

Business at SAP

Mission and Strategy

Trends and Orientation

Our mission and guiding principle is unchanged: to define and establish undisputed leadership in the emerging market for business process platforms, accelerate business innovation powered by IT for companies and industries worldwide, and thus contribute to global economic development on a grand scale.

The far-reaching and rapid changes in today's business environment pose a challenge and present opportunities. We are currently witnessing the continuing breakup of the classic value chain, with its fixed relationships between buyers and suppliers. In its place, we are seeing business network transformation, the development of dynamic networks of businesses that each offer different competencies. The companies that grasp this opportunity and adapt can gain a vital advantage on the global market. Increasingly, the strategic deployment of IT is becoming a critical success factor, not just for large corporations, but also for smaller businesses and midsize companies.

We offer software and services our customers can use to meet today's challenges head on and gain the most from the new opportunities:

- Accelerated innovation: In the next few years, we expect IT will play an increasingly key part in the development of new business models. SAP has the applications we believe companies will need.
- Rapid strategic implementation: SAP's solutions are imbued with our decades of experience of the business processes and requirements in specific industries. Our expertise helps our customers optimize their procedures for maximum efficiency. Building a business process platform based on enterprise service-oriented architecture (enterprise SOA), SAP solutions offer a much more rapid way to implement new strategies than was possible with any earlier approach.

- Return on human capital investment: SAP applications help our customers deploy their most important capital assets more profitably. Examples include efficient personnel development, teams working across multiple locations on complex projects, and support for globally dispersed staff.
- Responsible management on a global footing: SAP applications support legal compliance and responsible, value-driven governance, risk assessment, and control.

By building our traditional core business, we continue to deliver all of this value to our larger enterprise customers. At the same time, we are establishing new business with fast-growing smaller companies in the midmarket.

Expanding Our Traditional Core Business

Our traditional core customer base includes many large global enterprises as well as midsize companies with between 500 and 2,500 employees. Such companies use the SAP Business Suite applications or SAP Business All-in-One solutions to automate their business transactions, enabling better management and governance.

By continuing to develop SAP Business Suite applications for specific business requirements, we are helping our customers create more value. We are also delivering more data analysis and decision support solutions and are linking the structured information in SAP systems with unstructured information, helping our customers boost the productivity of their employees – and increasing the return our customers gain from their investment in SAP software.

All of the SAP Business Suite applications and SAP Business All-in-One solutions are built on an enterprise SOA, which encourages agility with standardized enterprise services that are deployable immediately. It also provides stability, reliability, and scalability for enterprise software. Thus, it unlocks opportunities to innovate and adapt business processes rapidly as well as to reduce the total cost of ownership (TCO). By adding powerful enterprise services to the SAP NetWeaver technology platform, we are helping our customers evolve a true enterprise SOA from their existing IT landscapes. Our offering is an integrated

combination of technology infrastructure and ready-to-run process components that are based on our wealth of specific expertise and experience in very many industries.

Our partners, customers, and developers are collaboratively expanding and adding depth to our solution portfolios. Progressively, an ecosystem is growing, in which, we believe, customers, partners, and developers all thrive on the benefits of enterprise SOA.

Developing New Business with Smaller Midmarket Companies

We already provide SAP Business All-in-One solutions to customers with 500 to 2,500 employees. SAP Business All-in-One solutions are built specifically for midsize companies that need a full range of industry-specific functions, functional depth, and the extensibility to meet their precise requirements. However, companies with 100 to 500 employees have distinctly different software needs. To them, getting their new IT solution running quickly, at minimum risk and predictable cost, is often more important than specific functional depth. Many such companies do not believe that their needs can be met by traditional software offerings or by the available on-demand solutions.

To serve this segment, in 2007 we added the SAP Business ByDesign solution to our range of products. It is designed around four key principles: completeness, ease of use, adaptability, and a significant reduction in TCO. Customers use SAP Business ByDesign on the Internet, so they spend little time and money implementing it, and their IT risk is reduced. SAP Business ByDesign has built-in service and support, and customers can test it free of charge before they commit. It also enables customers to reduce their IT investment budgets.

The SAP Business One application is designed for businesses with fewer than 100 employees. It is a single solution that can automate critical business operations such as purchasing, sales, distribution, and finance.

Strategy for Growth

We plan to realize our potential for growth in the following ways:

- Organic growth: Our primary growth strategy is to continue to develop our own product portfolio.
- Co-innovation: We are expanding our partner ecosystem. This accelerates innovation by supporting the development of solutions built on the SAP NetWeaver technology platform, and leverages more sales channels to address the various market and customer segments.
- Smart acquisitions: With targeted strategic "fill-in" acquisitions that add to our broad solution offering for individual industries or across industries, we gain specific technologies and capabilities that meet the needs of our customers. To accelerate our growth in the field of business intelligence, we acquired Business Objects at the beginning of 2008. This gives us a platform to tap the market for business performance management solutions with more innovations.

Significant Results and Events

Revenue Targets Exceeded; Profitability Target Hit

In a field that remained fiercely competitive in 2007, we again achieved substantial increases in revenue and hit our profitability target, measured in terms of operating margin. Each region contributed, with above-average growth in Brazil, Russia, India, and China (known as the BRIC countries).

- We exceeded the guidance for software and software-related service revenue that we announced at the beginning of the year. Based on customer location, our constant-currency growth percentage was in double digits in every region – and strong enough to again improve our competitive position. In 2007, software and software-related service revenue grew 13% to €7,427 million (2006: €6,596 million; 2005: €5,955 million). On a constant currency basis, software and software-related service revenue grew 17%. This was well in excess of the 12% to 14% range, on a constant currency basis, that we had foreseen in our published guidance. Software revenue increased 13% to €3,407 million (2006: €3,003 million; 2005: €2,743 million). That corresponds to an 18% increase on a constant currency basis. It was our best constant-currency based software revenue growth since 2000.

Our large enterprise customers' demand for better developed strategic relationships with us, expressed in the form of global enterprise agreements (GEAs) providing subscription services, noticeably boosted our software and software-related service revenue. By the end of the year, we had concluded 11 such agreements. U.S. GAAP requires us to recognize the revenue from such agreements in stages over several years. Year over year, our total revenue grew 9% to €10,242 million (2006: €9,393 million; 2005: €8,509 million). On a constant currency basis, our total revenue grew 13%.

- Our operating margin was 26.7% (2006: 27.4%; 2005: 27.5%). This was in accordance with the profitability guidance we published at the beginning of the year, in which we said we expected the operating margin to be between 26.0% and 27.0%.
- Based on customer location, in all three sales regions our software and software-related service revenue growth was in double digits on a constant currency basis. On a constant currency basis, our software and software-related service revenue grew 17% in the Americas region, 24% in the Asia Pacific Japan region, and 14% in the EMEA region. We recorded remarkable software and software-related service revenue growth, on a constant currency basis, in Russia and France.
- In terms of total sales, we again gained segment share – an additional four percentage points – in the core enterprise application vendor segment. Globally, our share (measuring software and software-related service revenue) among the core enterprise application vendors reached 28.4% by the end of 2007. That means we were fully 12 percentage points ahead of our closest rival. Based on information from industry analysts, we estimate the total sales of all core enterprise applications to be US\$36.7 billion a year.

- In keeping with our announcements, we launched our new SAP Business ByDesign solution for midsize companies and released many enhanced products in the course of the year, including new versions of the SAP Customer Relationship Management (SAP CRM) application and of a governance, risk, and compliance (GRC) application, SAP GRC Risk Management. Demand for the SAP ERP 6.0 application is especially high, and by the end of the year more than 5,100 customers were already using it in live operation. Our customers are also buying in to our SAP NetWeaver technology platform: At the end of the year, there were already more than 29,000 systems in live use.
- Our volume business model for the midmarket segments again proved successful, and in 2007 we consolidated our leading position. The number of channel partners and their customers grew rapidly: The number of midsize companies using SAP Business All-in-One solutions grew 19% to 11,350, and the number of channel partners selling them increased 17% to 1,100. Our SAP Business One small business application channel partners grew 4% in number to 1,350. By the end of the year, channel partners offering SAP Business One were serving 17,780 customers – a 39% year-over-year increase. By the end of the year, we already had 150 customer engagements – and more than 50 partners – for SAP Business ByDesign, which we had launched in September.

Product and Service Portfolio

In 2007, we again brought various new and enhanced solutions to market in all four core areas of our product portfolio – enterprise applications and industry solutions, platform, software for small businesses and midsize companies, and offerings for business users. For more information about our new and enhanced applications and solutions, see the [Development News](#) section.

Partner Ecosystem Grows

In 2007, we continued to forge development alliances and projects that we believe will help shape our future. Examples include:

- With U.S. company Cisco Systems, Inc., we are jointly developing a new breed of business solutions that can transform how applications and networks interact. The new solutions are designed to encourage agility in business networks of customers, partners, suppliers, and employees across geographically dispersed, heterogeneous business and IT landscapes.

- With UK banking software specialist Misys, we announced an agreement to deliver integrated solutions for international trade finance. The solution, which is based on Misys BankFusion, will run with key SAP components on the SAP NetWeaver technology platform. This will enable banks to choose a broad set of solutions from one source, helping them reduce IT infrastructure complexity.
- We also announced a collaborative project with Belgian software makers Callataj & Wouters to provide a solution for the banking industry. Together, we are offering a core banking solution for midsize banks to build a business process platform combining the Thaler banking product from Callataj & Wouters with SAP software and technology.
- We announced plans to collaborate on enterprise SOA for banking with SunGard Data Systems Inc., a leading IT and software vendor for financial services providers and public sector organizations. The first offering will be a joint asset liability management solution for the financial services provider segment. The new collaboration supports business process platforms for banks, uniting the strengths of SAP applications with those of SunGard's BancWare.
- SAP and TechniData AG together developed integrated software to help chemicals companies address the complex tasks required by the newly enacted European Registration, Evaluation, and Authorization of Chemicals (REACH) legislation. This SAP REACH Compliance application is delivered as an extension to the existing SAP Environment, Health & Safety (SAP EH&S) application and adds to our portfolio of GRC solutions. We are also creating an executive advisory council to increase GRC collaboration with partners and customers.
- We extended our reseller agreement with Vistex, Inc., a U.S. software vendor. We agreed to resell Vistex payback and chargeback management solutions worldwide. Vistex solutions help distributors and manufacturers in several industries – such as consumer products, food services, life sciences, and retail – automate and streamline their pricing and rebate processes.
- We entered into an alliance with Computer Sciences Corporation (CSC) with the aim of bringing together CSC's core banking system with SAP's technology and applications. Together, we are focusing on providing banks with the flexibility they need, with greater productivity, streamlined business process integration, and consolidated platforms.
- We announced midyear that we would resell and market Visiprise manufacturing process management software under the name SAP Manufacturing Execution by Visiprise. It supports complex manufacturing processes with functions for route enforcement, traceability, and shop floor quality management.
- We entered into a global reseller agreement with Canadian company Nakisa, Inc. Together, the two companies integrated Nakisa's organizational and talent management visualization capabilities to enhance and extend the SAP ERP Human Capital Management (SAP ERP HCM) solution. The Nakisa capabilities help organizations view, update, and analyze their talent inventory and the availability of potential successors in key positions.

Acquisitions Enrich Product Portfolio

In 2007, we continued our announced policy of organic growth complemented by acquisitions aimed at enriching our product portfolio in terms of both technology and functions. We acquired five companies by buying their equity and we acquired the material assets of two other companies.

- In February, we acquired Pilot Software, a privately owned California company that makes strategy management software. Worldwide, 150 customers were using the software at the time of acquisition, for example in the retail and financial services industries and in the public sector. The Pilot Software acquisition broadens our analytic applications offering. Pilot Software solutions address executive requirements for tools to fully measure, evaluate, and manage corporate performance.

- In May, we acquired Wicom Communications Ltd., a leading, privately held provider of all-Internet Protocol contact center and enterprise communications software. The acquisition will enable SAP to offer companies the ability to better integrate communications technologies and business systems so they can provide more effective customer-facing services on all channels. The Wicom solution helps our customers streamline the integration of disparate hardware and software components while allowing for central management and reporting of dispersed resources and processes. Customer service, marketing, finance, and sales and distribution departments can be better linked – and all customer-facing personnel, wherever they are located, see the same data and information. It supports standard Web service-based integration with SAP CRM.
- Also in May, we acquired MaXware, a privately held provider of identity management software in Norway. At the time of acquisition, MaXware had around 300 customers worldwide in a diverse range of industries, such as technology, manufacturing, defense, energy, healthcare, financial services, and the public sector. The MaXware solutions complement the identity management functions on the SAP NetWeaver technology platform. It gives companies with heterogeneous IT landscapes an integrated platform for working across systems and across business processes to manage identities and ensure security in real time. By combining MaXware's proven and easy-to-configure identity management solution with SAP's business applications and the SAP NetWeaver technology platform, we can offer identity management software that increases agility of business units when managing employee identities – including managing identities across company boundaries with customers, channel partners, or suppliers. We also offer a strong solution in the related field of GRC access control.
- In June, we acquired OutlookSoft Corporation, a privately held U.S. software vendor. This was a specialist company making financial and strategy performance measurement solutions, and the acquisition extends our portfolio of solutions to help chief financial officers (CFOs) manage corporate performance, risk, and financial value chains. The OutlookSoft solution offers end-to-end guidance through financial business processes, integrated predictive analytics, and a rich library of ready-to-use corporate performance management methods and procedures. The applications leverage Web 2.0 technologies for ease of use. A broad palette of functions simplifies collaboration across the enterprise.
- In October, we acquired selected material assets of one of our exclusive partners of long standing, SAP Arabia LLC – notably all of that company's customer license and maintenance contracts, its rights under distributorship agreements, and its trademarks. We have already opened office locations in Dubai and Saudi Arabia as part of our global expansion.
- We acquired the assets of Yasu Technologies, a privately owned company headquartered in India and a leader in business rules management systems, in October. We intend to embed Yasu Technologies solutions in our SAP NetWeaver technology platform as part of SAP NetWeaver Composition Environment. This provides the business rules infrastructure to help companies move their strategies forward. Partners would be able to integrate the solution directly into their offerings.
- In October, we announced that we had agreed to make an offer for all of the stock of Business Objects for a purchase price of €42.00 per common share. For the Business Objects American depositary receipts (ADRs), we offered the U.S. dollar equivalent based on the euro to dollar exchange rate at the time of settlement. The overall cost of the deal including expenses is expected to be a little more than €4.8 billion. Together, SAP and Business Objects intend to offer high-value business and process solutions for business users. We completed the takeover of Business Objects in early 2008. For more information about our acquisition of Business Objects, see the *Business in the New Year: Early News* section.
- In November, we acquired Silk Europe, a privately held software company based in Belgium. Silk is an OutlookSoft reseller in the Netherlands and Belgium.

Financial Strength Allows Corporate Action Again

In 2007, our strong financial position again gave us room for corporate action in the interests of shareholders.

- By resolution of the SAP AG Annual General Meeting of Shareholders on May 10, 2007, the Executive Board was empowered to repurchase Company shares for treasury and to cancel the treasury stock without a further resolution of the Annual General Meeting of Shareholders. Pursuant to a resolution of the Executive Board, in September 2007 we canceled 23 million treasury shares, which represented approximately 1.8% of the common stock at that time, to reduce the common stock of SAP AG from €1,269,040,112 to €1,246,040,112 (represented by 1,246,040,112 no-par shares, each with an attributable value of €1).
- In the course of 2007, we bought back about 27.3 million shares at an average price of €36.85 per share, and on December 31, 2007, we held more than 48.1 million SAP AG shares in treasury.

Organization

There were various material changes to our organization in 2007:

- On January 31, 2007, we presented the management team of our new global line of business that focuses on the small and midsize enterprise (SME) market. We have brought together our SME market resources under the leadership of Hans-Peter Klaey so that we can more effectively address the requirements of small businesses and midsize companies and develop customer and partner business in that arena.
- In February, the Supervisory Board extended the contract of Henning Kagermann as a member of our Executive Board to May 31, 2009.
- Shai Agassi, a member of our Executive Board, left SAP on April 1, 2007, by mutual agreement to commit himself to environmental policy, alternative energy sources, and other issues.
- In March, Léo Apotheker, president of Customer Solutions & Operations and member of the Executive Board, assumed the new role of deputy CEO of SAP AG.

- In November, the SAP Global Internal Audit Service (GIAS) became the first internal audit department in Germany to receive certification from the Institute of Internal Auditors (IIA). The IIA inspected the methods and processes GIAS uses for conformity to the International Standards for the Professional Practice of Internal Auditing. The assessment shows that the GIAS charter, policies, and processes conform to the IIA standards and code of ethics on an overall basis. Such external certification provides evidence of our internal audit service's high level of integrity.

Worldwide Organizational Growth

We continued to optimize our regional presence in 2007, focusing principally on adapting our field and research and development (R&D) organizations to better meet the needs of the day.

- We merged our two field organizations in the EMEA region, EMEA Central and EMEA North, East, West, South, to form a single organization with the aim of intensifying our sales efforts to large and midsize enterprises. The move consolidated all field responsibility for the entire region in the hands of Erwin Gunst, who is a corporate officer and member of our executive council, and it focused our EMEA field organization even more strongly on opportunities for growth arising out of burgeoning cross-border business processes. Bill McDermott, also a corporate officer and member of the executive council, assumed responsibility for the Asia-Pacific-Japan sales region. He was already responsible for the Americas region.
- We founded the SAP Co-Innovation Lab at the SAP Labs facility in Palo Alto, California. It will be our base for cooperatively developing new technologies with customers, independent software vendors, system integrators, and other partners. They will be able to work together on industry applications and innovative technologies, and to showcase how customers can increase competitive advantage and improve efficiencies by transforming their business networks with enterprise SOA. Founding sponsors of the SAP Co-Innovation Lab include Cisco Systems, Inc., Hewlett-Packard Company, Intel Corporation, and Network Appliance, Inc.

- We are also expanding our development resources in India. We identified India as a strategic focal point for growth in 2006 and earmarked extra resources to fully develop our potential in the Indian market. SAP Labs India is already our biggest research and development center outside of Germany. Our target is to invest around US\$1 billion in India by 2010.

Significant New Customer Contracts; Customer Base Passes 46,100

We grew our customer base by more than 8,100 in 2007, to beyond 46,100. The year was characterized by a variety of product innovations and the rapid expansion of our offering for small businesses and midsize companies. Currently, we define more than 65% of our customers as small businesses and midsize companies.

In 2007, we sealed contracts with many large corporations and midsize organizations. For example:

- The State Administration of Taxation of the People's Republic of China bought a tax management solution from SAP to simplify and consolidate tax administration processes. The initial deployment was at Xicheng District National Tax Bureau in Beijing, covering more than one-fifth of the country's top enterprises. The solution uses the SAP NetWeaver Business Intelligence component to integrate information from various IT systems.
- To help optimize the management of the benefits it provides, AOK, Germany's largest health insurer, announced plans to enhance oscare, its industry solution based on SAP software. AOK wants its policyholders to benefit from shorter processing times for medical, nursing, and care benefits.

- Multinational consumer goods conglomerate Unilever strengthened its long-time relationship with SAP. Unilever is deploying SAP ERP and the SAP NetWeaver technology platform as the cornerstones of a company-wide organizational optimization initiative, including transitioning to enterprise SOA. It was the first consumer goods company to sign a global enterprise agreement with SAP. The GEA is a strategic, subscription-based master agreement characterized by close long-term cooperation between the parties. It provides worldwide software licenses and maintenance, and strengthens SAP's position as Unilever's strategic partner during its entire structural adjustment.
- Global retailer Wal-Mart Stores, Inc. decided to enhance its financial information systems using the SAP ERP Financials solution. Wal-Mart chose the SAP application for its ability to support global expansion and efficiently respond to changes in the business and regulatory landscape.
- ESPRIT, an international lifestyle brand, chose SAP ERP for its global retail and wholesale operations. The SAP software will help ESPRIT integrate its global supplier network, optimize retail and value processes, and support its international growth.
- The Edeka group, a leading food retailer in Germany, announced it would consolidate its IT activities with SAP software. We will be Edeka's technology partner under an arrangement with a planning horizon to 2012. Edeka will be using functions from the SAP for Retail solution portfolio, SAP ERP, and the SAP NetWeaver technology platform.
- Vodafone Group Plc, a leading cell phone operator, extended the scope of its 2005 master agreement with SAP to cover the deployment of business applications and services based on SAP ERP and the SAP NetWeaver technology platform to Vodafone companies worldwide.
- Hitachi, Ltd., a leading global electronics company, strengthened its long-time relationship with SAP by choosing the SAP ERP application, built on the SAP NetWeaver technology platform. Hitachi signed a GEA with SAP, providing broad access to SAP solutions.

- Dow Corning Corporation, a leading innovator of silicon-based solutions, adopted SAP CRM and the SAP NetWeaver technology platform as the foundation to unify its customer-facing business processes on a single, integrated SAP application platform.
- In August 2007, we welcomed the 10,000th customer to choose SAP Business All-in-One solutions for midsize companies: U&M Mineração e Construção, a Brazilian engineering, heavy construction, and mining company. U&M, which specializes in earth moving and surface and underground mine contracting, runs a solution from Procwork, an SAP partner in Brazil, to integrate its operations and support local and international growth.
- Saudi Arabian Airlines chose SAP solutions as a platform for its far-reaching business model transformation. The airline is integrating its processes for aviation operations, revenue accounting, reservations and ticketing, fuel management, and technical documentation.

Finance Plan for SAP Solutions

Implementing business software solutions can represent a major investment. A strategic partner of ours, Siemens Financial Services GmbH (SFS), offers a financing service that helps companies invest in SAP solutions. Interest in the service is high: It is offered to customers in 45 countries, and in 2007 we received twice as many inquiries about financing as in the previous year. In 2007, this offer of finance was extended to include large corporations. However, SFS targets the financing service chiefly at the midmarket, and 70% of the customers that signed up were in that segment. In the past, the plan chiefly provided loan finance, but now SFS is adding greater flexibility by offering to lease to customers.

Income

New Income Statement Structure

With effect from the first quarter of 2007, we have restructured our income statement to show potential new revenue streams more transparently. We have renamed what was previously called maintenance revenue: This is now shown as support revenue. We have also renamed what was previously called software and maintenance revenue: This is now shown as software and software-related service revenue. We show revenue from subscriptions and other software-related services as an additional item that is an element of software and software-related service revenue. This new item includes revenue from subscriptions, software rentals, on-demand offerings, and from other software-related services. Subscription revenue flows from contracts that have both a software element and a maintenance element. Such a contract typically gives our customer the use of current software and unspecified future products. We take a fixed monthly fee for a definite term – as a rule, five years. Software rental revenue flows from software rental contracts, also with software and maintenance elements – but here the customer is entitled to the use of current products only. Revenue from our on-demand offerings includes, for example, the SAP CRM on-demand solution revenue, any future on-demand revenue from our new midmarket SAP Business ByDesign solution (to the extent we offer it to customers on an on-demand basis), and revenue from other hosting contracts that do not entitle the customer to readily exit the arrangement. Other software-related services revenue includes, among other things, revenue from software-related revenue-sharing arrangements, for example, our share of revenue from collaboratively developed products. Thus, software and software-related service revenue is the sum of our software revenue, service revenue, and revenue from subscription and other software-related services.