

REVIEW OF SAP GROUP OPERATIONS^{1), 2)}

General Information

The SAP Group of Companies

Founded in 1972, SAP is today one of the leading international providers of business software and, based on market capitalization, it is the world's third-largest independent software manufacturer. We have more than 46,100 customers in over 120 countries and employ more than 43,800 people at sales and development locations in more than 50 countries in the Europe, Middle East, and Africa (EMEA), Americas, and Asia Pacific Japan regions. SAP is headquartered in Walldorf, Germany.

Selling software licences for SAP solutions created by more than 12,000 developers all over the world is the core of our business. With these solutions, companies can design efficient, flexible business processes and make sustainable improvements to value creation. In 2007, our solution portfolio featured the SAP NetWeaver technology platform as well as the following key software applications:

- SAP Business Suite applications, which help large companies and international corporations improve business operations ranging from supplier relationships to production to warehouse management, sales, and all administrative functions, through to customer relationships
- Industry solutions for large companies and international corporations in more than 25 specific industries, for example discrete manufacturing, process industries, financial services, consumer products, retail, and the public, services, and utilities sectors
- SAP Business All-in-One solutions, our new SAP Business ByDesign solution, and the SAP Business One application, which address the needs of small businesses and midsize companies
- Solutions for business users, who need software to help them rapidly make strategic decisions – and relieve them of administrative tasks

In addition, we offer consulting, maintenance, and training services tailored for our software solutions. We develop and market our products in close cooperation with business partners.

Our financial reporting divides our activities into three segments: product, consulting, and training. For more information about the segments, see Note 28 in the Notes to Consolidated Financial Statements section.

Forward-Looking Statements

This report contains forward-looking statements that are based on our beliefs and assumptions made using information currently available to us. Any statements contained in this report that are not historical facts are forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and related projections we make about future conditions and events, including but not limited to economic conditions in general and trends in our business; our ability to attract and retain personnel; competition in the software industry; our implementation of business strategy; the development and introduction of new services and products; freedom to use intellectual property; regulatory and political conditions; our adaptation to technological developments; the acceptance by the market of our services and products; terrorist attacks or other acts of violence or war; our integration of newly acquired businesses; our meeting customers' requirements; and other risks and uncertainties, some of which we describe in the Risk Factors and Risk Management section. The words "anticipate," "believe," "continue," "counting on," "is confident," "estimate," "expect," "forecast," "guidance," "intend," "may," "outlook," "plan," "project," "predict," "seek to," "should," "strategy," "want," "will," "would," and similar expressions as they relate to us are intended to identify such forward-looking statements. Such statements reflect our current views and assumptions and all forward-looking statements are subject to various risks and uncertainties that could cause actual results to differ materially from those statements. The factors that could affect our future financial results are discussed more fully in our filings with the U.S. Securities and Exchange Commission (SEC), including among others our Annual Report on Form 20-F for fiscal year 2006 and our Annual Report on Form 20-F for fiscal year 2007, which will be filed with the SEC before June 30, 2008. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report. We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events, or otherwise.

¹⁾ Pictures and graphs are included for illustrative purposes only and are not part of the audited Review of SAP Group Operations.

²⁾ In this Review of SAP Group Operations, earnings per share reflects the issuance in 2006, under a capital increase from corporate funds, of three bonus shares for every share already held. (See Note 23 in the Notes to the Consolidated Financial Statements section.) The figures for 2005 have been adjusted accordingly.

Managing for Value

We use performance measures that help manage our primary aim, the sustained growth of corporate value, and the ancillary goal of profitable revenue growth. We use different value measures for operating and non-operating income, and at the Group level we use an overarching performance measure. All of the key numbers we used to measure our performance in 2007 were based on U.S. GAAP accounting.

The key measures we use to manage our operational business are growth of software and software-related service revenue, the software revenue growth that underlies it, and the operating margin. The target values are tuned to each other for profitable growth.

- Software revenue growth is the key revenue growth driver because it tends to stimulate our other revenue streams. The chief source of software revenue is the one-time fees customers pay for software licenses. Generally, customers that buy software licenses also enter into maintenance contracts and these generate recurring software-related service revenue after the software sale. Maintenance contracts cover support services, regular software maintenance, and other unspecified software updates and enhancements. We also generate software-related service revenue when we provide software on subscription or hosting terms. Software revenue stimulates service revenue from consulting and training sales.
- Another measure we use is operating margin, which measures our overall operational process efficiency and the performance of our core business (software licenses, maintenance, and other software-related service revenue). Operating margin is the ratio of our operating income to total revenue, expressed as a percentage.
- To address more opportunities in new, untapped mid-market segments, over eight quarters starting with the first quarter of 2007 we are investing an additional €300 million to €400 million (approximately) to build a business around the SAP Business ByDesign solution. To show how much of our operating margin we are reinvesting in future growth, we report every quarter on when and how much of this investment has been made.

We also use performance measures – chiefly net financial income/expense and the effective Group tax rate – to manage non-operating items:

- Financial income provides insight especially into the return on liquid assets and capital investments. To manage financial income, we focus on cash flow, the composition of our liquid asset and capital investment portfolio, and the average rate of interest at which assets are invested. Another aspect is management of working capital by reducing the days' sales outstanding for receivables.
- The effective Group tax rate is the ratio of income taxes (in accordance with U.S. GAAP) to income from continuing operations before income taxes and minority interests, expressed as a percentage.

Earnings per share (EPS) from continuing operations is a measure of the overall performance of the Group, because it catches all operating and non-operating elements of income. It represents the portion of consolidated net income from continuing operations allocable to each SAP share outstanding (using the weighted average number of shares outstanding over the reporting period). EPS from continuing operations is influenced not only by our operating and non-operating business but also by the weighted average number of shares outstanding. We see buying back stock as another good way (in addition to distributing a dividend) of returning value to shareholders, so we repurchase SAP stock for treasury pursuant to powers granted by the shareholders at their meetings.

Our holistic view of the performance measures described above and our associated analyses together make up the information base we use for value-based management. We use planning and control processes to manage the compilation of these key measures and their availability to the decision makers.

Our long-term strategic plans are the starting point for planning and controlling processes, including creating a multiyear plan. We identify future growth and profitability drivers at a highly aggregated level. The process is intended to identify the best areas in which to target sustained investment. The next step is to distill multiyear plans for areas of development and for customer-facing and support functions, and to break them down by sales region. We allocate resources to achieve targets we derive from detailed annual plans. We also use quarterly forecasting processes, which we can adapt ad hoc, to quantify success in realizing strategic revenue and income goals and to identify any deviations from plan. We closely monitor the concerned units in the Group to analyze such developments and define any appropriate actions.

The entire network of planning, control, and reporting processes is implemented in integrated planning and information systems across all organizational units so that we can conduct the evaluations and analyses needed to make informed decisions. For example, we can precisely analyze differences in profitability between subsidiaries or investigate the impact of revenue growth on income.

Non-U.S. GAAP Financial Measures

This review of our 2007 operations discusses certain adjusted financial measures, namely cash earnings according to DVFA/SG, free cash flow, and constant currency period-over-period changes in financial measures, that are not prepared in accordance with the accounting principles generally accepted in the United States (U.S. GAAP). In addition, the outlook guidance information for 2008 discusses further adjusted financial measures. These include non-U.S. GAAP revenue, non-U.S. GAAP operating income, and non-U.S. GAAP operating margin, as well as constant currency period-over-period changes in revenue. Adjusted financial measures that are not prepared in accordance with U.S. GAAP are considered non-U.S. GAAP financial measures. Our non-U.S. GAAP financial measures may not correspond to non-U.S. GAAP financial measures that other companies report. The non-U.S. GAAP financial measures that we report should be considered as additional to, and not as substitutes for or superior to, revenue, operating income, net income, cash flows, or other measures of financial performance prepared in accordance with U.S. GAAP. This report shows how our non-U.S. GAAP financial measures reconciled to the nearest U.S. GAAP financial measures for the report year and earlier years.

Non-U.S. GAAP Revenues, Non-U.S. GAAP Operating Income, and Non-U.S. GAAP Operating Margin

We believe that it is of interest to investors to receive certain supplemental historical and prospective financial information used by our management in running our business – in addition to financial data prepared in accordance with U.S. GAAP. The outlook we provide for 2008 is based on the same non-U.S. GAAP revenue, non-U.S. GAAP operating income, and non-U.S. GAAP operating margin measures we have been using for all purposes since the beginning of 2008 for our budgets, forecasts, reports, compensation, and communications.

Non-U.S. GAAP Revenue

Revenue in this report identified as “non-U.S. GAAP revenue” has been adjusted from the corresponding U.S. GAAP numbers by including the full amount of Business Objects S.A. (Business Objects) support revenue that Business Objects would have recognized had it remained a standalone entity but that we are not permitted to recognize as revenue under U.S. GAAP as a result of fair value accounting for the Business Objects support contracts we stepped into when we acquired Business Objects.

Under U.S. GAAP, we record at fair value the obligations assumed under Business Objects support contracts in effect at the time of the acquisition of Business Objects. Consequently, our U.S. GAAP support revenues, our U.S. GAAP software and software-related service revenues, and our U.S. GAAP total revenues for periods after the Business Objects acquisition do not reflect the full amount of support revenue that Business Objects would have recorded for these support contracts if SAP had not acquired Business Objects. Adjusting revenue numbers for this one-time revenue effect provides additional insight into our ongoing performance because the support contracts are typically one-year contracts, and renewals of these contracts are expected to result in revenues that are not affected by the business combination-related fair value accounting.

We believe that our non-U.S. GAAP revenue numbers have limitations, particularly as the eliminated amounts may be material to us. We therefore do not evaluate our growth and performance without considering both non-U.S. GAAP revenue and U.S. GAAP revenue. We caution the readers of this document to follow a similar approach by considering our non-U.S. GAAP revenues only in addition to, and not as a substitute for or superior to, revenue or other measures of our financial performance prepared in accordance with U.S. GAAP.

Non-U.S. GAAP Operating Income; Non-U.S. GAAP Operating Margin

Operating income and operating margin in this document identified as non-U.S. GAAP operating income or non-U.S. GAAP operating margin have been adjusted from the respective operating income and operating margin numbers as recorded under U.S. GAAP by including in our non-U.S. GAAP revenue the full amount of Business Objects support revenues excluded under U.S. GAAP fair value accounting, and by excluding acquisition-related charges. Acquisition-related charges in this context comprise:

- Amortization expense of intangibles acquired through business combinations and standalone acquisitions of intellectual property
- Expense from purchased in-process research and development
- Restructuring expenses as far as incurred in connection with a business combination and accounted for under SFAS 146 as exit activity

Although acquisition-related charges include recurring items from past acquisitions, such as amortization of acquired intangible assets, they also include an unknown component relating to current-year acquisitions. We cannot accurately assess or plan for that unknown component until we have finalized our purchase price allocation. Furthermore, acquisition-related charges may include one-time charges that do not adequately reflect our ongoing operating performance. Eliminating acquisition-related charges makes it easier to draw comparisons with our past operating performance and with the operating margins of peer companies in our industry that have a different history to our own in respect of acquisitions.

We believe that our non-U.S. GAAP financial measures described above have limitations, particularly as the eliminated amounts may be material to us. We therefore do not evaluate our growth and performance without considering both non-U.S. GAAP operating income and margin numbers and U.S. GAAP operating income and margin numbers. We caution the readers of this document to follow a similar approach by considering our non-GAAP operating income and margin numbers only in addition to, and not as a substitute for or superior to, revenues or other measures of our financial performance prepared in accordance with U.S. GAAP.

As comparators for our 2008 outlook guidance, we show our 2007 non-U.S. GAAP revenue, non-U.S. GAAP operating income, and non-U.S. GAAP operating margin. They reconcile to the nearest U.S. GAAP equivalents as follows:

€ millions, except operating margin	U.S. GAAP Measure	Business Objects Support Revenue Not Recorded Under U.S. GAAP	Acquisition- Related Charges	Non- U.S. GAAP Measure
Software and software-related service revenue	7,427	-	-	7,427
Total revenue	10,242	-	-	10,242
Total operating expenses	- 7,510	-	61	- 7,449
Operating income	2,732	-	61	2,793
Operating margin on continuing operations	26.7%	-		27.3%

Constant Currency Period-over-Period Changes

We believe it is important for investors to have information that provides insight into our sales growth. Revenue measures determined under U.S. GAAP provide information that is useful in this regard. However, changes in sales volumes, prices, and currency exchange rates affect period-over-period changes in sales revenue. We do not sell standardized units of products and services, so we cannot

provide data expressed in such units to show changes in the volume of products and services sold. To provide information that may be useful to investors in breaking down and evaluating sales volume growth, we do present information adjusted for foreign currency effects about our revenue growth and various values and components relating to operating income. We calculate constant currency year-over-year changes in revenue and operating income by translating foreign currency items using the average exchange rates from the previous (comparator) year instead of the report year.

We believe that data on constant currency period-over-period changes has limitations, particularly as the currency effects that are eliminated constitute a significant element of our revenues and expenses and may materially affect our performance. We therefore limit our use of constant currency period-over-period changes to the analysis of volume and price changes as elements of the overall change in a financial measure. We do not evaluate our growth and performance without considering both constant currency period-over-period changes on the one hand and changes in revenues, expenses, income, or other measures of financial performance prepared in accordance with U.S. GAAP on the other. We caution the readers of this report to follow a similar approach by considering constant currency period-over-period changes in measures of financial performance only in addition to, and not as a substitute for or superior to, changes in revenues, expenses, income or other measures prepared in accordance with U.S. GAAP.

Constant currency year-over-year changes in revenue and operating income reconcile to the respective unadjusted year-over-year changes as follows:

	Percentage Change from 2007 to 2006 (U.S. GAAP)	Percentage Change from 2007 to 2006 (Constant Currency)	Currency Effect
	%	%	Percentage Points
Software revenue	13	18	- 5
Support revenue	11	15	- 4
Subscription and other software-related service revenue	41	46	- 5
Software and software-related service revenue	13	17	- 4
Consulting revenue	- 1	2	- 3
Training revenue	7	11	- 4
Other service revenue	18	23	- 5
Professional service and other service revenue	1	4	- 3
Other revenue	3	7	- 4
Total revenue	9	13	- 4
Software revenue by region ¹⁾ :			
EMEA region ²⁾	14	15	- 1
Americas region	8	16	- 8
Asia Pacific Japan region	28	32	- 4
Software revenue	13	18	- 5
Software and software-related service revenue by region:			
Germany	7	7	0
Rest of EMEA region	17	19	- 2
EMEA region	13	14	- 1
United States	6	16	- 10
Rest of Americas region	18	22	- 4
Americas region	9	17	- 8
Japan	10	21	- 11
Rest of Asia Pacific Japan region	25	26	- 1
Asia Pacific Japan region	19	24	- 5
Software and software-related service revenue	13	17	- 4
Total revenue by region:			
Germany	5	5	0
Rest of EMEA region	13	14	- 1
EMEA region	10	11	- 1
United States	4	13	- 9
Rest of Americas region	12	15	- 3
Americas region	6	14	- 8
Japan	4	14	- 10
Rest of Asia Pacific Japan region	22	24	- 2
Asia Pacific Japan region	15	20	- 5
Total revenue	9	13	- 4
Operating income	6	8	- 2

¹⁾ By customer location.

²⁾ Europe, the Middle East, and Africa.

Cash Earnings According to DVFA/SG

Cash earnings according to DVFA/SG is an adjusted cash-flow measure developed by the Society of Investment Professionals in Germany to improve comparability between companies.

Cash earnings according to DVFA/SG should be considered in addition to, and not as a substitute for or superior to, cash flow or other measures of liquidity and financial performance prepared in accordance with U.S. GAAP. The reconciliation from cash earnings according to DVFA/SG to net income is shown in the Investor Relations section.

Free Cash Flow

We believe that free cash flow is a widely accepted supplemental measure of liquidity. Free cash flow measures a company's cash flow remaining after all expenditures required to maintain or expand the business have been paid off. We calculate free cash flow as operating cash flow from continuing operations minus additions to long-lived assets excluding additions from acquisitions.

Free cash flow should be considered in addition to, and not as a substitute for or superior to, cash flow or other measures of liquidity and financial performance prepared in accordance with U.S. GAAP.

Free cash flow reconciles to net cash provided by operating activities as follows:

€ millions	2007	2006
Net cash provided by operating activities from continuing operations	1,950	1,855
Additions to long-lived assets excluding additions from acquisitions	- 400	- 367
Free cash flow	1,550	1,488

Economic Conditions

Global Economic Trends

The global economy continued to grow in 2007 despite turbulence on the financial markets, high prices for commodities, and falling real-estate prices. Both the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) reached this conclusion in the analyses they presented at the end of the year. The IMF reports global GDP – the total value of all goods and services – grew 5.2%, compared with 5.5% in 2006. The OECD believes the combined economies of the industrialized countries grew 2.7% in 2007 while, according to the IMF, economic activity in the countries with developing and emerging economies increased 8.1%.

Various shockwaves buffeted the economy during the year. The subprime lending crisis that flared up in the United States triggered significant pressure on prices for real estate in many countries and dealt the finance sector a hard blow. Some stock prices fell back steeply, while interest rates on the money markets and yields on investment vehicles collateralized with subprime loans spiked. At the same time, prices for important commodities – fuel, metals, and food – stayed high.

In the OECD's analysis, the economy was so strong in 2007 that it was able to withstand these pressures relatively unscathed. That was because levels of employment had increased in the industrialized countries, significantly boosting consumer spending and favoring economic growth, the OECD reports. Growth was also favored by companies' sound profitability and funding levels.

But although the global economy continued to grow, the knocks it took, described above, did exert a considerable drag on activity in the second half of 2007. For example, fourth-quarter growth slowed to 2.6% per year in the industrialized countries in 2007 from 3.2% in the previous year. In the IMF's eyes, the world economy entered a precarious, possibly difficult, phase in the second half of 2007. It reports that the turbulence on the money markets caused by the mortgage crisis in the United States were serious and the mood on markets generally had turned somber as a result.