

Outlook

Global Economic Outlook

The IMF predicts continued growth in the world economy in 2008, even though the risk that the economy might slow down had, it says, increased since the second half of 2007. It assumes global output will grow 4.8% in 2008. Negatives continuing to emanate from the United States, sustained downward pressure on house prices in some countries, and persistent high volatility on the credit markets could all slow the economy, says the IMF.

In addition, it would become more difficult for companies to obtain funding in view of the general reassessment of risk and the more austere credit analysis climate. The OECD expects commodity prices, which were already high at the end of 2007, to be a further source of difficulty. Nonetheless, the OECD expects the output of its member states, which are industrialized countries, to grow 2.3% in 2008 and 2.4% in 2009. In January 2008, the European Central Bank (ECB) predicted that global economic growth would remain sturdy overall because the effects of the weakening U.S. economy would be mitigated by the energy of the emerging markets.

However, the economists predict highly divergent regional trends. According to the IMF, in 2008 U.S. total output would grow as little as 1.9%, held back by persistent problems on the mortgage market and slack consumer demand. However, at the end of 2007 the OECD did not see any reason to assume the U.S. economy would go into recession in 2008. Unemployment would increase only slightly, and inflation would slow. At the beginning of 2008, the ECB was basically upbeat about the United States.

The IMF believes slower growth in the United States would also make itself felt in closely linked countries. The year would be especially difficult in countries where the real-estate market had not yet passed through the full correction cycle. There were Western European countries in that category, which is why the IMF expects EU output to grow only 2.5% in 2008.

It expects growth in the German economy, which is strongly oriented to exporting, to decline from 2.4% in 2007 to 2.0% in 2008. The OECD believes that in 2008, growth in the euro area will continue to become more independent of growth in the United States. Despite faltering global growth, the ECB expects the economy to remain receptive to goods and services from the euro area in the medium term.

The IMF predicts that the economies of Asia will show more vigor, with 4.4% growth in 2008 in the industrialized countries and 8.8% growth among the emerging economies in 2008. Of these, it expects Chinese output to grow 10.0% and Indian output to grow 8.4%. On the other hand, it expects Japanese output to grow only 1.7%.

The IMF expects the volume of world trade to grow 6.7% in 2008; the OECD's forecast is 8.1% followed by a further 8.1% in 2009.

IT Market: Outlook for 2008

U.S. market research firm IDC expects the IT market to retreat to much less spirited growth in 2008, especially in the United States. It believes vendors will respond by focusing more on the markets with the lowest saturation levels.

IDC foresees that larger vendors will also expand into more service-intensive fields of operation. It expects increased acquisition activity as companies seek to entrench their positions in target markets. These include not only the emerging economies and the midmarket but also segments such as software on demand, information management, analytics, and specialized services.

Business in the New Year: Early News

- In January 2008 we took over Business Objects, and squeezed out the residual minority shareholders in February. Business Objects is a provider of solutions in the field of business intelligence. In the Gartner Magic Quadrant for Business Intelligence Platforms 2008, Business Objects is in the Leaders segment. Directly and via channel partners, Business Objects markets technology, consulting, and training services designed to deliver the intelligence and solutions that enterprises of all sizes need to make well informed business decisions. Our new subsidiary has twin headquarters in San Jose, California, and Paris, France. Taking into account expected transaction costs, we estimate that the cost of acquiring Business Objects slightly exceeds €4.8 billion. The cost includes €0.5 billion, approximately the nominal value of the outstanding convertible bond of , which SAP acquired as part of the transactions. As a result, the purchase price for equity-related securities amounts to approximately €4.3 billion. Based on preliminary valuations, we expect to acquire assets of approximately €1.9 billion to €2 billion including identifiable intangible assets of about €0.9 billion and cash of around €0.8 billion. The assumed liabilities are expected to amount to between €1.2 billion and €1.3 billion, including the acquired convertible bond at face value. We expect that goodwill resulting from this planned acquisition will be approximately €3.5 billion, which will not be tax deductible. We are still in the process of evaluating the assets, liabilities, and contingencies, so the figures presented here may still change significantly. The allocation of goodwill to our reportable segments will depend on our final management structure, which has not yet been determined. The goodwill results from expected synergies and acquired workforce, which are not identifiable intangible assets under SFAS 142. They therefore cannot be capitalized separately but are included in goodwill. We expect the effect on our U.S. GAAP earnings per share to be positive in 2009 and subsequent years. We expect the acquisition will have a non-recurring negative effect on our U.S. GAAP earnings per share in 2008 around the middle of the single-digit euro cent range. For more information about the effect of the acquisition of Business Objects, see the discussion of our operational outlook for 2008 in this review of operations.

In taking this step, we are uniting two of the leading companies in the global IT industry. The combination of Business Objects solutions with our technologies puts us in a position to offer a unique portfolio of products that give business users – process owners and decision makers in business – a full view of the intelligence they need for effective decision processes. Together, SAP and Business Objects want to develop top quality solutions for these business users, while continuing to grow their business with their customer base. One of the most important elements in our strategy for growth is increasing our new product revenue, focusing especially on the business user segment, where we believe demand is growing and is potentially enormous. We believe this acquisition will accelerate our growth in the business user segment, give us a competitive edge – most notably in the field of business intelligence software – and take us nearer our declared aim of doubling our market potential by 2010.

- The Supervisory Board appointed John Schwarz the seventh member of our Executive Board with effect from March 1, 2008. John Schwarz is the managing director of Business Objects, which is now an independent business unit within the SAP Group.
- In February 2008, the Great Place to Work institute once again named us Germany's best employer. For the fourth year in a row, SAP achieved the top ranking in the category for companies in Germany with more than 5,000 employees.
- We also took various steps to further improve our business.