SAP AKTIENGESELLSCHAFT SYSTEMS APPLICATIONS PRODUCTS IN DATA
Form 20-F
April 02, 2008

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report

Commission file number: 1-14251

SAP AG
(Exact name of Registrant as specified in its charter)

SAP CORPORATION
(Translation of Registrant s name into English)

Federal Republic of Germany
(Jurisdiction of incorporation or organization)

Dietmar-Hopp-Allee 16
69190 Walldorf
Federal Republic of Germany
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one Ordinary Share, without nominal value	New York Stock Exchange
Ordinary Shares, without nominal value	New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, without nominal value (as of December 31, 2007)** 1,246,258,408

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No þ

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP þ International Financial Reporting Standards as issued by the International Accounting Standards Board o Other o

If other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

* Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary shares.

** Including 48,064,829 treasury shares.

Table of Contents

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Table of Contents

TABLE OF CONTENTS

Table of Contents

INTRODUCTION

SAP AG is a German stock corporation (*Aktiengesellschaft*) and is referred to in this Annual Report on Form 20-F, together with its subsidiaries, as SAP, or as the Company, we, our, or us. Our consolidated financial statements included in Item 18. Financial Statements in this Annual Report on Form 20-F have been prepared in accordance with generally accepted accounting principles in the United States of America, referred to as U.S. GAAP.

In this Annual Report on Form 20-F: (i) references to US$, $, or dollars are to U.S. dollars; (ii) references to or are to the euro. Our financial statements are denominated in euros, which is the currency of our home country, Germany. Certain amounts that appear in this Annual Report on Form 20-F may not sum because of rounding adjustments.

Unless otherwise specified herein, all euro financial data that have been converted into dollars have been converted at the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate) on December 31, 2007, which was US$1.4603 per 1.00. No representation is made that such euro amounts actually represent such dollar amounts or that such euro amounts could have been or could be converted into dollars at that or any other exchange rate on such date or on any other dates. The rate used for the convenience translations also differs from the currency exchange rates used for the preparation of the Consolidated Financial Statements. For information regarding recent rates of exchange between euro and dollars, see Item 3. Key Information Exchange Rates. On March 14, 2008, the Noon Buying Rate for converting euro to dollars was US$1.5604 per 1.00.

Unless the context otherwise requires, references in this Annual Report on Form 20-F to ordinary shares are to SAP AG s ordinary shares, without nominal value. References in this Annual Report on Form 20-F to ADSs are to SAP AG s American Depositary Shares, each representing one SAP ordinary share.

SAP, the SAP logo, R/2, R/3, SAP NetWeaver, Duet, SAP Business ByDesign and other SAP product and names mentioned herein are trademarks or registered trademarks of SAP AG in Germany and in several other countries. This Annual Report on Form 20-F also contains product and service names of companies other than SAP that are trademarks of their respective owners.

Table of Contents

FORWARD-LOOKING INFORMATION

This Annual Report on Form 20-F contains forward-looking statements based on the beliefs of, and assumptions made by, our management using information currently available to them. Any statements contained in this Annual Report on Form 20-F 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 projections about future events, including, but not limited to:

- general economic and business conditions;
- attracting and retaining personnel;
- competition in the software industry;
- implementing our business strategy;
- developing and introducing new services and products;
- freedom to use intellectual property;
- regulatory and political conditions;
- adapting to technological developments;
- obtaining and expanding market acceptance of our services and products;
- terrorist attacks or other acts of violence or war;
- integrating newly acquired businesses;
- meeting our customers requirements; and
- other risks and uncertainties, some of which we describe under Item 3. Key Information Risk Factors.

The words aim, anticipate, believe, continue, could, counting on, is confident, estimate, expect, for plan, project, predict, seek, should, strategy, want, will, would, guidance, outlook and similar relate to us are intended to identify such forward-looking statements. Such information includes, for example, the statements made in Item 5. Operating and Financial Review and Prospects, but also appears in other parts of this Annual Report on Form 20-F. 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 under Item 3. Key Information Risk Factors as well as elsewhere in this Annual Report on Form 20-F and in our other filings with the U.S. Securities and Exchange Commission (SEC). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Annual Report on Form 20-F. We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

This Annual Report includes statistical data about the IT industry that comes from information published by sources including Gartner, Inc., or Gartner, a provider of market information and strategic information for the IT industry, and International Data Group, or IDC, a provider of market information and advisory services for the information technology, telecommunications, and consumer technology markets. This type of data represents only the estimates of Gartner, IDC and other sources of industry data. In addition, although we believe that data from these companies is generally reliable, this type of data is inherently imprecise. We caution you not to place undue reliance on this data.

USE OF NON-GAAP FINANCIAL MEASURES

This filing discloses certain financial measures such as Non-GAAP software and software-related service revenue, Non-GAAP operating margin, and constant currency period-over-period changes in revenue and operating expenses. These measures are not prepared in accordance with U.S. GAAP and therefore are considered non-GAAP financial measures. Our non-GAAP financial measures may not correspond to non-GAAP financial measures that other companies report. The non-GAAP financial measures that we report should be considered as additional to, and not as a substitute for or superior to revenue, operating margin or our other measures of financial performance prepared in accordance with U.S. GAAP. Our non-GAAP financial measures included in this report are reconciled to the nearest U.S. GAAP measure, except for 2008 figures for which we provide only a projected non-GAAP financial measure without reconciling to a corresponding projected U.S. GAAP measure.

Non-GAAP software and software-related service revenue and Non-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 non-U.S. GAAP revenue and non-U.S. GAAP operating margin financial measures we have been using since the beginning of 2008 for our budgets, forecasts, reports, compensation, and communications. Our current non-GAAP financial measures are not the same as those used in prior years. Throughout 2006, we disclosed adjusted operating income, adjusted operating margin, adjusted operating expenses, adjusted net income and adjusted EPS, which excluded share-based compensation expenses and certain other expense items. Throughout 2007 we did not publish non-GAAP financial measures primarily since our management no longer believed that such information provided investors with enhanced information about our business or our performance, particularly due to changes in the U.S. GAAP accounting rules for share-based compensation. Beginning with the acquisition of Business Objects S.A. (Business Objects), which was first announced during the fourth quarter of 2007 and was completed in the first quarter of 2008, our management began to forecast certain revenue and operating margin information on a non-GAAP basis. Our management believes that our current non-GAAP revenue and operating margin financial measures are useful to investors as they provide additional information that enables a comparison of year-over-year operating performance by eliminating one-time effects resulting from acquisitions and certain acquisition-related charges that include a component that cannot be determined until our purchase price accounting is complete. The adjustments to our U.S. GAAP revenue and operating margin figures which form the basis of our current non-GAAP financial measures are described below.

Non-GAAP software and software-related service revenue   as disclosed in this report is considered a non-GAAP financial measure because it has been adjusted from the corresponding U.S. GAAP number by including the full amount of the post-acquisition Business Objects support revenues that would have been recognized by Business Objects, had it remained a stand-alone entity but that are not permitted to be recognized as SAP revenue under U.S. GAAP as a result of fair value accounting for Business Objects support contracts in effect at the time of the Business Objects acquisition.

Under U.S. GAAP, we will record at fair value the legal performance obligation assumed by SAP related to Business Objects support contracts that are in effect at the time of the acquisition of Business Objects. This fair value amount will be recorded as deferred revenue through purchase accounting and will be recognized as revenue in the periods the services to which the performance obligations relate are provided. Consequently, software and software-related service revenue under U.S. GAAP for periods after the Business Objects acquisition will 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 the effects of this purchase accounting adjustment provides insight into our anticipated future performance because the support contracts are typically one-year contracts, and renewals of these contracts are expected to result in future revenue amounts that are not affected by the business combination-related fair value accounting.

Table of Contents

Non-GAAP operating margin as disclosed in this report is considered a non-GAAP financial measure because it has been adjusted from the corresponding U.S. GAAP operating margin number by including the full amount of Business Objects support revenue as discussed above and by excluding acquisition-related charges. Acquisition-related charges in this context comprise:

Amortization expense related to intangible assets acquired in business combination and standalone purchases of intellectual property;

Expense related to purchased in-process research and development, which is recorded at fair value at the acquisition date and is immediately expensed; and

Restructuring charges to the extent they were incurred in connection with business combinations but accounted for under Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, in SAP s U.S. GAAP financial statements.

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. Moreover, eliminating acquisition-related charges provides additional useful information in comparing our operating performance over time.

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

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

2007	U.S. GAAP Financial Measure	Business Objects Support Revenue Not Recorded Under U.S. GAAP	Acquisition-Related Charges	Non-GAAP Financial Measure
	millions, except operating margin			
Software and software-related service revenue	7,427			7,427
Total revenue(1)	10,242			10,242
Operating income(1)	2,732		61	2,793
Operating margin on continuing operations	26.7%		0.6%	27.3%

(1) These financial measures are the numerator or the denominator in the calculation of our Non-GAAP operating margin and the comparable U.S. GAAP operating margin, and are included in this table for the convenience of the reader.

Non-GAAP software and software-related service revenue in 2007, which amounted to 7,427 million, is equivalent to the U.S. GAAP measure because the acquisition of Business Objects did not close until the first quarter of 2008. Our current forecasted 2008 growth rate for Non-GAAP software and software-related service revenue is in the range of 24% to 27%, of which approximately two percentage points (or approximately 180 million) will likely be attributable to the effect of including the Business Objects support revenue not recorded under U.S. GAAP as described above. These prospective figures exclude currency fluctuation effects, which could be material. The 180 million adjustment related to the post-acquisition Business Objects support revenue not recorded under U.S. GAAP is an estimate and the actual figure may be different due to the fact that the purchase price allocation is not yet finalized.

Non-GAAP operating margin was 27.3% for 2007, which excludes the effect of acquisition-related charges of 0.6% (or 61 million which relates to the acquisitions closed in 2007 or earlier). Operating margin under U.S. GAAP for 2007 was 26.7%. Our total revenue for 2007 under U.S. GAAP was 10.2 billion; the comparable figure on a non-GAAP basis is the same because, as described above, the acquisition of Business Objects did not close until the first quarter of 2008. Our operating income for 2007 under U.S. GAAP was 2.7 billion; the comparable figure on a non-GAAP basis is 2.8 billion. The difference is due to eliminating the effect of acquisition-related charges as defined above.

Non-GAAP operating margin for 2008 is expected to be between 27.5% and 28.0% on a constant currency basis. The comparable prospective U.S. GAAP operating margin figure for 2008 is not accessible. Reconciling items between Non-GAAP operating margin and U.S. GAAP operating margin include the post-acquisition Business Objects support revenue not recorded under U.S. GAAP, which is estimated to be 180 million for 2008 as discussed above, and acquisition-related charges as defined above, the amount of which is still subject to uncertainty for 2008 primarily due to the Business Objects acquisition and any new acquisitions we may have in 2008. In addition, the effect of currency fluctuations during 2008, which is uncertain at this time, may have material impact on the actual non-GAAP and U.S. GAAP operating margins for 2008.

See Item 5. Operating and Financial Review and Prospects Outlook 2008 for related discussions.

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, both growth in sales volume and currency effect impact period-over-period changes in sales revenue. We do not sell standardized units of products and services. Therefore we cannot provide relevant information on sales volume growth by providing data on the growth in product and service units sold. To provide additional information that may be useful to investors in breaking down and evaluating sales volume growth, we present information about our revenue growth and various values and components relating to operating income that are adjusted for foreign currency effects. We calculate constant currency year-over-year changes in revenue and income by translating revenue using the average exchange rates from the previous year instead of the current year.

Constant currency period-over-period changes should be considered in addition to, and not as a substitute for or superior to, changes in revenues, expenses, income or other measures of financial performance prepared in accordance with U.S. GAAP.

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

Table of Contents

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

	Percentage change from 2006 to 2007 as reported %	Constant currency percentage change from 2006 to 2007 %	Currency effect %
Software revenue	13	18	(5)
Support revenue	11	15	(4)
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)
Total software revenue by Region(1):			
EMEA region	14	15	(1)
Americas region	8	16	(8)
Asia Pacific Japan region	28	32	(4)
Total revenue by Region(1):			
United States	4	13	(9)
Rest of Americas region	12	15	(3)
Japan	4	14	(10)
Rest of Asia Pacific Japan region	22	24	(2)
Total revenue	9	13	(4)
Operating expense	10	14	(4)
Segments:			
Product segment revenue	11	15	(4)
Software revenue	12	16	(4)
Support revenue	9	14	(5)
Subscription and other software-related service revenue	41	45	(4)
Product segment expense	18	21	(3)
Product segment contribution	7	11	(4)
Consulting segment revenue	3	7	(4)
Americas region	3	11	(8)
Consulting segment expense	2	6	(4)
Consulting segment contribution	6	10	(4)
Training segment revenue	12	16	(4)

Table of Contents

	Percentage change from 2005 to 2006 as reported %	Constant currency percentage change from 2005 to 2006 %	Currency effect %
Software revenue	9	11	(2)
Support revenue	9	10	(1)
Software and software-related service revenue	11	12	(1)
Other service revenue	35	36	(1)
Total revenue by Region(1):			
United States	11	14	(3)
Rest of Americas region	18	16	2
Japan	6	14	(8)
Rest of Asia Pacific Japan region	15	16	(1)
Total revenue	10	11	(1)
Operating expense	10	11	(1)
Segments:			
Product segment revenue	10	11	(1)
Software revenue	9	11	(2)
Support revenue	10	11	(1)
Product segment expense	7	8	(1)
Product segment contribution	12	14	(2)
Consulting segment contribution	30	32	(2)
Training segment revenue	16	17	(1)

(1) Based on customer location

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

SELECTED FINANCIAL DATA

The following table presents selected consolidated financial information of SAP for the five most recent fiscal years. The selected consolidated financial information of SAP is a summary of, is derived from and is qualified by reference to, our consolidated financial statements. The selected consolidated balance sheet data as of December 31, 2005, 2004 and 2003 and the selected consolidated income statement data for the years ended December 31, 2004 and 2003 are derived from our audited consolidated financial statements prepared under U.S. GAAP. However, we have not included our audited consolidated financial statements for those periods in this document. The selected consolidated balance sheet data as of December 31, 2007 and 2006 and the selected consolidated income statement data for the years ended December 31, 2007, 2006 and 2005 are derived from our audited consolidated financial statements, which are included in Item 18. Financial Statements and have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), independent registered public accountants, whose report appearing elsewhere in this document refers to the adoption of Statement of Financial Accounting Standards (SFAS) No. 158, Employers *Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of December 31, 2006, and the adoption of the fair value method of accounting for stock-based compensation as required by SFAS No. 123(R), *Share-Based Payment*, effective January 1, 2006.

	Year Ended December 31,					
	2007 US$[1]	**2007**	**2006**	**2005**	**2004[4]**	**2003[4]**
	In millions, except earnings per share data					
Income Statement Data:						
Total revenue	14,957	10,242	9,393	8,509	7,514	7,025
Operating income	3,991	2,732	2,578	2,337	2,018	1,724
Income from continuing operations before income taxes and minority interest	4,173	2,857	2,688	2,323	2,073	1,777
Net income	2,825	1,934	1,881	1,502	1,311	1,077
Earnings per share based on Net income[2]						
Basic	2.32	1.59	1.53	1.21	1.05	0.87
Diluted	2.32	1.59	1.52	1.20	1.05	0.87
Earnings per share based on Income from continuing operations[2]						

Basic	2.34	1.60	1.53	1.21	1.05	0.87
Diluted	2.34	1.60	1.53	1.21	1.05	0.87
Other Data:						
Weighted-average number of shares outstanding(2)						
Basic	1,207	1,207	1,226	1,239	1,243	1,243
Diluted	1,210	1,210	1,231	1,243	1,249	1,246

Table of Contents

	Year Ended December 31,					
	2007 US$(1)	2007	2006	2005	2004(4)	2003(4)
	In millions, except earnings per share data					
Balance Sheet Data:						
Cash and cash equivalents (excluding restricted cash)	2,348	1,608	2,399	2,064	1,506	839
Total assets(4)	15,138	10,366	9,503	9,040	7,585	6,326
Shareholders equity	9,497	6,503	6,136	5,782	4,594	3,709
Subscribed capital	1,820	1,246	1,268	316	316	315
Short-term financial debt(3)	47	32	31	22	26	19
Long-term financial debt(3)	9	6	3	11	11	13

(1) Amounts presented in US$ have been translated for the convenience of the reader at 1.00 to US$1.4603, the Noon Buying Rate for converting 1.00 into dollars on December 31, 2007. See Exchange Rates for recent exchange rates between the euro and the dollar.

(2) Amounts are retrospectively adjusted for all periods presented for the effect of the December 15, 2006 fourfold increase in the number of shares under a capital increase pursuant to German law. Furthermore, the 2007 figures reflect cancellation of 23,000,000 treasury shares effective September 7, 2007. See Item 9. The Offer and Listing General for more detail of the share increase and the cancellation of shares.

(3) Financial debt represents bank loans, overdrafts and capital lease obligations. Short-term means a remaining life of one year or shorter; long-term, beyond one year. The balances include convertible bonds issued pursuant to share-based compensation plans. See Item 6. Directors, Senior Management and Employees Share-Based Compensation Plans.

(4) Total assets in 2007 include assets held for sale which represent net assets of the discontinued operations. See Note 11 to our consolidated financial statements in Item 18. Financial Statements for further discussion on the discontinued operations. The discontinued operations were acquired by us in 2005 so income statement and balance sheet data in 2004 and 2003 does not reflect any discontinued operation.

EXCHANGE RATES

The prices for ordinary shares traded on German stock exchanges are denominated in euro. Fluctuations in the exchange rate between the euro and the dollar will affect the dollar equivalent of the euro price of the ordinary shares traded on the German stock exchanges and, as a result, may affect the price of the American Depositary Shares (ADSs) in the United States. See Item 9. The Offer and Listing for a description of the ADSs. In addition, SAP AG pays cash dividends, if any, in euro, and such exchange rate fluctuations will also affect the dollar amounts received by the holders of ADSs on the conversion into dollars of cash dividends paid in euro on the ordinary shares represented by the ADSs. The deposit agreement with respect to the ADSs requires the depositary to convert any dividend payments from euro into dollars as promptly as practicable upon receipt.

A significant portion of our revenue and expenses is denominated in currencies other than the euro. Therefore, movements in the exchange rate between the euro and the respective currencies to which we are exposed may materially affect our consolidated financial position, results of operations and cash flows. See Item 5. Operating and

Financial Review and Prospects Foreign Currency Exchange Rate Exposure and for our foreign currency risk and hedging strategy see Item 11. Quantitative and Qualitative Disclosure About Market Risk Foreign Currency Risk.

9

The following table sets forth the average, high and low Noon Buying Rates for the euro expressed as dollars per 1.00.

Year	Average[(1)]	High	Low
2003	1.1411	1.2597	1.0361
2004	1.2478	1.3625	1.1801
2005	1.2400	1.3476	1.1667
2006	1.2661	1.3327	1.1860
2007	1.3797	1.4862	1.2904

Month	High	Low
2007		
July	1.3831	1.3592
August	1.3808	1.3402
September	1.4219	1.3606
October	1.4468	1.4092
November	1.4862	1.4435
December	1.4759	1.4344
2008		
January	1.4877	1.4574
February	1.5187	1.4495
March (through March 14, 2008)	1.5604	1.5195

(1) The average of the applicable Noon Buying Rates on the last day of each month during the relevant period.

The Noon Buying Rate on March 14, 2008 was US$1.5604 per 1.00.

DIVIDENDS

Dividends are jointly proposed by SAP AG s Supervisory Board (*Aufsichtsrat*) and Executive Board (*Vorstand*) based on SAP AG s year-end stand-alone statutory financial statements, subject to approval by the shareholders, and are officially declared for the prior year at SAP AG s Annual General Meeting of Shareholders. Dividends paid to holders of the ADSs may be subject to German withholding tax. See Item 8. Financial Information Dividend Policy and Item 10. Additional Information Taxation.

Table of Contents

The following table sets forth in euro the annual dividends paid or proposed to be paid per ordinary share in respect of each of the years indicated. The amounts shown in the table for 2005 and prior years are retrospectively adjusted for the effect of the fourfold increase in the number of shares resulting from the capital increase effective December 15, 2006 pursuant to German law. The table does not reflect tax credits that may be available to German taxpayers who receive dividend payments. If you own our ordinary shares or ADSs and if you are a U.S. resident, please refer to Item 10. Additional Information Taxation.

	Dividend Paid per Ordinary Share	
Year Ended December 31,		**US$**
2003	0.20	0.24(1)(4)
2004	0.28	0.35(1)(4)
2005	0.36	0.43(1)(4)
2006	0.46	0.62(1)(4)
2007 (proposed)	0.50(2)	0.78(2)(3)(4)

(1) Translated for the convenience of the reader from euro into dollars at the Noon Buying Rate for converting euro into dollars on the dividend payment date. The depositary is required to convert any dividend payments received from SAP as promptly as practicable upon receipt.

(2) Subject to approval of the Annual General Meeting of Shareholders of SAP AG to be held on June 3, 2008.

(3) Translated for the convenience of the reader from euro into dollars at the Noon Buying Rate for converting euro into dollars on March 14, 2008 of US$1.5604 per 1.00. The depositary is required to convert any dividend payments received from SAP as promptly as practicable upon receipt. The dividend paid may differ due to changes in the exchange rate.

(4) One SAP ADS currently represents one SAP AG ordinary share. Accordingly, the final dividend per ADS is equal to the dividend for one SAP AG ordinary share and is dependent on the euro/dollar exchange rate.

The amount of dividends paid on the ordinary shares depends on the amount of profits to be distributed by SAP AG, which depends in part upon our performance. The timing and amount of future dividend payments will depend upon our future earnings, capital needs and other relevant factors in each case as proposed by the Executive Board and the Supervisory Board of SAP AG and approved at the Annual General Meeting of Shareholders.

RISK FACTORS

Economic Risks

A downturn in the economic conditions in the regions in which we operate, in the software markets in those regions or in our customers specific industries has in the past resulted, and may in the future result, in a significant fluctuation of demand for our products, causing our revenues and profitability to suffer.

Implementation of SAP software products can constitute a major portion of our customers overall corporate budget, and the amount customers are willing to invest in acquiring and implementing SAP products and the timing of our customers investments have tended to vary due to economic or financial crises or other business conditions. A recession or slow or weak economic recovery of technology and software markets could have a material adverse effect on our business, financial position, operating results or cash flows. In particular, our profitability and cash flows may be significantly adversely affected by adverse economic conditions in Europe or the United States because we derive a substantial portion of our revenue from software licenses and services in those geographic regions.

One important feature of our long-term strategy for growth is to increase our offerings for the small and midsize enterprise segment. A slowdown in growth, recession, or slow or weak economic recovery could inhibit

Table of Contents

the creation and financial strength of those businesses and thereby delay or prevent altogether that key element of our growth strategy.

See Item 4. Information About SAP Business by Region for information on the regions in which we operate and Item 4. Information About SAP Revenue by Industry Sector for information on the industries in which our customers operate.

Social and political instabilities including those caused by terrorist attacks, the risk of war or international hostilities as well as the risk of pandemic disease outbreaks could adversely impact our business.

Terrorist attacks and other acts of violence or war as well as the risk of pandemic disease outbreaks and natural disasters could have a negative impact on the world economy, contribute to a climate of economic and political uncertainty and affect our and our customers revenue growth and investment decisions over an extended period of time. Furthermore, such occurrences could make business continuity and business travel more difficult, thus interfering with customers decision making processes and our ability to sell products and provide services to them.

Because we expect to continue to expand globally, we may face specific economic and regulatory challenges that we may not be able to meet.

Our products and services are currently marketed in over 120 countries in the Europe, Middle East and Africa (EMEA), North America and Latin America (Americas) and Asia Pacific Japan (APJ) regions. Sales in these regions are subject to risks inherent in international business activities, including, in particular:

- general economic or political conditions in each country or region;
- the overlap of differing tax structures;
- the management of an organization spread over various jurisdictions;
- exchange rate fluctuations; and
- regulatory constraints such as export restrictions, regulation of the Internet, and additional requirements for the design and for the distribution of software and services.

Other general risks associated with international operations include import and export licensing requirements, trade restrictions, changes in tariff and freight rates and travel and communication costs. There can be no assurance that our international operations will continue to be successful or that we will be able to effectively manage the increased level of international operations.

Market Risks

Consolidation in the software industry may result in instability of software demand and stronger peer companies in the long term.

The entire IT sector, including the software industry, has in recent years experienced a period of consolidation through mergers and acquisitions. Although consolidations in the industry may create market opportunities for remaining players, uncertainty among potential customers about future IT investment plans can also result which can cause longer sales cycles for us. Also, consolidated companies may emerge as stronger competitors with more resources, a larger customer base and a wider variety of product offerings than what we have.

12

Due to intense competition, our market share and financial performance could suffer.

The software industry is intensely competitive. As part of our business strategy, over the last few years we have focused our efforts in areas where demand is expected to grow more rapidly. In particular, we have been focusing on the completion of our enterprise service-oriented architecture road map, customer relationship management on-demand solutions, solutions for small and midsize enterprises such as our new SAP Business ByDesign on-demand solution, as well as industry-tailored solutions for specific industries such as retail and financial services. Our expansion from traditional large enterprise resource planning (ERP) product offerings exposes us to different competitors in size, geographic location and specialty. Current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address customer needs better than we do. Competition, with respect to pricing, product quality and functionalities/features, and consulting and support services, could increase substantially and result in price reductions, cost increases or loss of segment share.

The continuing trend towards outsourcing business processes to external providers (business process outsourcing, or BPO) could result in increased competition for us with systems integrators, consulting firms, telecommunications firms, computer hardware and software vendors and other IT service providers.

The software application delivery model often referred to as SaaS, or software as a service, is becoming popular particularly in the mid-market due to its low initial cost requirements and Web-based operability. Our on-demand solutions, including the newly introduced SAP Business ByDesign targeted for midsize enterprises, face strong competition in this SaaS arena.

In response to competition, we have been required in the past, and may be required in the future, to furnish additional discounts or other concessions to customers or otherwise modify our pricing practices. These developments have impacted and may increasingly negatively impact our revenue and earnings.

Our future revenue is dependent in part upon our installed customer base continuing to license additional products, renew maintenance agreements and purchase additional professional services.

Our large installed customer base has traditionally generated additional new software, maintenance, consulting and training revenues. Some of the recently developed or planned SAP offerings are geared towards substantially expanding the scope of potential users within our installed customer base such as our business user solutions tools and applications designed to help companies organize and manage information to optimize everyday business activities and improve the way employees work. Examples include Duet, a joint solution offering developed with Microsoft Corporation, and various BI (business intelligence) solutions by SAP as well as Business Objects, which we acquired in the first quarter of 2008. We believe that such offerings pose an opportunity for us to continue to generate revenue from existing customers. If we are unable to enhance our existing products and services or develop new products according to market needs in a timely manner, customers may not necessarily license additional SAP products or contract for additional services or maintenance in the future, in which case our revenues could decrease and our operating results could be adversely affected.

Strategic Planning Risks

Demand for our newly introduced products such as SAP Business ByDesign targeted for midsize companies may not develop as planned and our midmarket strategy with the new business model may not be successful.

We are investing significant resources in further developing and marketing new and enhanced products and services. Demand and customer acceptance for recently introduced products and services are subject to a high level of uncertainty.

Targeting midsize companies with our new SAP Business ByDesign solution has been a key part of our strategy. To that end, expanding our network of business partners and creating the infrastructure for volume business are of great importance. To tap potential business in the lower midmarket, we have spent approximately 125 million in 2007 in sales channels, process, infrastructure, and human resources, all oriented toward new customer relationships and a larger, diversified partner ecosystem.

We consider the offering of our newly architectured solution, SAP Business ByDesign, to be a new business model for us in contrast to our traditional software solution offerings because of its different approach to market and different product appeal to a large mass of midsize companies who have traditionally not considered purchasing an integrated business application to support their core business functions. For example, SAP Business ByDesign allows personalized online trials before purchase and is designed for rapid deployment with ready-to-use functionality and preconfigured business processes.

Despite our efforts, demand for these products and services may not develop, which could have a material adverse effect on our business, financial position and results of operations or cash flows.

Our failure to develop new relationships and enhance existing relationships with third-party distributors, software suppliers, system integrators and value-added resellers that help sell our services and products may adversely affect our revenues.

We have entered into agreements with a number of leading computer software and hardware suppliers and other technology providers to cooperate and ensure that certain of the products produced by such suppliers are compatible with SAP software products. We have also supplemented our consulting and support services (in the areas of product implementation, training and maintenance) through alliance partnerships with third-party hardware and software suppliers, systems integrators, and consulting firms. Most of these agreements and alliances are of relatively short duration and non-exclusive. In addition, we have established relationships relating to the resale of certain of our software products by third parties. These third parties include value-added resellers and, in the area of application hosting services, certain computer hardware vendors, systems integrators and telecommunications providers. Our growth strategy includes commencing and maintaining relationships with independent software vendors and value added resellers for our products targeted at small and midsize enterprises.

There can be no assurance that these third parties or business partners, most of whom have similar arrangements with our competitors and some of whom also produce their own standard application or technology integration software in competition with us, will continue to cooperate with us when such agreements or partnerships expire or are up for renewal. In addition, there can be no assurance that such third parties or partners will provide high-quality products or services or that actions taken or omitted to be taken by such parties will not adversely affect us. The failure to obtain high-quality products or services or to renew such agreements or partnerships could adversely affect our ability to continue to develop product enhancements and new solutions that keep pace with anticipated changes in hardware and software technology and telecommunications, or could adversely affect our ability to penetrate target markets and consequently the demand for our software products.

Human Capital Risks

If we were to lose the services of members of management and employees or fail to attract new personnel who possess specialized knowledge and technology skills, we may not be able to manage our operations effectively or develop new products and services.

Our operations could be adversely affected if senior managers or other skilled personnel were to leave and qualified replacements were not available. Competition for managerial and skilled personnel in the software industry remains intense. Especially as we embark on the introduction of new and innovative technology offerings, we are relying on being able to build up and maintain a specialized workforce with deep technological know-how to ensure an optimal implementation of such new technologies in accordance with our clients demands. Such personnel in certain regions (including the United States, Europe and India) are in short supply. We expect continued increases in compensation costs in order to attract and retain senior managers and skilled employees, especially in times of strong economic growth. Most of our current employees, with the exception of selected managers, are subject to employment agreements or conditions that do not contain post-employment noncompete provisions and, in the case of most of our existing employees outside of Germany, permit the employees to terminate their employment on relatively short notice. There can be no assurance that we will continue to be able to attract and retain the personnel we require to develop and market new and enhanced products and to market and service our existing products and conduct our operations successfully. Further, our recruiting of personnel may expose us to claims from other companies seeking to prevent their employees from working for a competitor.

If we do not effectively manage our growth, our existing personnel and systems may be strained and our business may not operate efficiently.

We have a history of rapid growth and will need to effectively manage our future growth to be successful. In the past years, we experienced an industry-wide trend in customer spending away from a lower volume of very large contracts to a higher volume of smaller contracts. In order to support our future growth, we expect to continue in the long-term to incur significant costs to increase headcount in key areas of our business, explore and/or enter new markets and build infrastructure ahead of anticipated revenue. We increased our headcount by 10% in 2006 and by 12% in 2007. There can be no assurance that significant increases in employees and infrastructure will lead to growth in revenue or operating results in the future. Also, there is no assurance that we will be able to meet these increased staffing needs by increasing headcount in lower cost countries such as India or China due to, for example, increased competition for skilled workers in such countries. As a result, our operating margin and revenue figures per employee could decline. In addition, the ability to control costs could adversely affect revenue, profitability and cash flow in the future.

Organizational and Governance-related Risks

Principal shareholders may be able to exert control over our future direction and operations.

As of March 14, 2008, the beneficial holdings of SAP AG s principal shareholders and the holdings of entities controlled by them constituted in the aggregate approximately 29% of the outstanding ordinary shares of SAP AG. If SAP AG s principal shareholders and the holdings of entities controlled by them vote in the same manner, it may have the effect of delaying, preventing or facilitating a change in control of SAP or other significant changes to SAP AG or its capital structure. See Item 7. Major Shareholders and Related-Party Transactions Major Shareholders.

Sales of ordinary shares by principal shareholders could adversely affect the price of our capital stock.

The sale of a large number of ordinary shares by any of the principal shareholders and related entities could have a negative effect on the trading price of our ADSs or our ordinary shares. We are not aware of any restrictions on the transferability of the shares owned by any of the principal shareholders or related entities.

We are subject to significantly increased governance-related regulatory requirements both in Germany and the United States

SAP AG as a stock corporation domiciled in Germany and listed in Germany and the United States is subject to governance-related regulatory requirements under both jurisdictions. These standards are among the highest standards worldwide and have grown considerably in the past few years. In the United States, the

Sarbanes-Oxley Act of 2002 requires the establishment, ongoing assessment and certification of an effective system of internal control over financial reporting accompanied by stringent documentation efforts for companies and their external auditors. Also in the United States, the Foreign Corrupt Practices Act requires not only accurate books and records, but also sufficient controls, policies and processes to ensure business is conducted without the influence of bribery and corruption on an international scale. Since the German federal government issued the 10-point program to strengthen corporate integrity and investor protection in February 2003, various new legislation was passed to improve investor protection, transparency and shareholder democracy. Given the high level of complexity of these laws there can be no assurance that we will not be held in breach of certain regulatory requirements, for example, through fraudulent or negligent behavior of individual employees, our failure to comply with certain formal documentation requirements or otherwise. Any corresponding accusation against us, whether merited or not, may have a material adverse impact on our reputation as well as the trading price of our ordinary shares and ADSs.

U.S. judgments may be difficult or impossible to enforce against us or our Board members.

SAP AG is a stock corporation organized under the laws of Germany. Currently, except for John Schwarz, all members of SAP AG s Executive Board and all members of the Supervisory Board are non-residents of the United States. A substantial portion of the assets of SAP and such persons are located outside the United States. As a result, it may not be possible to effect service of process within the United States upon non-U.S. resident persons or us or to enforce against non-U.S. resident persons judgments obtained in U.S. courts predicated upon the civil liability provisions of the securities laws of the United States. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in Germany.

Communication and Information Risks

We may not be able to prevent harmful information leakage about future strategies, technologies and products.

We have established a range of security standards and organizational communication protocols to help ensure that internal, confidential communications and information about sensitive subjects such as our future strategies, technologies and products are not improperly or prematurely disclosed to the public. There is no guarantee that the established protective mechanisms will work in every case. SAP s competitive position could be considerably compromised if confidential information about the future direction of our product development or other strategies became public knowledge.

Our IT security measures may be breached or compromised and we may sustain unplanned IT system unavailability.

We rely on encryption, authentication technology and firewalls to provide security for confidential information transmitted to and from us over the Internet. Anyone who circumvents our security measures could misappropriate proprietary information or cause interruptions in our services or operations. The Internet is a public network, and data is sent over this network from many sources. In the past, computer viruses and software programs that disable or impair computers have been distributed and have rapidly spread over the Internet. Computer viruses could be introduced into our systems or those of our customers or suppliers, which could disrupt our network or make it inaccessible to customers or suppliers. Our security measures may be inadequate to prevent security breaches, and our business would be harmed if we do not prevent them. In addition, we may be required to expend significant capital and other resources to protect against the threat of security breaches and to alleviate problems caused by breaches as well as by any unplanned unavailability of our internal IT systems generally for other reasons.

Table of Contents

Wide acceptance of the use of Web-based transactions may be hindered due to privacy concerns.

Consumers have significant concerns about secure transmissions of confidential information, especially financial information, over public networks like the Internet. This remains a significant obstacle to general acceptance of e-commerce and certain aspects of our business. Advances in computer capabilities, new discoveries in the field of cryptography or other events or developments could result in compromises or breaches of security such as those that have generated widespread media attention. Continued high-profile cases of inadvertent and unauthorized disclosure of personal information could have the effect of substantially reducing the use of the Web for commerce and communications and therefore could adversely impact our long-term strategy for growth.

Financial Risks

Because we conduct our operations throughout the world, our results of operations may be affected by currency fluctuations.

Although the euro has been our financial and reporting currency since January 1, 1999, a significant portion of our business is conducted in currencies other than the euro. Approximately 66% of our consolidated revenue in 2007 was attributable to operations in non-euro member states and translated into euro. As a consequence, period-to-period changes in the average exchange rate in a particular currency can significantly affect reported revenue and operating results. In general, appreciation of the euro relative to another currency has a negative effect on reported results of operations, while depreciation of the euro has a positive effect, although such effects may be short term in nature.

Fluctuations in the value of the U.S. dollar, the Japanese yen, the British pound, the Swiss franc, the Canadian dollar, and the Australian dollar have historically provided the greatest exposure to our risk of currency fluctuations. As our business in emerging markets such as India and China continues to experience strong growth, these countries respective currencies are growing in importance as well. We continually monitor our exposure to currency risk and pursue a company-wide foreign exchange risk management policy. We have in the past and expect to continue in the future to at least partly hedge such risks with certain financial instruments. There can be no assurance that our hedging activities, if any, will be effective. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Currency Risk.

Our sales are subject to quarterly fluctuations and our sales forecast may not be accurate.

Our revenue and operating results can vary and have varied in the past, sometimes substantially, from quarter to quarter. Our revenue in general, and in particular our software revenue, is difficult to forecast for a number of reasons, including:

- the relatively long sales cycles for our products;
- the size and timing of individual license transactions;
- the timing of the introduction of new products or product enhancements by us or our competitors;
- changes in customer budgets;
- seasonality of a customer s technology purchases; and
- other general economic and market conditions.

As many of our customers make and plan their IT purchasing decisions at or near the end of calendar quarters and a significant percentage of those decisions are made during the fourth quarter, even a small delay in purchasing decisions could have a material adverse effect on our results of operations. While our dependence on single, large scale sales transactions has decreased in recent years due to a relative increase in the number of license transactions concluded by SAP, mainly attributable to SAP s strengthened focus on the small and midsize enterprises (SME) segment, there can be no assurance that our results will not be adversely affected by the loss or delay of one or a few large sales, which continue to occur especially in the large enterprise segment.

We use a pipeline system, a common industry practice, to forecast sales and trends in our business. Our sales personnel monitor the status of proposals, including the date when they estimate that a customer will make a purchase decision and the potential revenue from the sale. While this pipeline analysis may provide us with some guidance in business planning, budgeting and forecasting, these pipeline estimates may not consistently correlate to revenue in a particular quarter and could cause us to improperly plan, budget or forecast. Because our operating expenses are based upon anticipated revenue levels and because a high percentage of our expenses are relatively fixed in the near term, any shortfall in anticipated revenue or delay in recognition of revenue could result in significant variations in our results of operations from quarter to quarter or year to year. We increased over the recent years, and plan to continue to increase throughout 2008, the following expenditures:

- expansion of our operations;
- research and development directed towards new products and product enhancements; and
- development of new distribution and resale channels, particularly for small and midsize enterprises.

Such increases in expenditures will depend, among other things, upon ongoing results and evolving business needs. To the extent such expenses precede or are not subsequently followed by increased revenue, our quarterly or annual operating results would be materially adversely affected and may vary significantly from preceding or subsequent periods.

Our revenue mix may vary and may negatively affect our profit margins.

We generally license our software products for an upfront license fee based on the number and types of users or other applicable metrics. Maintenance fees are typically established based on a specified percentage of the license fee. Variances or slowdowns in our licensing activity may negatively impact our current and future revenue from maintenance and services since such maintenance and services revenues typically follow and are dependent upon software sales. Historically, the profit margin from our services arrangements is lower than that of our software sales. Any decrease in the percentage of our total revenue derived from software licensing could have a material adverse effect on our business, financial position, results of operations or cash flows.

We have introduced new licensing models such as on-demand and subscription models which typically result in revenue being recognized over time. Although revenue from such new models is still relatively insignificant, we expect it to grow in the future. A significant portion of the related cost of developing, marketing and providing our solutions to customers under such new models could be incurred prior to the recognition of revenue, thus impacting our profit margin in the short term.

The cost of derivative instruments for hedging of the STAR Plan may exceed the benefits of those arrangements.

Under our stock appreciation rights plan (the STAR Plan), stock appreciation rights (STARs) are granted to eligible employees of SAP. The STARs are normally granted in the first quarter of each year and generally give the participants the right to a portion of the appreciation in the market price of the ordinary shares for the relevant measurement period. We have entered into in the past, and may enter into in the future, derivative instruments to hedge all or a portion of the anticipated cash flows in connection with the STARs in the event cash payments to participants are required as a result of an increase in the market price of the ordinary shares. We believe hedging anticipated cash flows in connection with the STARs limits the potential exposure associated with the STAR Plan, including potentially significant cash outlays and resulting compensation

Table of Contents

expense. There can be no assurance, however, that the benefits achieved from hedging our STAR Plan will exceed the related costs.

Management s use of estimates may affect our results of operations and financial position.

Our financial statements are based upon the accounting policies as described in Note 3 to our consolidated financial statements in Item 18. Financial Statements. Such policies require management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Facts and circumstances which management uses in making estimates and judgments may change from time to time and may result in significant variations, including adverse effects on our results of operations or financial position. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies.

Revenue recognition accounting pronouncements and interpretations may adversely affect our reported results of operations.

We continuously review our compliance with all new and existing revenue recognition accounting pronouncements. Depending upon the outcome of these ongoing reviews and the potential issuance of further accounting pronouncements, implementation guidelines and interpretations, we may be required to modify our reported results, revenue recognition policies or business practices, which could have a material adverse effect on our results of operations. Our revenue recognition policies are described in Note 3 to our consolidated financial statements in Item 18. Financial Statements.

The market price for our ADSs and ordinary shares may remain volatile.

The trading prices of our ADSs and ordinary shares have experienced and may continue to experience significant volatility. The current trading prices of the ADSs and the ordinary shares reflect certain expectations about the future performance and growth of SAP, particularly on a quarterly basis. However, our revenue can vary, sometimes substantially, from quarter to quarter, causing significant variations in operating results and in growth rates compared to prior periods. Any shortfall in revenue or earnings from levels projected by us quarterly or from projections made by securities analysts could have an immediate and significant adverse effect on the trading prices of the ADSs or the ordinary shares in any given period. Additionally, we may not be able to confirm our projections of any such shortfalls until late in the quarter or following the end of the quarter because license agreements are often executed late in a quarter. Finally, the stock prices for many companies in the software sector have experienced wide fluctuations, which have often not been directly related to an individual company s operating performance. The trading prices of our ADSs and ordinary shares may fluctuate in response to various factors including, but not limited to:

- the announcement of new products or product enhancements by us or our competitors;

- technological innovation by us or our competitors;

- quarterly variations in our results of operations;

- changes in revenue and revenue growth rates on a consolidated basis or for specific geographic areas, business units, products or product categories;

- speculation in the press or financial community;

- general market conditions specific to particular industries;

general and country specific economic or political conditions (particularly wars, terrorist attacks, etc.); and

proposed and completed acquisitions or other significant transactions by us or our competitors.

Many of these factors are beyond our control. In the past, companies that have experienced volatility in the market price of their stock have been subject to shareholder lawsuits including securities class action litigation. Any such lawsuits against us, with or without merit, could result in substantial costs and the diversion of management s attention and resources.

Project Risks

Customer implementation and installation of our products involves significant resources and is subject to significant risks.

Implementation of SAP software is a process that often involves a significant commitment of resources by our customers and is subject to a number of significant risks over which we have little or no control. Some of our customers have incurred significant third-party consulting costs and experienced protracted implementation times in connection with the purchase and installation of SAP software products. We believe that these costs and delays were due in many cases to the fact that, in connection with the implementation of the SAP software products, these customers conducted extensive business re-engineering projects involving complex changes relating to business processes within the customers own organizations. However, criticisms regarding these additional costs and protracted implementation times have been directed at us, and there have been, from time to time, shortages of our trained consultants available to assist customers in the implementation of our products. In addition, the success of new SAP software products introduced by us may be adversely impacted by the perceived or actual time and cost to implement the SAP software products. We cannot provide assurances that protracted installation times or criticisms of us will not continue, that shortages of our trained consultants will not occur, or that our costs to perform installation projects will not exceed the fees we receive when fixed fees are charged by us.

Product Risks

Undetected errors, shortcomings in our security features or delays in new products and product enhancements may result in increased costs to us and delayed demand for our products.

To achieve customer acceptance, our new products and product enhancements can require long development and testing periods, which may result in delays in scheduled introduction. Generally, first releases are licensed to a controlled group of customers after a validation process. Such new products and product enhancements may contain a number of undetected errors or bugs when they are first released. As a result, in the first year following the introduction of certain releases, we work with our early customers to correct such errors. There can be no assurance, however, that all such errors can be corrected to the customer s satisfaction, with the result that certain customers may bring claims for cash refunds, damages, replacement software or other concessions. The risks of errors and their adverse consequences may increase as we seek to introduce simultaneously a variety of new software products. Significant undetected errors or delays in introducing new products or product enhancements may affect market acceptance of SAP software products, and any such events could have a material adverse effect on SAP s financial condition, cash flow, results of operations and reputation.

The use of SAP software products by customers in business-critical applications and processes and the relative complexity of some of our software products create the risk that customers or other third parties may pursue warranty, performance or other claims against us in the event of actual or alleged failures of SAP software products, the provision of services or application hosting. We have in the past been, and may in the future continue to be, subject to such warranty, performance or other similar claims.

In addition, certain of our Internet browser-enabled products include security features that are intended to protect the privacy and integrity of customer data. Despite these security features, our products may be vulnerable to break-ins and similar problems caused by Internet users, such as hackers bypassing firewalls and

Table of Contents

misappropriating confidential information. Such break-ins or other disruptions could jeopardize the security of information stored in and transmitted through the computer systems of our customers. Addressing problems and claims associated with such actual or alleged failures could be costly and have a material impact on our operations.

Although our agreements generally contain provisions designed to limit our exposure as a result of actual or alleged failures of SAP software products or the provision of services, such provisions may not cover every eventuality or be effective under applicable law. Any claim, regardless of its merits, could entail substantial expense and require the devotion of significant time and attention by key management personnel. The accompanying publicity of any claim, regardless of its merits, could adversely affect the demand for our software.

If we are unable to keep up with rapid technological changes, we may not be able to compete effectively.

Our future success will depend in part upon our ability to:

- continue to enhance and expand our existing products and services;
- provide best-in-class business solutions and services; and
- develop and introduce new products and provide new services that satisfy increasingly sophisticated customer requirements, that keep pace with technological developments and that are accepted in the market.

There can be no assurance that we will be successful in anticipating and developing product enhancements or new solutions and services to adequately address changing technologies and customer requirements or that we will be able to generate enough revenues to offset the significant research and development costs we incur in bringing these products and services to the market. We may fail to anticipate and develop technological improvements, to adapt our products to technological change, changing country-specific regulatory requirements, emerging industry standards and changing customer requirements or to produce high-quality products, enhancements and releases in a timely and cost-effective manner in order to compete with applications and other technologies offered by our competitors.

We depend on technology licensed to us by third parties, and the loss of this technology could delay implementation of our products or force us to pay higher license fees.

We license numerous third-party technologies that we incorporate into our existing products, on which, in the aggregate, we may be substantially dependent. There can be no assurance that the licenses for such third-party technologies will not be terminated or that we will be able to license third-party software for future products. In addition, we may be unable to renegotiate acceptable third-party license terms to reflect changes in our pricing models. While we do not believe that one individual technology we license is material to our business, changes in or the loss of third-party licenses could lead to a material increase in the costs of licensing or to SAP software products becoming inoperable or their performance being materially reduced, with the result that we may need to incur additional development or licensing costs to ensure continued performance of our products.

Our SAP NetWeaver platform strategy may not succeed or may make certain of our products less desirable.

Since the introduction of SAP NetWeaver, we have been executing on our application platform vision. While we remain an enterprise application provider, the objectives of our platform strategy are to decrease the cost of integration, enable process flexibility and innovation, and help build the so-called ecosystem of partners.

Table of Contents

With solutions built on the SAP NetWeaver platform, we are targeting to enhance our position in the enterprise software industry by extending core applications.

To promote a broad adoption of the SAP NetWeaver platform, we are working with certified third-party independent software vendors (ISVs) using SAP NetWeaver as a basis to develop and offer their own certified solutions. To the extent that we cannot attract a sufficient number of capable ISVs delivering high-quality solutions based on the platform, the desired market penetration of SAP NetWeaver may not be achieved. Any ISV-developed solutions with significant errors may reflect negatively on our reputation and thus indirectly impede our own business operations. In addition, as with any open platform design, the greater flexibility provided to customers to use data generated by non-SAP software may reduce customer demand to elect and use certain of our software products. The failure to receive acceptance from customers of the SAP NetWeaver platform, development by competitors of superior technology or significant errors in the solution could have a material adverse impact on our revenues, earnings and results of operations.

See Item 4. Information about SAP Description of the Business Evolution of SAP Solutions for a more detailed description of SAP NetWeaver.

Other Operational Risks

If we acquire other companies, we may not be able to integrate their operations effectively and, if we enter into strategic alliances, we may not work successfully with our alliance partners.

In order to complement or expand our business, we have made and expect to continue to make acquisitions of additional businesses, products and technologies, and have entered into, and expect to continue to enter into, a variety of alliance arrangements. Our current strategy for growth includes, but is not limited to, the acquisition of companies with the aim of strengthening our geographic reach, broadening our offerings in particular industries, or complementing our technology portfolio. Our acquisitions of Business Objects in January 2008 and OutlookSoft Inc. in 2007 are examples of such endeavors. Management s negotiation of potential acquisitions or alliances, and management s integration of acquired businesses, products or technologies could divert its time and resources. In addition, risks commonly encountered in such transactions include:

- inability to successfully integrate the acquired business, including integrating different business and licensing models;
- inability to integrate the acquired technologies or products with our current products and technologies;
- potential disruption of our ongoing business;
- inability to retain key technical and managerial personnel of the acquired business;
- dilution of existing equity holders caused by capital stock issuances to the stockholders of acquired companies;
- assumption of unknown material liabilities of acquired companies;
- incurrence of debt or significant cash expenditure;
- difficulty in implementing or maintaining controls, procedures and policies;

potential adverse impact on our relationships with partner companies or third-party providers of technology or products;

impairment of relationships with employees and customers;

regulatory constraints; and

problems with product quality, product architecture, legal contingencies, product development issues or other significant risks that may not be detected through the due diligence process.

In addition, acquisitions of additional businesses may require an immediate charge to income for any in-process research and development costs of companies being acquired and amortization costs related to certain tangible and intangible assets that are acquired. Ultimately, certain acquired businesses may not perform as anticipated, resulting in charges for the impairment of goodwill and other intangible assets. Such write-offs and amortization charges may have a significant negative impact on operating margins and net income in the quarter in which the business combination is completed and subsequent periods. In addition, we have entered and expect to continue to enter into alliance arrangements for a variety of purposes including the development of new products and services. There can be no assurance that any such products or services will be successfully developed or that we will not incur significant unanticipated liabilities in connection with such arrangements. We may not be successful in overcoming these risks or any other problems encountered in connection with any such transactions and may therefore not be able to receive the intended benefits of those acquisitions or alliances.

We may incur losses in connection with venture capital investments.

We have acquired and expect to continue to acquire equity interests in or make advances to technology-related companies, many of which currently generate net losses and may require additional funding from their investors. It is possible that changes in market conditions, the performance of companies in which we hold investments or to which we have made advances or other factors may negatively impact our results of operations and financial position or our ability to recognize gains from the sale of equity securities. Additionally, under German tax laws capital losses or write-downs of equity securities are not tax deductible, which may negatively impact our effective tax rate, cash flows and net income going forward. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies Impairment Assessments.

We may not be able to adequately obtain, enforce, or protect intellectual property rights.

We seek to protect our proprietary rights through a combination of applicable trade secret, copyright, patent and trademark laws, license and non-disclosure agreements and technical measures. All of these measures afford only limited protection and may be challenged, invalidated, held unenforceable, or otherwise circumvented. Some proprietary rights may be vulnerable to disclosure or misappropriation by employees, partners, or other third parties. Despite our efforts, there can be no assurance that these protections will be adequate to prevent third parties from obtaining, using, or selling what we regard as our proprietary information without authorization. There can also be no assurance that third parties will not independently develop technologies that are substantially equivalent or superior to our technology. Also, it may be possible for third parties to reverse engineer or otherwise obtain and use information that we regard as proprietary. Accordingly, there can be no assurance that we will be able to protect our proprietary rights against unauthorized third-party copying or use, which could adversely affect our competitive position and result in reduced sales. Any legal action we bring to enforce our proprietary rights could be costly, distract management from day-to-day operations, and lead to claims against us, which could adversely affect our operating results. In addition, such enforcement actions could involve a partner or vendor and adversely affect our ability, and the ability of our customers, to access that partner or vendor s products. In addition, the laws and courts of certain countries may not offer effective means to enforce our intellectual property rights.

Third parties may claim we infringe their intellectual property rights.

There can be no assurance that, in the future, proprietary rights of third parties will not (a) preclude us from utilizing certain technologies in our products, (b) require us to pay damages to third parties, partners, or customers, or (c) enter into royalty and licensing arrangements on terms that are not favorable to us. Third parties have claimed and may claim in the future that we have infringed their intellectual property rights. Our software products have been, and we believe will increasingly be, subject to such claims as the number of products in our industry segment grows, as we expand our products into new industry segments and as the functionality of products overlap. Any claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays, subject our products to an injunction, require a complete or partial re-design of the relevant product, result in delays by customers in making spending decisions or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us or at all.

Additionally, the use of open-source software has become more prevalent in the development of software solutions in the software industry. Accordingly, we are selectively embedding in our software certain third-party open-source software components, which include software code subject to their respective open-source licenses that may require that the code be freely transferable. There can be no assurance that, in the future, a third party will not assert that our products or third-party software we deploy must be made publicly available under the terms of an open-source license, resulting in the loss of our proprietary advantage in the affected product.

Our insurance coverage may not be sufficient to avoid negative impacts on our financial position or results of operations resulting from the settlement of claims.

We maintain extensive insurance coverage for protection against many risks of liability. The extent of insurance coverage is regularly reviewed and is modified if we deem it necessary. Our goal of insurance coverage is to ensure that the financial effects, to the extent practicable at reasonable cost, resulting from risk occurrences are excluded or limited. Despite these measures, certain categories of risks are not currently insurable at reasonable cost. Even where we obtain insurance, our coverage is subject to exclusions that may limit or prevent our ability to recover under those policies. Further, there is no assurance that we will be able to obtain desired coverage at reasonable rates, or that such coverage will be available to us at all. Any failure to obtain or recover under insurance policies may result in a significant adverse impact on our financial position or results of operations.

We are subject to claims and lawsuits against us that may result in adverse outcomes.

We are subject to a variety of claims and lawsuits. Adverse outcomes in some or all of the claims pending against us may result in significant monetary damages or injunctive relief against us that could adversely affect our ability to conduct our business. While management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on our financial position or results of operations, litigation and other claims are by their nature subject to uncertainties, and management s view of these matters may change in the future. Actual outcomes of litigation and other claims may differ from the judgments made by management in prior periods, which could result in a material adverse impact on our financial position and results of operations. See Note 24 to our consolidated financial statements in Item 18. Financial Statements.

ITEM 4. INFORMATION ABOUT SAP

Our legal corporate name is SAP AG. SAP AG is translated in English to SAP Corporation. SAP AG, formerly known as SAP Aktiengesellschaft Systeme, Anwendungen, Produkte in der Datenverarbeitung, was incorporated under the laws of the Federal Republic of Germany in 1972. Where the context requires in the discussion below, SAP AG refers to our predecessors, Systemanalyse und Programmentwicklung GbR (1972-1976) and SAP Systeme, Anwendungen, Produkte in der Datenverarbeitung GmbH (1976-1988). SAP AG became a stock corporation (*Aktiengesellschaft*) in 1988. Our principal executive offices, headquarters and registered office are located at Dietmar-Hopp-Allee 16, 69190 Walldorf, Germany. Our telephone number is +49-6227-7-47474. SAP AG s agent for U.S. federal securities law purposes in the United States is Brad Brubaker. He can be reached c/o SAP America, Inc. at 3999 West Chester Pike, Newtown Square, PA 19073.

Table of Contents

We intend to make this Annual Report on Form 20-F and other periodic reports publicly available on our Web site (*www.sap.com*) without charge immediately following our filing with the SEC. We assume no obligation to update or revise any part of this Annual Report on Form 20-F, whether as a result of new information, future events or otherwise, unless we are required to do so by law.

DESCRIPTION OF THE BUSINESS

Overview

SAP was founded in 1972. Our core business is developing and licensing business software solutions. We also sell support, consulting, training and other services associated with our software products. Furthermore, we develop and market products in close cooperation with business partners.

As of December 31, 2007, we had 46,100 customers in over 120 countries and employ more than 43,800 individuals in more than 50 countries in the EMEA, Americas, and Asia Pacific Japan regions. We are headquartered in Walldorf, Germany. SAP consisted of SAP AG and its network of 139 operating subsidiaries. We have three lines of business that constitute our reportable segments: product, consulting and training. We tailor our solutions to serve the needs of customers in various industries which are divided into six industry sectors, namely process, discrete, consumer, service, financial services and public services. For a discussion of our geographic regions and industry sectors, see Item 4. Information about SAP Description of the Business Business by Region, Revenue by Industry Sector, and Note 28 to our consolidated financial statements in Item 18. Financial Statements.

The company is listed on several exchanges, including the Frankfurt Stock Exchange and the New York Stock Exchange (NYSE) under the symbol SAP.

Evolution of SAP Solutions

With the vision to create standard application software for real-time business processing, we introduced the first generation of our software in 1973, initially consisting of a financial accounting application.

The SAP R/2 system, our second generation of application software, was then developed for mainframe, designed to handle different languages and currencies and to integrate many aspects of business, including distribution centers, field operations centers, corporate headquarters, and sales offices.

We recognized the demand for more decentralized business software solutions and designed the initial version of the SAP R/3 system, moving from mainframe computing to the three-tier architecture of database, application and user interface. Introduced in 1992, SAP R/3 quickly became the category leader in ERP systems. During the 1990s, we introduced several solutions built on SAP R/3 to provide capabilities tailored to specific industries.

In the early 2000s, we continued to expand our product offerings to include the SAP Business Suite family of business applications that help enterprises improve business operations ranging from supplier relationships, production, and warehouse management to sales, administrative functions and customer relationships. We introduced the successor to SAP R/3 called the SAP ERP application, which is a component of SAP Business Suite.

We began in 2003 to adapt our portfolio of products to the new environment, mapping a route to a flexible new enterprise service-oriented architecture for software. A service-oriented architecture (SOA) is an industry term referring to a software architecture that supports the design, development, identification, and consumption of standardized services across the enterprise, thereby improving reusability of software components and creating agility in responding to change. The term service as used in service-oriented architecture means a Web service that is a self-contained functionality that can be accessed by applications across a network using mechanisms based on Web standards. An enterprise service, defined by us and our

Table of Contents

partners and customers, is a series of Web services combined with business logic that can be accessed and used repeatedly to support a particular business process. Aggregating Web services into business-level enterprise services provides more meaningful building blocks for composing applications to automate enterprise-scale business scenarios.

One key benefit of enterprise service-oriented architecture, or enterprise SOA, is the ability to rapidly map complex business processes with reusable enterprise services. Companies can use enterprise services to flexibly compose or alter applications as rapidly as their markets and business process needs change. Our platform for realizing enterprise SOA is the SAP NetWeaver technology platform. Together with the SAP NetWeaver technology platform and a repository of enterprise services, SAP ERP can serve as a business process platform, which is the unified environment that companies implement to perform their core business processes efficiently and to reorganize, extend, and create new business processes flexibly. In other words, SAP helps organizations establish their unique business process platform by delivering ready-to-execute software for business processes, reusable enterprise services that enable business process steps, and the technology to compose and deploy software that enables flexible business processes.

In 2007, SAP launched a new product, SAP Business ByDesign, which is designed entirely based on enterprise SOA to bring a comprehensive and adaptable business software solution to midsize companies. Initially we offer SAP Business ByDesign in an on-demand mode; we intend to introduce other deployment modes in the near future.

We also develop software solutions for business users. Traditionally, our software solutions touched only a certain group of users within our customers, including task workers who focus on executing their tasks within established business processes and handling routine transactions. Business users, identified as those who primarily work in unstructured processes and across organizational boundaries and who demand real-time contextual information to support better decision-making, are currently not fully leveraging corporate assets resident in enterprise applications. We have brought new products to address the needs of such business users who wish to take advantage of enterprise information. Examples of such products include Duet. Introduced in 2006, Duet is the first product jointly developed and supported by SAP and Microsoft. Duet enables employees to interact quickly and easily with selected SAP business processes and data without leaving the familiar Microsoft Office environment.

Newly Introduced Products and Product Versions

In 2007, our product development work focused on optimizing our solution portfolio. Working with our customers and partners, we developed numerous innovations and extended the functional range of our software products. These efforts created new solutions and updated versions of existing solutions 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. We also acquired companies and businesses to fill gaps in our portfolio of products.

Enterprise Application and Industry Solutions Offerings Expanded

We adapted the enterprise applications in the SAP Business Suite and all of our industry solutions for enterprise SOA and developed the following enhancements:

SAP ERP: In July, we announced the availability of the second enhancement package for the SAP ERP application. Next to functional enhancements, the package included specific innovations for the media, utilities, telecommunications, and retail industries. We announced the third enhancement package in December. It delivers reporting, financial, human resource management, and quality management capabilities. These enhancement packages enable customers to quickly and cost effectively take advantage of key innovations without moving to a new SAP ERP release.

SAP Customer Relationship Management (SAP CRM): In December, we introduced a new version of SAP CRM, which offers new enhancements, such as real-time offer management, trade promotions management, business communications, and pipeline performance management. By acquiring Wicom Communications, a provider of all-Internet Protocol software solutions, and integrating the Wicom capabilities with related SAP applications, we can now offer more efficient and powerful contact center and enterprise communications functions in the SAP Business Communications Management software.

SAP Product Lifecycle Management (SAP PLM): We enhanced our product lifecycle management software. With the enhancements to SAP PLM, manufacturers can better address two dominant business trends the accelerated speed of change and the need to achieve competitive differentiation by collaboratively innovating within their business network.

SAP Supply Chain Management (SAP SCM): SAP SCM 2007 extended our supply chain management offering, with its new functionalities for supply network collaboration, extended warehouse management, transportation management, and sales and operations planning.

SAP Supplier Relationship Management (SAP SRM): In 2007, we introduced an on-demand electronic purchasing solution. Companies can use the SAP E-Sourcing on-demand solution for their sourcing and procurement processes, such as online auctions and responding to requests for proposals. We also launched an application for contract life-cycle management and a spend analytics application that enables companies to more effectively manage procurement costs and compliance.

SAP Auto-ID Infrastructure: Customers can use our new SAP Auto-ID Infrastructure offering for product tracking and authentication to collect and process product data from RFID tags. This is designed to enable them to pinpoint the exact location of any object at any time.

SAP Manufacturing: As a result of acquiring Factory Logic in late 2006, we added the SAP Lean Planning and Operations application to our offering for the manufacturing industry. It helps manufacturers adapt more effectively and more flexibly to the changing demands of their customers. In addition, as a result of our acquisition of Lighthammer in 2005, in the new version of the SAP Manufacturing Integration and Intelligence application plant employees have better, personalized access to the information they need for decision making.

Enhanced functionality of the SAP NetWeaver technology platform

We have also added new functions to the SAP NetWeaver technology platform. It now gives IT staff an even more powerful strategic technology platform to standardize, consolidate, and optimize their IT landscape and to develop and integrate innovative business process solutions.

SAP NetWeaver Composition Environment: We released the SAP NetWeaver Composition Environment offering, a lean, integrated, standards-based development, modeling, and runtime environment. Software developers and technical consultants can use it to extend application logic and, depending on users needs, compose new views and applications based on SAP software.

SAP NetWeaver Process Integration: Companies use new functions in the SAP NetWeaver Process Integration offering to make their business processes more flexible and to manage enterprise services. At its heart is the Enterprise Services Repository, which is used to define all enterprise services and manage them through their life cycle.

SAP NetWeaver Business Rules Management (BRM): In 2007, we acquired Yasu, a vendor of business rules management systems, and embedded its solutions in our SAP NetWeaver technology platform, helping our customers to apply their business rules consistently to all of their business processes in heterogeneous IT landscapes, and to update them as necessary.

SAP NetWeaver Identity Management: We acquired MaXware in May 2007. We integrated its identity management solution in the SAP NetWeaver technology platform and enhanced it to help companies save time and money by optimizing the administration of user accounts and passwords.

SAP NetWeaver Enterprise Search: In August 2007, we released the SAP NetWeaver Enterprise Search offering. It is designed to provide secure, seamless access to information and processes in SAP and non-SAP systems to help information workers navigate to key business data. It delivers highly relevant results and suggested actions that reflect the user s role in the enterprise, and recognizes the business context of the search query.

SAP NetWeaver Mobile: A new version of the SAP NetWeaver Mobile offering provides new, scalable middleware to simplify the management of mobile devices, and improved security functions. New development tools help build mobile applications with very little programming work.

Solutions for the Midmarket

We developed the following new solutions and releases for small businesses and midsize companies in 2007:

SAP Business All-in-One: We released a new version of the SAP Business All-in-One solutions. Based on SAP ERP and SAP CRM, the solutions leverage the power of an enterprise SOA to offer midsize customers flexibility and simplicity in their use.

SAP Business ByDesign: In September, we launched SAP Business ByDesign. It is a business solution we developed for businesses with 100 to 500 employees fast growing companies that typically have not experienced integrated business solutions before. SAP Business ByDesign is designed to deliver simplicity, adaptability, and a wide range of functions at low running cost. Initially we offer SAP Business ByDesign as an on-demand solution; we intend to make other deployment models available in the future.

SAP Business One: In 2007, we added new capabilities to SAP Business One such as financial capabilities from reconciliation to reporting and new Web-based capabilities such as Web CRM and e-commerce.

Expansion of Business User Portfolio

We expanded our portfolio of products with innovative offerings, notably:

SAP solutions for governance, risk, and compliance: We delivered new or enhanced versions of SAP solutions for governance, risk, and compliance, which include the SAP GRC Global Trade Services application, the SAP Customs Processing for Automated Export Systems (AES) application, the SAP GRC Process Control application, the SAP GRC Risk Management application, and the SAP GRC Access Control application. These applications help customers perform risk analysis, manage internal controls, and comply with regulations.

Analytic blueprints from SAP: By acquiring Pilot Software we added a critical piece of new technology that is now integrated into our portfolio of analytic applications. We now offer customers tools to foster the alignment of their business strategy across all of their organizations.

SAP Strategy Management: We acquired Pilot Software to enhance our portfolio of strategy management software. Customers use the SAP Strategy Management application to continuously manage and assess the three cornerstones of business performance metrics, decisions, and goals.

SAP Business Planning and Consolidation: Our acquisition of OutlookSoft, a specialist company providing financial and strategy performance measurement solutions, extended our portfolio of solutions to help chief financial officers (CFOs). With its integrated planning, budgeting, forecasting, and consolidation capabilities, it is a solution that provides an effective control and planning toolbox.

Mobile business: Responding to growing interest in mobile business processes, we developed new mobile solutions and enhancements to existing mobile applications. Employees with mobile devices can be given access to core business processes.

Duet: Duet, which has been available since 2006, enables information workers to use SAP business data and business process software in the familiar Microsoft Office environment. In March 2007, we delivered a value pack with new scenarios for sales management, travel management, and demand planning. It comes with new configuration tools for the system administrator, and with more languages.

SAP s Strategy

Trends and Orientation

Our mission and guiding principle is unchanged: To define and establish undisputed leadership in the emerging business process platform market, 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 both 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 enterprises, but also for small businesses and midsize companies.

We offer software and services that 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 to 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, teamwork across multiple locations on complex projects, and support for globally dispersed staff.

Responsible management with 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 and 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.

Table of Contents

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 potential return our customers gain from their investment in SAP software.

All SAP Business Suite applications and SAP Business All-in-One solutions are now adapted for enterprise SOA. An enterprise SOA encourages agility, with standardized enterprise services that are deployable immediately. It also improves the stability, reliability, and scalability of 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 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 successfully provide SAP Business All-In-One solutions to customers in the range of 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 in the range of 100 to 500 employees have distinctly different software needs. To them, implementing their new IT solution 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 classic 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 significantly cutting TCO. Customers can 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. SAP Business One is a single system that can automate the critical business operations such as sales, distribution, and finance.

Strategy for Growth

We plan to realize our potential for growth as follows:

- Organic growth: Our growth strategy is based primarily on the internal development of 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 have acquired Business Objects in January 2008. It is an acquisition that positions us to lead the market for business performance management with more innovative products.

Table of Contents

OUR SOFTWARE SOLUTIONS AND SERVICES OFFERINGS

We offer the following products and services:

Our primary go-to-market approach is by industry. We strive to support customers in a specific industry with best practice industry processes as well as with the ability to innovate processes in an industry context. We understand that the requirements of large multinational conglomerates are different from those of small and midsize companies. Therefore, we also provide solutions that are tailored in scope and flexibility to the needs of the small and midsize enterprises.

SAP Solution Portfolio

SAP Applications

SAP applications, which include general-purpose applications and industry-specific applications, are the main building blocks of SAP solution portfolios for industries. They provide the software foundation with which organizations address their business issues.

> ***General-purpose applications.*** These include the SAP Business Suite family of business applications which consists of SAP ERP (which is made up of the following solutions: SAP ERP Human Capital Management (SAP ERP HCM), SAP ERP Financials, SAP ERP Operations, and SAP ERP Corporate Services), SAP Customer Relationship Management (SAP CRM), SAP Product Lifecycle Management (SAP PLM), SAP Supply Chain Management (SAP SCM), and SAP Supplier Relationship Management (SAP SRM). These applications can be licensed individually or together as a suite, and in some cases, such as with customer relationship management, customers can choose to license the software as on-demand solutions. In addition, we offer various cross-industry optional applications such as SAP Global Trade Management, Environment, Health & Safety, Duet, and SAP solutions for radio frequency identification (RFID).
>
> ***Industry-specific applications.*** These perform defined business functions in particular industries. These applications often are delivered as add-ons to general-purpose applications, particularly to the SAP ERP application. Some industry-specific applications may run stand-alone, and others require SAP ERP or other SAP Business Suite applications. Examples of industry-specific applications include the SAP Apparel and Footwear application for the consumer products industry and the SAP Reinsurance Management application for the insurance industry.

For large enterprises, we offer more than 25 tailored solution portfolios for industries. Solution portfolios for industries are created by SAP through the assembly of general-purpose applications, industry-specific applications, and, potentially, partner products. These portfolios support industry-specific business processes using software that is tailored to various roles in a business.

Our solution portfolios encompass the following six industry segments:

Process Industries
- Chemicals
- Mill Products
- Oil & Gas
- Mining

Discrete Industries
- Aerospace & Defense
- Automotive
- Engineering, Construction & Operations
- High Tech
- Industrial Machinery & Components

Consumer Industries
- Consumer Products
- Retail
- Wholesale Distribution
- Life Sciences

Services Industries
- Media
- Logistics Service Providers
- Postal Services
- Railways
- Telecommunications
- Utilities
- Professional Services

Financial Services
- Banking
- Insurance

Public Services
- Healthcare
- Higher Education & Research
- Public Sector
- Defense & Security

For small and midsize enterprises, we offer the SAP Business One application, the SAP Business All-in-One solutions, and the SAP Business ByDesign solution. SAP Business One targets small businesses with fewer than one hundred employees and offers capabilities for various work involved in managing a small business such as bookkeeping, reporting, sales and marketing, purchasing, and warehousing and inventory. It is developed by SAP and delivered by SAP channel partners who provide local services and support. SAP All-in-One solutions are designed to meet the requirements of midsize companies of up to 2,500 employees, and offer preconfigured industry-specific solutions for rapid deployment. The SAP Business All-in-One solutions are developed and sold by SAP, and deployed and supported by either SAP or an experienced partner. SAP Business ByDesign is developed, sold and supported by SAP and provided currently as an on-demand solution for midsize companies.

The SAP NetWeaver Technology Platform

The SAP NetWeaver technology platform is the foundation of SAP s approach to a service-oriented architecture. In addition to complying with all relevant technology standards around Web services, SAP NetWeaver provides support for IT practices that enable customers to map their business problems to IT solutions by using combinations of SAP NetWeaver preintegrated functions.

SAP Services

The SAP Services portfolio of service offerings includes consulting, education, support, custom development, and managed services. The service offerings are categorized into software-related services and professional and other services. Software-related services include support services provided by the SAP Active Global Support organization and custom development provided by the SAP Custom Development organization. Revenue from these services was classified as software and maintenance revenue in our Consolidated Statements of Income until 2006. Beginning in

2007, such revenue is shown as software and software-related service revenue, together with revenue from our on-demand offerings and from subscriptions. See a more detailed discussion on this change in Item 5. Operating and Financial Review and Prospects Overview.

Professional and other services include consulting, education and managed services. As a result of the change in our income statement presentation in 2007 discussed in the preceding paragraph, certain revenue from managed services, such as so-called mandatory hosting contracts in which the hosting components cannot be separated from the software components, is included in software and software-related service revenue.

Software-Related Services

SAP Custom Development. The SAP Custom Development organization develops custom solutions that address customers unique business requirements on the SAP NetWeaver platform. The service portfolio includes development services that help customers to extend and enhance existing SAP solutions or build new and innovative business solutions, and maintenance services to protect their custom solutions and SAP investment as their business evolves over time.

SAP Active Global Support. The SAP Active Global Support organization offers a broad range of services to support customers before, during and after implementation of our software solutions, providing around-the-clock technical support for high-priority messages to resolve issues as well as proactive, preventative support services to mitigate potential problems before they get out of hand. Key offerings of SAP Active Global Support include the SAP Standard Support option which provides the knowledge, tools, and functions to keep customers SAP environment up-to-date and running efficiently, and the SAP Premium Support option through which SAP s experts take a more active role in establishing support operations. As part of the SAP Standard Support, customers are entitled to unspecified upgrades and enhancements to the software products they licensed.

Professional and Other Services

SAP Consulting. The SAP Consulting organization offers consulting, implementation, and optimization services that aim at delivering business value in all phases of the solution life-cycle, from the planning phase through building and running the solutions. SAP Consulting advises and supports customers on designing business processes and IT infrastructure, helps customers with project management, solution implementation and integration, and helps with solution and IT landscape optimization to adapt to changing business needs of customers.

SAP Education. The SAP Education organization provides the training and tools required to assist SAP customers and partners in maximizing the benefits attained from SAP solutions. SAP Education services include education needs analysis, education delivery via classroom or e-learning, assessment certification and continuous improvement.

SAP Managed Services. The SAP Managed Services organization provides a comprehensive portfolio of services which include application management services and hosting services, running and managing SAP solutions on behalf of customers.

SEASONALITY

As is common in the software industry, our business has historically experienced the highest revenue in the fourth quarter of each year, due primarily to year-end capital purchases by customers. Such factors have resulted in 2007, 2006, and 2005 first quarter revenue being lower than revenue in the prior year s fourth quarter. We believe that this trend will continue in the future and that our revenue will continue to peak in the fourth quarter of each year and decline from that level in the first quarter of the following year.

33

Table of Contents

BUSINESS BY REGION

We operate our business in three principal geographic regions, namely EMEA, which represents Europe, the Middle East and Africa, the Americas, which represents both North and South America, and Asia Pacific Japan (APJ), which represents Japan, Australia and parts of Asia. We allocate revenue amounts to each region based on where the customer is located. See Note 28 to our consolidated financial statements in Item 18. Financial Statements for additional information with respect to operations by geographic region.

The following table sets forth, for the years indicated, the total revenue attributable to each of our three principal geographic regions:

	2007	**2006**	**2005**
		millions	
Germany	2,004	1,907	1,810
Rest of EMEA	3,386	2,994	2,709
Total EMEA	5,390	4,901	4,519
United States	2,706	2,609	2,340
Rest of Americas	871	776	656
Total Americas	3,577	3,385	2,996
Japan	447	431	406
Rest of APJ	828	676	588
Total APJ	1,275	1,107	994
Total revenue	10,242	9,393	8,509

EMEA. In 2007 53% (2006: 52%) of our total revenues were derived from the EMEA region. We achieved strong growth of 10% (2006: 9%) to 5,390 million. Revenues in Germany, SAP s home market, increased by 5% (2006: 5%) to 2,004 million (2006: 1,907 million). Germany contributed 37% (2006: 39%) of EMEA s total revenues, which is a slight decrease of 2 percentage points compared to 2006.

The remainder of revenues for the EMEA region in 2007 were mainly derived from the following major contributing countries: the United Kingdom, Switzerland, France, the Netherlands, Italy and Russia. With a growth rate of 52%, Russia has joined the major contributing countries in 2007.

The number of our employees (full-time equivalents, or FTEs) in the EMEA region increased by 1,315 FTEs or 6%, from 22,339 as of December 31, 2006 to 23,654 as of December 31, 2007. In Germany, the number of FTEs increased by 4% to 14,749 as of December 31, 2007 compared to 14,214 as of December 31, 2006. See Item 6. Directors, Senior Management and Employees Employees.

Americas. 35% (2006: 36%) of our 2007 total revenues were recognized in the Americas region. Revenues increased by 6% (2006: 13%) to 3,577 million in 2007. Revenues from the United States grew by 4% (2006: 11%) which represents a growth of 13% (2006: 14%) on a constant currency basis. The United States contributed 76% (2006: 77%) of our total revenues in the Americas region. The rest of the Americas region (United States excluded) increased revenues by 12% (2006: 18%) to 871 million which represents a growth of 15% (2006: 16%) on a constant currency basis. These revenues were mainly derived from Canada, Brazil and Mexico.

In the Americas region the FTEs increased by 17% from 9,109 as of December 31, 2006 to 10,629 at December 31, 2007. This was mainly driven by the hiring of additional sales and marketing personnel and FTEs gained through acquisitions.

APJ. In 2007 the Asia Pacific Japan region contributed 12% (2006: 12%) of our total revenues mainly derived from the following major contributing countries: Japan, Australia, India, China and South Korea. In the Asia Pacific Japan region, revenues increased by 15% (2006: 11%) to 1,275 million. Japan increased by 4% (2006: 6%) to 447 million, which represents 35% (2006: 39%) of total revenues in the Asia Pacific Japan region. On a constant currency basis revenues derived from Japan increased by 14% (2006: 14%). The rest of the Asia Pacific

Japan region (Japan excluded) increased revenues by 22% (2006: 15%), which represents 24% (2006: 16%) growth on a constant currency basis.

In the Asia Pacific Japan region, FTEs increased by 24% from 7,750 as of December 31, 2006 to 9,578 as of December 31, 2007, mainly due to the expansion of our research and development facilities in India and China.

REVENUE BY INDUSTRY SECTOR

We have identified six industry sectors in order to focus our product development efforts on the key industries of our existing and potential customers and to provide best business practices and specific integrated business solutions to those industries. We allocate our customers to an industry at the outset of an initial arrangement. All subsequent revenues from a particular customer are recorded under that industry sector. The following table sets forth the total revenues attributable to each of the six industry sectors for the years ended December 31, 2007, 2006, and 2005.

	2007	**2006**	**2005**
		millions	
Process Industries	2,135	1,995	1,766
Discrete Industries	2,222	2,179	1,986
Consumer Industries	1,949	1,665	1,456
Service Industries	2,371	2,132	1,945
Financial Services	678	590	543
Public Services	887	832	813
Total revenue	10,242	9,393	8,509

SALES, MARKETING AND DISTRIBUTION

SAP AG primarily uses its worldwide network of subsidiaries to market and distribute SAP s products and services locally. Those subsidiaries have entered into license agreements with SAP AG pursuant to which the subsidiary acquires the right to sublicense SAP AG s products to customers within a specific territory. Under these agreements, the subsidiaries retain a certain percentage of the revenue generated by the sublicensing activity. We began operating in the United States in 1988 through SAP America, Inc., a wholly owned subsidiary of SAP AG. Since then, the United States has become one of our most important markets. In certain countries, we have established distribution agreements with independent resellers rather than with subsidiaries.

In addition to our subsidiaries sales forces, we have developed an independent sales and support force through value-added resellers who assume responsibility for the licensing, implementation and support of SAP solutions, particularly with regard to the SAP Business One application and qualified SAP Business All-in-One partner solutions. We have also entered into alliances with major system integration firms, telecommunication firms and computer hardware providers to offer certain SAP Business Suite applications.

We supplement certain of our consulting and support services through alliances with hardware and software suppliers, systems integrators and third-party consultants with the goal of providing customers with a wide selection of third-party competencies. The role of the alliance partner ranges from pre-sales consulting for business solutions to the implementation of our software products to project management and end-user training for customers and, in the case of certain hardware and software suppliers, to technology support.

Traditionally, our sales model has been to charge a one-time, up front license fee for a perpetual license to our software (without any rights to future products) which is typically installed at the customer site. We now offer our solutions in a variety of ways which include on-demand, hosted solutions, and subscription-based models. Although revenues from these new types of models are currently not material, we expect such revenues to increase in the future. We introduced a new line in 2007 in our income statement to reflect this revenue stream.

Table of Contents

Our marketing efforts cover large, multinational groups of companies as well as small and midsize enterprises. We believe our solutions and services meet important needs of all kinds of customers and are not dependent on the size or industry of the customer.

Capitalizing on the possibilities of the Internet, we actively make use of online marketing. Some of our solutions can be tested online via the Internet demonstration and evaluation system, which also offers special services to introduce customers and prospects to new solutions and services.

PARTNERSHIPS, ALLIANCES AND ACQUISITIONS

Partnerships and strategic alliances are a key element of our efforts to broaden the solutions and services offered to SAP customers and to extend the markets for our products and services. Our close collaboration with partners across the life cycle of a customer solution is a key element in enhancing customer satisfaction. We characterize our partnerships and strategic alliances into categories such as services, technology, software, hosting, content, education and support that together constitute what we refer to as the partner services network. Within most categories, our partners may achieve the status of a local or global partner. We expect our alliance partners to provide customers with joint strategic solutions. Our partners generally have a strong position in a particular line of business or cross-industry and complement the range of SAP solutions in these areas. Our partner network includes thousands of companies including independent software vendors (ISVs), systems integrators, and business process outsourcing (BPO) providers across all partner categories.

We have entered into agreements with a number of leading software, technology and services companies to cooperate and ensure that certain of the software, technology and services offered by such suppliers complement our software products and vice versa.

In May 2006, we announced the launch of a US$125 million global fund called the SAP NetWeaver Fund which focuses on strategic investments in select companies that are committed to the SAP ecosystem and are building innovative solutions based on the SAP NetWeaver platform. To date, the fund has invested approximately one-fourth of the 125 million in minority interests of four technology companies providing innovative solutions for various industries from manufacturing to life sciences. We account for these investments using the cost method unless we are able to significantly influence the operating and/or financial decisions of the investee, in which case we use the equity method of accounting.

Part of our strategy involves fill-in acquisitions to add to our solution offerings within industries or across industries by gaining specific technologies and capabilities that meet the needs of our customers. We routinely evaluate various alternatives and engage in discussions and negotiations with potential parties to such transactions. In 2007, we acquired the outstanding shares of five unrelated companies and the net assets of two other unrelated businesses. The financial results of these acquired businesses have been included in our financial statements since the respective acquisition dates. All of these companies developed and sold software that is complementary to our business and that we plan to integrate or have integrated into our portfolio of product offerings.

For example, one of the acquired companies, OutlookSoft Corp., a non-listed U.S. software vendor, is a specialist company making financial and strategy performance measurement solutions. The acquisition extends our portfolio of solutions to support chief financial officers (CFOs) manage corporate performance, risk, and financial value chains.

We retained the majority of the employees of these acquired entities and there was no material restructuring charge associated with the acquisitions. The amount of in-process research and development we expensed as a result of these acquisitions was immaterial. We also acquired software (intellectual property) from other companies, without acquiring related businesses. These transactions were immaterial to us individually and in the aggregate. See Note 4 to our consolidated financial statements in Item 18. Financial Statements for further details.

In October 2007, we announced that we had entered into an agreement to offer to acquire all of the stock of Business Objects. The transaction was completed successfully in the first quarter of 2008 at an overall cost of approximately 4.8 billion. Together, SAP and Business Objects intend to offer high-value business and process solutions for business users.

There were no public takeover offers by third parties with respect to our shares in 2007 or 2006.

INTELLECTUAL PROPERTY, PROPRIETARY RIGHTS AND LICENSES

We rely on a combination of the protections provided by applicable trade secret, copyright, patent, and trademark laws, license and non-disclosure agreements, and technical measures to establish and protect our rights in our products. For further details on risks related to SAP s intellectual property rights, see Item 3. Key Information Risk Factors Other Operational Risks.

We may be significantly dependent in the aggregate on technology that we license from third parties that is embedded into our products or that we resell to our customers. We have licensed and will continue to license numerous third-party software products that we incorporate into and/or distribute with our existing products. We endeavor to protect ourselves in the respective agreements by obtaining certain rights in case such agreements are terminated. The termination rights and terms of each license agreement may vary, but the various protections generally include receiving maintenance for a certain period of time after termination, the right to distribute the then-current software release for a certain period of time after termination and/or the right to transfer the relevant intellectual property to SAP if we desire.

We are a party to certain patent cross-license agreements with certain third parties to provide a better environment for joint technical collaboration and solutions development.

We are named as a defendant in various legal proceedings for alleged intellectual property infringements. See Note 24 to our consolidated financial statements in Item 18. Financial Statements. for a more detailed discussion of these legal proceedings.

ORGANIZATIONAL STRUCTURE

As of December 31, 2007, SAP AG was the holding company of 139 subsidiaries whose main task is the distribution of SAP s products and services on a local basis. Our primary research and development facilities, the overall group strategy and the corporate administration functions are concentrated at our headquarters in Walldorf, Germany.

The following table illustrates our most significant subsidiaries based on revenues as of December 31, 2007:

Name of Subsidiary	Ownership %	Country of Incorporation	Function
Germany			
SAP Deutschland AG & Co. KG, Walldorf	100	Germany	Sales, consulting and training
Rest of Europe/Middle East/Africa			
SAP (UK) Limited, Feltham	100	Great Britain	Sales, consulting and training
SAP (Schweiz) AG, Biel	100	Switzerland	Sales, consulting and training
SAP France S.A., Paris	100	France	Sales, consulting and training
SAP ITALIA SISTEMI, APPLICAZIONI, PRODOTTI IN DATA PROCESSING S.P.A., Milan	100	Italy	Sales, consulting and training
SAP Nederland B.V., s-Hertogenbosch	100	The Netherlands	Sales, consulting and training
Americas			
SAP America, Inc., Newtown Square	100	USA	Sales, consulting and training
SAP Canada Inc., Toronto	100	Canada	Sales, consulting, training, and research and development
Asia/Pacific			
SAP JAPAN Co., Ltd., Tokyo	100	Japan	Sales, consulting training, and research and development

DESCRIPTION OF PROPERTY

Our principal office is located in Walldorf, Germany, where we own and occupy approximately 400,000 square meters of office space including our facilities in neighboring St. Leon-Rot. We also own and lease office space in various other locations in Germany, totaling approximately 100,000 square meters, and in more than 60 other countries worldwide, totaling approximately 590,000 square meters. The space in most locations other than our principal office in Germany is leased. We own certain real properties in Newtown Square and Palo Alto, the United States; Bangalore, India; and a few other locations in and outside of Germany.

The office space we occupy includes approximately 240,000 square meters in the EMEA region, excluding Germany, approximately 160,000 square meters in North America, and approximately 100,000 square meters in India.

The space is being utilized for various corporate functions including research and development, customer support, sales and marketing, consulting, training, and administration. Note 28 to our consolidated financial statements in Item 18. Financial Statements discusses property, plant, and equipment by geographic region. Item 6. Directors, Senior Management and Employees discusses the numbers of our employees by business area and by geographic region, which may be used to approximate the capacity of our workspace in each region.

We believe that our facilities are in good operating condition and adequate for our present usage. We don t have any significant encumbrances on our properties. We are currently undertaking or planning to undertake construction activities in various locations to increase our capacity for future expansion of our business. Some of the significant construction activities are described below, under the heading Capital Expenditures.

Table of Contents

Capital Expenditures

We commenced the construction of a new office building at our Newtown Square location in the second quarter of 2007, which will add 750 workspaces and will increase our workspace by approximately 20,000 square meters. We estimated the total costs to be about 62 million, of which we had paid approximately 13 million as of December 31, 2007. The construction is expected to be completed by the third quarter of 2009. Also, improvements to existing facilities at this location, which commenced in the fourth quarter of 2007, are estimated to cost 3 million and will be completed in 2008. We are funding the construction and improvements with internally generated cash flows.

At our Palo Alto location, one of our key research and development facilities, planned construction of a new building to accommodate our headcount growth was initiated in 2007. This will increase workspace to accommodate an additional 300 workers. The estimated cost is 8 million, of which 1 million was already paid. The estimated completion is the second quarter of 2008. Also, improvements and equipment upgrades are planned for 2008 to the existing facilities at this location, totaling about 9 million. We are funding the construction and improvements with internally generated cash flows.

In India, mainly at our Bangalore location which is another key research and development center for us and our sales and customer support base for the growing Indian market, we are building new buildings to add workspace for about 2,150 additional employees. Total estimated cost is about 32 million, of which 23 million has been paid so far. We are funding the construction with internally generated cash flows. These buildings are scheduled to be completed in 2008. Also, improvements and equipment upgrades to existing buildings in Bangalore and Gurgaon are planned for 2008. These improvements will add workspace for 1,150 additional employees. The combined costs of the improvements and upgrades are estimated to be about 8 million and will be completed in 2008. The funding for these improvements has not yet been determined.

In Brazil, we commenced construction for the expansion of the São Leopoldo office in the fourth quarter of 2007, which will add 400 workspaces. We estimated the total costs to be about 8 million. Equipment upgrades and furniture associated with the expansion at this location are estimated to cost 5 million in 2008. The funding for this project has not yet been determined. The expansion at this location is expected to be completed in the fourth quarter of 2008. In the São Paulo location the office will re-locate to a new building during 2008. The cost associated with the relocation is estimated to be about 5 million and will be funded with internally generated cash flows.

We initiated the planning for a guesthouse in our Walldorf location to save future travel costs on visiting SAP employees. We estimate the total cost of the construction to be approximately 16 million. We are funding the construction with internally generated cash flows. The planned completion is the first quarter of 2009.

Our capital expenditures for property, plant, and equipment amounted to 342 million for 2007 (2006: 316 million; 2005: 245 million). The increase from 2006 to 2007 was due mainly to our principal area of investment, which continues to be related to computer hardware (an increase from about 100 million in 2006 to about 130 million in 2007) to support our growing operations globally. This accounted for about one-third of the spending in 2007. Our car purchases remained constant and contributed to approximately 60 million mainly due to the continued purchase of company cars for eligible employees in Germany. The increase from 2005 to 2006 was in large part due to the increase in construction in progress, the majority of which was attributable to the construction of new buildings in Walldorf. See Note 17 to our consolidated financial statements in Item 18. Financial Statements for a related discussion on property, plant, and equipment.

Our capital expenditures for intangible assets such as software licenses and acquired technologies also increased to 238 million in 2007 from 189 million in 2006 (2005: 116 million). The increase in 2007 was primarily attributable to the acquisition of unrelated companies business and of net assets of other companies, as well as to increased activities in licensing. See Note 4 and Note 16 to our consolidated financial statements in Item 18. Financial Statements for further details of the acquisitions, which were also the cause of an increase in goodwill in 2007 of 520 million (2006: 407 million; 2005: 143 million).

Also, see Note 28 to our consolidated financial statements in Item 18. Financial Statements for further details regarding capital expenditures by geographic region.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

OVERVIEW

Our principal sources of revenue are sales of software products and related services. Software revenue is primarily derived from software license fees that customers pay to use SAP products. We provide standard support for a fee based on a fixed percentage of the license fee paid by the customer. The standard support includes technical support services as well as unspecified software upgrades, updates and enhancements. We also offer optional support services for additional coverage and scope. Our professional service revenue consists of consulting, training and other service revenue; consulting revenue is primarily derived from the services rendered with respect to implementation of our software products and training revenue from customer project teams and end-users, as well as training third-party consultants with respect to SAP software products. See Item 4. Information about SAP Our Software Solutions and Services Offerings for a description of other services we offer.

In 2007, we changed the presentation of our income statement in an effort to provide more visibility and transparency about our revenue streams. We renamed what we previously called maintenance revenue as support revenue; what we previously called software and maintenance revenue is now shown as software and software-related service revenue; and we now show subscriptions and other software-related service revenue as a separate component within software and software-related service revenue. This new item includes revenue from subscriptions, software rentals and time-based licenses, hosted and other on-demand solutions, and other software-related services.

Subscription revenues flow from contracts that have both a software element and a support 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, which is generally five years. Software rental revenue flows from software rental contracts, also with software and support elements but here the customer receives the use of current products only. Our revenue from other software-related services includes revenue from our on-demand offerings, for example the SAP CRM on-demand solution, any future on-demand revenue from our new midmarket product SAP Business ByDesign, revenue from hosting contracts that do not entitle the customer to readily exit the arrangement, and revenue from software-related revenue-sharing arrangements, for example our share of revenue from collaboratively developed products.

We also renamed what was previously called service revenue to now be shown as professional services revenue. Furthermore, we now show revenue from other services as an additional item within professional services revenue. This new item includes revenue from non-mandatory hosting services, application management services (AMS), and commission. Non-mandatory hosting services revenue is revenue from hosting contracts from which the customer can readily exit if it wishes to run the software on its own systems.

Accordingly, certain revenue figures and corresponding expenses figures from previous years presented in this Annual Report on Form 20-F have been reclassified to conform to this new presentation format.

In addition, we present in our Consolidated Statements of Income the results of discontinued operations. This presentation resulted from the commitment we made in November 2007 to a plan to sell our TomorrowNow Group

(TN), which is composed of TomorrowNow, Inc. and its subsidiaries, and to cease providing third-party product-support services. TN is a subsidiary of SAP America, Inc., which is a wholly owned subsidiary of SAP AG. In our discussion in the following Operating Results section and the Segment

40

Discussions section under this Item 5, revenue and expense figures are for our continuing operations, unless noted otherwise. See Note 11 to our consolidated financial statements in Item 18. Financial Statements for more detail of discontinued operations. Based on our assessment of the fair value of TN s net assets, we don t expect the proceeds from a future sale to significantly differ from the current carrying value of the net assets of TN.

At the beginning of 2007, based on our prediction of growth in the economy as a whole and in the IT industry in particular, we gave the following operational guidance for 2007:

We expect year-over-year software and software-related service revenue growth in the range of 12% to 14% on a constant currency basis. The corresponding rate of growth in 2006 on a constant currency basis was 12%. We expect subscription and other software-related services to account for approximately 2% to 4% of total software and software-related services revenue.

To tap new business in the lower midmarket in the coming years, over a period of eight quarters we intend to invest about 300 million to 400 million in sales channels, process, infrastructure, and human resources, all oriented toward new customer relationships and a big, diversified partner ecosystem. We plan to fund these capital expenditures by using our operating cash flow. Depending on when we actually make these investments, in 2007 we expect to reinvest the equivalent of about one to two operating margin percentage points in preparing for additional future growth opportunities. Therefore, we assume our 2007 operating margin will be in the range 26.0% to 27.0%. Our 2006 operating margin was 27.4%.

We plan to increase our headcount by 3,500 FTEs in 2007.

We plan to continue to buy back shares in the open market. If the Annual General Meeting of Shareholders in May 2007 so resolves, we expect to pay a dividend that provides a payout ratio of about 30%.

We assume an effective tax rate in the range of 32.5% to 33.0%

In 2007, we met or exceeded each of the elements of our guidance set at the beginning of the year. Software and software-related service revenue increased from 6,596 million in 2006 to 7,427 million in 2007, representing an increase of 831 million or 13%. At constant currencies, software and software-related service revenue increased by 17%, exceeding our outlook of 12% to 14%. Underlying software revenue increased from 3,003 million in 2006 to 3,407 in 2007, representing an increase of 404 million or 13%. At constant currencies, software revenue increased by 18%. Subscription and other software-related services accounted for 2% of total software and software-related services revenue. This was in our guidance range of 2% to 4%.

Our operating margin from continuing operations, which excludes the operating margin related to discontinued operations of the TN business, decreased by 0.7 percentage points from 27.4% in 2006 to 26.7% in 2007, thus meeting the upper end of our outlook which was 26.0% to 27.0%. The 2007 operating margin was impacted by investments of 125 million to build up a business around SAP Business ByDesign. These investments, which reduced our operating margin by 1.2 percentage points, were in line with our expectation.

For 2007 our revenue and income from continuing operations before income taxes were 10,242 million and 2,857 million, respectively, as compared to 9,393 million and 2,688 million, respectively, for 2006. Net income was 1,919 million and 1,871 million for 2007 and 2006, respectively.

Earnings per share from continuing operations increased by 0.07 or 5% to 1.60 in 2007 compared to 1.53 in 2006. The 2007 effective tax rate from continuing operations was 32.2%, which was below the guidance range of 32.5% to 33.0%.

The following discussion is provided to enable a better understanding of our operating results for the periods covered, including:

- key factors that impacted our performance;

41

discussion of our operating results for 2007 compared to 2006 and for 2006 compared to 2005; and

our outlook for 2008.

The above overview should be read in connection with the more detailed discussion and analysis of our financial condition and results of operations in this Item 5, Item 3. Key Information Risk Factors, and Item 18. Financial Statements.

KEY FACTORS

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 annum 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 ructions 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.

Looking at the regions separately, the IMF believes that as a result of the reticence of investors on the money and real estate markets, in 2007 the U.S. economy grew only 1.9%, compared with 2.9% the previous year. On the other hand, the IMF believes that in the European Union (EU) total output grew 3.0% in 2007 (2006: 3.2%). It estimates German economic growth was 2.4% (2006: 2.9%). For the industrialized countries in Asia, the IMF paints a cheerier picture of 4.9% growth (2006: 5.3%). But the emerging and developing countries were again the driving force: Their economies grew 8.1%, matching the previous year. The dip in economic growth also affected the volume of world trade, which, the IMF reports, grew 6.6% in 2007, compared with 9.2% the year before.

IT Market in 2007

Despite uncertainties surrounding the health of the economy, demand for IT (excluding telecommunications) grew even more in 2007 than in the year before. Continued price declines in hardware diverted a larger proportion of IT budgets toward software and IT services. That is the assessment of prominent U.S. market research firm IDC. It says worldwide IT spending rose 6.9% (2006: 6.3%). IDC reports especially strong growth in sales of packaged software. In 2007, this segment of the IT market grew 8.8%, compared with 8.0% in 2006.

Table of Contents

According to IDC, industry and application software solutions as a segment of the software market grew 7.7% (2006: 7.3%). The services segment was again strong, with 6.2% expected growth (2006: 5.7%).

IDC reports that continuing cheer in Europe and especially in the emerging markets made up for sluggish IT sales growth in the United States. Sales of system infrastructure software were also strong. On the other hand, demand growth for high-end servers and traditional workstations was far less pronounced in 2007 than in 2006, IDC says.

Gartner, another major market research firm in the United States, believes that global spending on IT (excluding telecommunications) rose 9.0% in 2007 compared with 5.5% in 2006.

Looking at the regions separately in 2007, IDC and Gartner note that North America accounts for some 40% of world IT sales (excluding software) and that North American demand growth for IT at 6.5% was weaker than the world average. The growth in demand for hardware (5.7%) and services (5.6%) also faltered. However, demand for software remained buoyant in North America, growing 8.9% in 2007. IDC also reports that applications sold well, especially solutions supporting information management and data analysis.

IDC also says that in 2007 demand for IT grew 4.8% in Western Europe, which accounted for 30.9% of world IT spending. It believes this reflected the state of the regional economy, which remained healthy. Sales accelerated even more strongly, 17.9% over the year, in Eastern Europe, says IDC, although the market there had only 10.4% of the volume of the Western European IT market. It reports that software sales grew 8.6% in Western Europe and 14.9% in Eastern Europe. IDC says that in 2007, total IT spending in Germany grew 3.8%. The German Association for Information Technology, Telecommunications, and New Media (BITKOM) is pleased with the advance of the IT business.

In IDC s analysis, the market remained strong in the Asia Pacific region. It represents almost 20% of the global IT market and grew 7.5% in 2007. As before, double-digit percentage increases in China and India made those two countries the engines of growth in the region, IDC reports. It says IT sales rose 2.6% in Japan. In Gartner s view, IT sales growth in Japan was even more modest in 2007, at 0.2%.

OPERATING RESULTS

Total Revenue

	2007	**2006**	**2005**	**Change 2007 vs. 2006**	**Change 2006 vs. 2005**
		millions			
Total revenue	10,242	9,393	8,509	9%	10%

2007 compared with 2006. Total revenue increased from 9,393 million in 2006 to 10,242 million in 2007, representing an increase of 849 million or 9%. At constant currencies, total revenue increased by 13%. This increase is mainly related to the strong increase in software and software-related service revenue, which grew by 831 million or 13% compared to 2006. On a constant currency basis, software and software-related service revenue grew by 17%, exceeding the communicated guidance of 12% to 14%. In 2007, software and software-related service revenue represented 73% of our total revenue, which is an increase of 3 percentage points compared to 2006, in line with our goals. Professional services and other service revenue contributed 16 million to the overall growth in 2007. This represents an increase of 1% compared to 2006. On a constant currency basis, professional services and other service revenue increased by 4%.

Table of Contents

The average exchange rate for the U.S. dollar in 2007 was $1.38 per 1.00, compared to $1.27 per 1.00 in 2006. The rate evolved as follows for the period-end Noon Buying Rate expressed as dollars per 1.00.

Date	**Period-End**
December 2006	1.3197
March 2007	1.3374
June 2007	1.3520
September 2007	1.4219
December 2007	1.4603

Ultimately the strength of the euro over the year reduced the euro value of revenue generated in other currencies. Foreign currency translation effects from the strengthening value of the euro during the year negatively impacted our total consolidated revenue by 4% in 2007.

2006 compared with 2005. Total revenue increased from 8,509 million in 2005 to 9,393 million in 2006, representing an increase of 884 million or 10%. At constant currencies, total revenue increased by 11%. Compared to 2005, all revenue streams contributed to the overall growth in 2006. Software and software-related service revenue grew by 11% compared to 2005 with software revenue increasing by 9%. On a constant currency basis, software and software-related service revenue grew by 12% and software revenue by 11%. This compares to our expectation that software and software-related service revenue would increase in a range of 13% to 15% and software revenue would increase in a range of 15% to 17%. Software and software-related service revenue represented 70% of our total revenue, which amounted to a slight increase compared to 2005. The average exchange rate in 2006 was $1.27 per 1.00, compared to $1.24 per 1.00 in 2005. The rate evolved as follows for the period-end Noon Buying Rate expressed as dollars per 1.00.

Date	**Period-End**
December 2005	1.1842
March 2006	1.2139
June 2006	1.2779
September 2006	1.2687
December 2006	1.3197

Ultimately the strength of the euro over the year reduced the euro value of revenue generated in other currencies. Foreign currency translation effects from the strengthening value of the euro during the year negatively impacted our total consolidated revenue by 1% in 2006.

Software and software-related service revenue

	2007	**2006 millions**	**2005**	**Change 2007 vs. 2006**	**Change 2006 vs. 2005**
Software revenue	3,407	3,003	2,743	13%	9%

Support revenue	3,838	3,464	3,170	11%	9%
Subscription and other software-related service revenue	182	129	42	41%	207%
Software and software-related service revenue	7,427	6,596	5,955	13%	11%

Software revenue represents fees earned from the sale or license of software to customers. Support revenue represents fees earned from providing customers with technical support services and unspecified software upgrades, updates and enhancements. Subscription and other software-related service revenue represents fees earned from subscriptions, software rentals, and other types of software-related service contracts.

Table of Contents

2007 compared with 2006. Software and software-related service revenue increased from 6,596 million in 2006 to 7,427 million in 2007, representing an increase of 831 million or 13% (17% on a constant currency basis).

Software revenue increased from 3,003 million in 2006 to 3,407 million in 2007, representing an increase of 404 million, or 13%. The increase in software revenue was negatively impacted by the stronger value of the euro compared to other currencies. On a constant currency basis, software revenue grew by 18% from 2006 to 2007. This strong performance is the result of well balanced growth in all regions. Compared to 2006 the EMEA region grew by 14% (15% on a constant currency basis), the Americas region by 8% (16% on a constant currency basis) and the region Asia Pacific Japan by 28% (32% on a constant currency basis).

In addition to the further increased licensing of our software solution SAP Business Suite and the platform related products utilizing our SAP NetWeaver platform technology, the growth in software revenue was also driven by increased sales of our business user solutions. In 2007 we continued to derive software revenue from our existing customer base. In both 2007 and 2006, approximately 31% of the number of new contracts came from new customers, with the remaining 69% coming from our installed customer base. Based on the value of orders received, the new customer share increased from 19% in 2006 to 21% in 2007.

The SAP NetWeaver-related revenue increased from 754 million in 2006 to 997 million in 2007, representing an increase of 243 million or 32%. The underlying SAP NetWeaver stand-alone revenue increased by 160 million or 95% to 329 million in 2007 compared to 169 million in 2006.

Thanks to our stable installed customer base and the continued sale of software to existing and new customers throughout 2007, support revenue increased from 3,464 million in 2006 to 3,838 million in 2007, representing an increase of 374 million or 11%. On a constant currency basis, support revenue grew by 15% from 2006 to 2007. The largest contributor to the 2007 increase in support revenue based on volume was again the EMEA region where the support revenue increased by 219 million or 11%.

Subscription and other software-related service revenue increased by 53 million or 41% to 182 million compared to 129 million in 2006.

2006 compared with 2005. Software and software-related service revenue increased from 5,955 million in 2005 to 6,596 million in 2006, representing an increase of 641 million or 11% (12% on a constant currency basis).

Software revenue increased from 2,743 million in 2005 to 3,003 million in 2006, representing an increase of 260 million, or 9%. With the stronger value of the euro compared to other currencies, this increase was impacted by a negative foreign currency translation effect. On a constant currency basis, software revenue grew by 11% from 2005 to 2006. The largest contributor to software revenue growth in 2006 was the Americas region (in particular the United States) where we accomplished a growth of 11% compared to 2005.

The growth in software revenue was driven by an increased licensing of our software solutions including enterprise applications such as the SAP Business Suite family of applications and the platform-related products utilizing our SAP NetWeaver platform technology. While we continued to derive software revenue from the existing customers who upgrade from the R/3 system to the SAP ERP application, driven by the introduction of a new version of SAP ERP in mid-2006, or who are expanding their use of our software by increasing users or deploying additional SAP solutions, the revenue growth can also be attributed to an increased number of new customers. Approximately 31% of the number of new contracts in 2006 came from new customers, with the remaining 69% coming from our installed customer base (compared to 33% from new customers and 67% from our installed customer base in 2005). Based on the value of orders received, the new customer share decreased from 22% in 2005 to 19% in 2006.

SAP NetWeaver-related revenue grew by 55% to 754 million in 2006 from 486 million in 2005. SAP NetWeaver stand-alone revenue increased from 108 million in 2005 to 169 million in 2006, or 56%. As more new

45

solutions are developed and introduced in the future based on our SAP NetWeaver platform, we expect the SAP NetWeaver-related revenue to grow further.

We continued to implement our volume business model with a higher number of smaller contracts. In the small and midsize enterprise segment (enterprises with 2,500 or fewer employees, or annual revenue of US$1 billion or less), we saw steady growth in terms of the number of order entries.

Support revenue increased from 3,170 million in 2005 to 3,464 million in 2006, representing an increase of 294 million or 9%. On a constant currency basis, support revenue grew by 10% from 2005 to 2006. With our growing installed customer base, this increase in support revenue was primarily due to the growth of software sales throughout 2005 and due to additional software contracts closed during 2006. Accordingly, support revenue continued to increase constantly on a rolling four quarter basis. In 2006 the largest contributor to the increase in support revenue based on volume came again, as in 2004 and 2005, from the EMEA region. The EMEA region continues to have the largest share of support revenue in the SAP Group.

Subscription and other software-related service revenue increased by 87 million or 207% to 129 million compared to 42 million in 2005. During 2006, we concluded so-called global enterprise agreements with four large customers. Structured as subscription contracts, global enterprise agreements include the license grant, provision of support services and the right to unspecified future products. The four contracts amounted to a total value of about 400 million, which will be recognized as revenue over a period of 5 years.

Professional services and other service revenue

	2007	**2006**	**2005**	**Change 2007 vs. 2006**	**Change 2006 vs. 2005**
		millions			
Consulting revenue	2,221	2,249	2,071	(1)%	9%