dissatisfactory almost across the board in 2008. A 29% fall, as happened to our share price last year, would normally be a disaster. However, our share fared considerably better than all of the main reference indexes in 2008.

In the past 12 months, the SAP share has fallen approximately 9% to around €30. Looking at our competitors, Oracle experienced a decline of 15% over the same period, while the Microsoft share lost more than 30% in value.

There is continued confidence in SAP because, with a price/earnings ratio of about 15 for the current year, our share is still above those of our main competitors.

In 2008, SAP bought back 14.6 million shares and cancelled 21 million treasury shares. Today, we again propose a dividend of €0.50 to the Annual General Meeting of Shareholders. The total amount distributed in dividends will therefore be approximately €594 million with a payout ratio of 32%.

Since 2005, we have returned to you, our shareholders, some €5 billion in dividends and through buy-backs, with more than €1 billion of that in 2008 alone.

e. Employees

Ladies and gentlemen,

First and foremost, it is thanks to our employees that SAP did well despite the huge economic crisis. Faced with a difficult market environment and incisive cost-saving

measures, they have been unwavering in ensuring that our customers get the best products and services day after day. We can thank them for our success because, without them, we would not have overcome the challenges of last year so well. On behalf of the entire Executive Board, I would like to sincerely thank all of our employees for their efforts.

That is why one of the hardest decisions in my career was the one to reduce our company's headcount in light of the economic crisis. However, in this extraordinary situation, it was the only responsible course that we could take to get through this crisis successfully.

From the start, it was clear that we would carry out the headcount reductions as fairly and justly as we could in all regions and areas of the company. As far as possible, we enabled people to leave voluntarily.

It was also clear that it was of utmost importance to secure SAP's effectiveness and innovativeness.

After all, our decisions – and therefore the necessary cost-saving measures – always focus on all of the stakeholders who are crucial to SAP's long-term success:

- Our customers because we want to be a reliable provider of products and services
- Our shareholders whom we want to reward with long-term reliable returns
- And of course our employees whom we want to offer good and, as far as possible, secure jobs

#### **4. Trust Pays Dividends: A Review 1998-2008**

##### a. Trust as Capital in the Crisis

The current crisis has sadly destroyed a great deal of trust in the economy. This general crisis of trust will weigh on us far longer than the immediate crisis we are currently experiencing. Trust will be far more difficult to rebuild.

Trust is the most important capital you can have in a crisis. SAP has already proven that it can build and nurture trusting relationships over decades. Our decisive actions, taken with appropriate judgment, illustrated that we deserve the trust placed in us by thousands of people – even in difficult times.

We showed that we can overcome crises and create new profitable growth. We showed that we can reinvent ourselves each time the need arises, and difficult times are a good opportunity to do just that. This was true during the shift from SAP R/2 to SAP R/3, as it was for the transition from SAP R/3 to the next era of enterprise software. That second transition was made all the more difficult because it followed the extraordinary success of SAP R/3.

[SLIDE: SAP's Growth 1998-2008]

b. Review of the Past Decade: Quantitative

Ladies and gentlemen,

It is a good idea to step back and take a long-term perspective, especially in hectic times.

Here you can see some key figures about SAP's development in the past 10 years. Remarkably dynamic growth is the dominant trend in these figures, even though this period included the worst crisis our industry had experienced at that time – the end of the dot-com bubble. On average, product revenue increased by more than 12% per year. The operating margin rose by 7.3 percentage points. Our growth dynamics did not weaken in 2008, and our product revenues are now more than three times higher than 10 years ago.

At the end of 2008, we had 82,000 customers, an eightfold increase. Our number of employees increased from slightly below 20,000 to some 50,000.

I think the numbers speak for themselves: In the past 10 years, SAP has become a global player.

It is during this time, that we became a global company: We have subsidiaries in the key locations throughout the world, a global network of development and support centers, and regional shared services centers. Our management structure for all function areas is global and holistic.

c. Review of the Past Decade: Qualitative

How was SAP able to develop so successfully over the past decade? We ensured that we always kept the two characteristics of a healthy business in view: market share and profitability. When in doubt, I always gave priority to market share in the good years and to profitability in the difficult years.

After the dot-com crisis, we enjoyed a series of very good years which we used successfully to generate new growth through our innovations.

In 2003, we announced a five-year plan to introduce service-oriented architecture (SOA). This goal was partially achieved in 2007 with the release of SAP ERP 6, and the plan has been fully completed earlier this year with SAP Business Suite 7.

Also in 2005, we announced a five-year plan to generate 50% of order entry through new products by 2010 and to have more than 100,000 customers. We set these objectives to prove our ability to innovate continuously. At the end of 2008, we had reached the 40% mark and now have more than 86,000 customers already. I am therefore confident that SAP will achieve these targets as well.

Moreover, we wanted to double our addressable market to approximately \$75 billion. We therefore identified three fields of growth:

- First: The development of a business platform. We did this with SAP Business Suite 7, and in addition established SAP NetWeaver as technology platform on the market with 51,300 live customer systems at the end of 2008.
- Second: Expansion in the midmarket. Since 2005, we are the market leader in this area as well. The outstanding success of SAP Business All-in-One is primarily to thank for our current position. At the same time, we developed an entirely new product – SAP Business ByDesign – to address another segment in the midmarket. We have productive systems running at customers in four countries. But we are not quite as far along as we had hoped to be with SAP Business ByDesign, because we need to establish a new business model for this new volume business. Nevertheless, I am confident that we were correct to launch this ambitious undertaking and that the new Executive Board will successfully establish SAP Business ByDesign on the market.
- And third, we successfully conquered the market for the business user. The friendly takeover of Business Objects enabled us to become market leaders in this area as well. Thanks to the complementary addition to our portfolio, we are seeing even better results than originally planned.

We have continually demonstrated that the innovative power of SAP is undaunted, and that we are able to grow successfully, both organically and through acquisitions.

## **5. Two Customer References**

Ladies and gentlemen,

I would now like to introduce you to two SAP customers that are successful with SAP: One is a large enterprise and the other is a fast-growing midmarket company. These are only two examples taken from our 86,000 customers. (You will find profiles of more customers in our annual report.) They illustrate that the best way for SAP to master the current crisis is to continue helping others. Customer focus remains paramount at SAP.

[VIDEO Two Customer References: Diageo and Hästens]

People sometimes ask me what I do when I wake up at night and can't get back to sleep. I usually answer that I solve mathematical problems – that can actually be very relaxing for a physicist. But the thing that helps me sleep best at night is knowing that our customers can sleep well – like the CEO of Hästens.

## **6. Significance and Standing of SAP Today**

Maybe we should take a moment to ask: What would the economy be like without SAP? What would happen if SAP suddenly disappeared?

[SLIDE: SAP Today – Our Contribution to Society]

Tens of thousands of customers around the world – successful businesses like Diageo and Hästens – depend on our solutions for their success, for creating new jobs, and for improving people's lives.

We also safeguard jobs and people's standard of living: here at the headquarters in Walldorf, throughout the local region, and at our locations around the world. That's true not only for our own company, but also for our partners, whose success is directly related to ours.

It is important to me to make that point in light of current discussions about global economics. Business is not an end in itself. Rather, companies are there to contribute to society. The American CEO David Packard, one of the two founders of Hewlett-Packard made that point as early as 1960. We must not lose sight of this service to society.

The significance of business to society, progress, the standard of living, and employment is an obligation that we must live up to again and again.

Since SAP was founded in 1972, the company has contributed greatly to society, gaining global recognition with each step.

We can all be very proud of this company. We are one of the world's most highly regarded companies. That is a resource that we can capitalize on.

- SAP has a very strong brand value. The annual ranking of the 100 most valuable brands by Business Week and Interbrand now lists us at position 31. Since our first ranking in 2000, SAP's brand value has nearly doubled and now equals \$12.2 billion.
- We are respected among investors. Based on its market capitalization, SAP today is among the 100 biggest global companies. And the trust in SAP is reflected in the price/earnings ratio mentioned earlier.
- We are appreciated by our customers. I already mentioned our high degree of customer satisfaction. While there were some critical voices in response to SAP Enterprise Support, the global trend is distinctly positive and dominated by welcoming reactions to our new service offering. Léo will offer more detail shortly and will share with you some opinions from customers who are successfully using SAP Enterprise Support.
- We are highly regarded by our employees and talents around the world. In Germany in particular, SAP has been named "Germany's Best Employer" in the category of large enterprises for three years in a row, and this year achieved second. It is naturally difficult to retain your title of "best employer" when you are forced to reduce the number of positions. But we will reclaim our title because we offer our employees very good working conditions and opportunities for development. This is supported by additional special rewards we received this year from the Great Place to Work Institute for diversity and fostering elder employees.

Finally, we are respected throughout society as a sustainable company that is dedicated to its social commitments. As you will see in Léo's presentation, sustainability will play an even greater role at SAP than it has thus far.

## **7. Conclusion and Handover: Continuity in a Time of Change**

Ladies and gentlemen,

It's not easy for me to say goodbye at this time, during this crisis. However, I believe that our joint work over the past years has strengthened SAP so that it will come out of this crisis stronger than ever.

Companies need change. We must bring younger, international people to the Executive Board. By doing so, we are setting the right course for the future.

At the same time, however, we need continuity: Continuity in our leadership, in our values, in our goals. I'm therefore very pleased that we were able to organize the change of leadership so smoothly in the best SAP tradition. I am also pleased to see so many long-serving colleagues now on the Executive Board.

I want to thank them all for their contributions and dedication.

I want to thank two colleagues who were part of the "second generation" of SAP and are leaving us at much the same time, first Peter Zencke and now Claus Heinrich.

I want to thank the employees, our customers, and our partners.

And I particularly want to thank you, the shareholders, the Supervisory Board, and especially Hasso for his trust over the years.

I hope that SAP provides you all with much happiness. And to Léo and the entire Executive Board, I wish the best of success.