To our stockholders:

In 2007, Adobe marked its 25th year as an industry-leading software pioneer, continuing to revolutionize how the world engages with ideas and information.

We delivered anticipated new versions of some of Adobe's best-selling products, most notably the customer-inspired Adobe® Creative Suite® 3—the largest software release in Adobe's history. Adoption of the Adobe Acrobat® family of products continued to be strong, buoyed by new product versions with advanced collaboration and security capabilities. Similarly, new products and technologies designed to enhance organizational productivity, such as Adobe LiveCycle® and Adobe Flex®, contributed to significant growth in our Enterprise and Developer Solutions business segment. We also delivered a number of new offerings that bring leading-edge capabilities to the rapidly growing video, mobile, and web conferencing markets, and we continued to develop innovative new technology platforms like Adobe AIR™ which is sparking creation of rich, engaging applications that will be able to run anytime, anywhere, and for any audience—from individual consumers to global enterprises. In addition to delivering these and other market-leading products and technologies, we expanded and deepened relationships with customers and partners worldwide, and we achieved another year of record financial results.

As you can see, Adobe at 25 had much to celebrate.

Another year of record financial results: Surpassing $3 billion in revenue

Delivering double-digit revenue growth for the sixth consecutive year, Adobe reached another major milestone by surpassing $3 billion in revenue in fiscal year 2007. Revenue grew to $3.2 billion, a 23% increase from fiscal year 2006 revenue of $2.6 billion. In addition, Adobe's annual net income was $723.8 million in fiscal 2007, compared with $505.8 million in fiscal 2006. Diluted earnings per share for fiscal 2007 were $1.21, compared with $0.83 in fiscal 2006.

We achieved strong results across our key business segments in fiscal 2007. Our largest business segment, Creative Solutions, grew 32% year over year, achieving revenue of $1.9 billion in fiscal 2007. Revenue in our Knowledge Worker Solutions business segment grew to $729 million, an increase of 11% from fiscal 2006 revenue, while our Enterprise and Developer Solutions business segment revenue grew 22% year over year to $231 million in fiscal 2007. Our Mobile and Device Solutions business segment achieved revenue of $53 million, a 40% increase from the prior year, while revenue in our Other business segment was $247 million, down 2% from the prior year.

With an ongoing focus on operational efficiency, Adobe continued to have a robust balance sheet, ending the fiscal year with a cash, cash equivalents, and short-term investments position of approximately $2 billion. Results from our operations once again generated strong cash flow, which we use to invest in Adobe's future.

In fiscal 2007, we also focused on returning excess cash to our stockholders through our stock repurchase programs. We repurchased a total of 39.7 million shares during the year, returning approximately $1.6 billion to our stockholders. In addition, our Board of Directors authorized an increase to the amount of shares the company can repurchase—underscoring Adobe's commitment to delivering long-term value to stockholders.

A new leader: Shantanu Narayen is named CEO

Two years after completing the successful acquisition of Macromedia and at the end of a very successful fiscal year 2007, Adobe CEO Bruce Chizen stepped down and passed the baton to Shantanu Narayen. Adobe has thrived and grown substantially under Bruce's leadership for the past seven years. During that time, Bruce helped transform Adobe into one of the largest and most diversified software companies in the world.

Shantanu has been with Adobe since 1998 and succeeds Bruce as chief executive officer after serving three years as Adobe's president and chief operating officer. In addition to assuming his new role as CEO, Shantanu also joined Adobe's Board of Directors effective December 1, 2007. Working closely with Bruce over the past several years, Shantanu clearly demonstrated that he has the skills, knowledge, and vision to continue Adobe's tradition of technology leadership and innovation, and to guide the company in achieving its next phase of growth.
In 2007, Adobe celebrated its silver anniversary of delivering innovative products that solve customers’ real-world problems. Since the company was founded in 1982 by Drs. John Warnock and Chuck Geschke, Adobe has helped to redefine industries and technologies, thanks to a continuing stream of forward-looking solutions that have become industry standards.

Back in the 1980s, for example, Adobe PostScript® technology helped to launch the era of desktop publishing, which revolutionized the printing, publishing, and personal computing industries. In the following decades, Adobe Photoshop® Adobe Illustrator® and Adobe InDesign® software transformed the design and publishing industries, while Adobe Premiere® and Adobe After Effects® software brought incredible new capabilities to the film and TV industries. Similarly and more recently, Adobe LiveCycle and Flex solutions introduced new levels of productivity to global enterprises, while Adobe Dreamweaver® and Adobe Flash® software helped to redefine the web, enabling compelling and rich online experiences. Spanning decades as well as industries, Adobe Acrobat applications and Adobe PDF have revolutionized digital document delivery, with PDF now the de facto document-sharing standard for governments and businesses everywhere.

Today, Adobe’s commitment to innovation is as strong as ever as we provide companies more avenues to reach customers with applications and experiences that are responsive, collaborative, easy-to-use, personalized, and accessible. Moving ahead, Adobe is focused on enabling even better ways for people to engage with ideas and information.

Ongoing innovation: Today’s focus areas anticipate the future

As the volume of available information continues to increase worldwide, the market trends surrounding the digital content explosion provide powerful momentum for Adobe. Web 2.0, social networking, wikis and blogs, photo-sharing, increased Internet bandwidth, hundreds of millions of mobile device users, and other quickly evolving cultural and technological phenomena are some of the many trends we believe will provide additional opportunities for Adobe. We have moved into an era where everyone has become a publisher—in a 24x7, always-on environment.

With these trends as a backdrop, we intend to keep pushing the boundaries in our key market segments—Creative Solutions, Business Productivity Solutions (which includes our Knowledge Worker and Enterprise offerings), Mobile and Device Solutions, and Other solutions (including our Platform, Print Publishing, and PostScript offerings). Adobe’s award-winning technologies and software continue to redefine business, entertainment, and personal communications by setting new standards for producing and delivering content that engages people anywhere, at anytime.

In 2007, with Adobe Creative Suite 3, we met creative professionals’ needs to easily design and deliver content across media, platforms, operating systems, and devices. Reflecting the powerful integration of Adobe and Macromedia technologies, Creative Suite 3 is available in six editions that let designers and developers streamline the development of rich content for all facets of print, web, mobile, interactive, film, and video production. Immediately embraced by creative professionals, Creative Suite 3 realized 37% growth over sales of Creative Suite 2 during the same period of the earlier version’s release.

With nearly 99% Adobe Flash Player penetration of all PCs and a large number of broadcasters already streaming video on the web using Adobe Flash technology, we continue to strengthen our digital video leadership position. Both Adobe Flash Player 9 and the Adobe Flash Media Server 3 product family include H.264 standard video support—the same compression standard used in Blu-ray and HD-DVD high-definition video players—enabling the delivery of HD-quality video to the broadest possible audience online, where more and more audiences are tuning in.

As customers increasingly choose to use hosted software services delivered over the web, we also extended our ability to provide on-demand rich media services, thanks to the 2007 acquisition of technology innovator Scene7. Now, with the leading on-demand rich media platform, Adobe is helping companies enhance customer experiences through a full range of high-impact rich media services delivered in a convenient, cost-effective hosted environment.

Enabling more productive and engaging experiences for knowledge workers today and into the future, our flagship Adobe Acrobat family of products continued to deliver cutting-edge capabilities, from the innovative collaboration and security features of Acrobat 8, to 2007’s Adobe Acrobat Connect™ Professional, which further pushes boundaries in providing rich, customizable web conferencing, training, and collaborative experiences for organizations of all types and sizes.

Enterprises, government agencies, and other organizations began taking advantage of the advanced capabilities we provide in new versions of such innovative software as Adobe LiveCycle ES (Enterprise Suite) and the Adobe ColdFusion® 8 development environment. LiveCycle ES, which integrates the versatile Adobe Flex and PDF technologies, is helping organizations transform complex, cumbersome processes like account enrollment, claims processing, and guided self-service into applications that significantly improve customer service while decreasing costly cycle times. ColdFusion 8 lets developers design and deploy rich, compelling applications across a broad range of platforms and systems in even the largest enterprises.
We continued to advance the Flash revolution on mobile devices with the delivery of Adobe Flash Lite™ 3 software, which lets users watch Flash Player compatible video—the world’s most popular video format—and browse Flash enabled websites when integrated with a mobile web browser. With more than 450 million mobile devices powered by Flash shipped to date, Adobe’s mobile solutions are being embraced by mobile device manufacturers, developers, and end users alike.

Our beta release in 2007 of Adobe AIR will enable our customers to deliver a whole new generation of engaging experiences across the web, on the desktop, and on mobile devices. Adobe AIR allows developers to use their existing tools and skills to extend rich Internet applications (RIAs) to the desktop—beyond the barriers of the browser—and even to mobile devices, cable boxes, and other non-PC environments. The first application from Adobe built on Adobe AIR is Adobe Media Player. Released in beta, Adobe Media Player gives broadcasters and media companies new ways to distribute and monetize their media assets, while enabling viewers to discover and view high-quality content both online and offline.

These are just a few of the innovative products and technologies Adobe released in 2007 that will help our customers create and deliver content to their customers more effectively than ever before. As cultural and technological trends demonstrate, people want to interact with content in more meaningful and dynamic ways. Adobe is well positioned to meet these expectations with solutions that spark creative endeavors, improve organizational productivity, and engage the hearts and minds of customers around the world.

Adobe philanthropy: Giving back helps communities move forward
Adobe's innovative spirit doesn't stop with our products and technologies; it's at the core of our corporate culture and commitment to community. Adobe was founded on the belief that we should foster a healthy environment for our employees, customers, and the communities in which we operate. In 2007, we continued our commitment to conserving natural resources and minimizing our impact on the environment with innovative programs that increase efficiencies, conserve energy and water, improve air quality, and reduce waste. Beyond our green initiatives, our extensive corporate giving programs support a wide variety of philanthropic causes, from supporting education to reducing hunger and poverty in the regions in which we work. We are particularly proud of our global signature philanthropy program, Adobe Youth Voices, which provides youth in underserved communities with the critical skills they need to become active, engaged members of their communities and the world at large.

We are also proud of our employees, who are giving of themselves through a variety of individual and group volunteer efforts that are making a positive impact in cities across the world. We would like to take this opportunity to thank the entire Adobe team for their unflagging commitment to making not only our company the best it can be, but doing the same for the global communities and constituencies we serve.

Now, with 25 years of innovation behind us, we look forward to the coming years—and decades—of innovation that lie ahead, as Adobe continues to revolutionize how the world engages with ideas and information.

Sincerely,

John E. Warnock
Chairman of the Board

Charles M. Geschke
Chairman of the Board

Shantanu Narayen
President and Chief Executive Officer
Senior executive officers

Shantanu Narayen  
President and  
Chief Executive Officer

Mark Garrett  
Executive Vice President  
and Chief Financial Officer

Karen Cottle  
Senior Vice President,  
General Counsel,  
and Corporate Secretary

John Loiacono  
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David Mendels  
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Adobe Systems Incorporated

Charles M. Geschke  
Chairman of the Board,  
Adobe Systems Incorporated

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Chief Executive Officer,  
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Risks and uncertainties

This document contains forward-looking statements, including statements regarding product plans, future growth, and market opportunities, which involve risks and uncertainties that could cause actual results to differ materially. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in our SEC filings, including the 2007 annual report on Form 10-K and quarterly reports on Form 10-Q to be filed in 2008. When used in this report, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "targets," "estimates," and similar expressions, as well as descriptions of our focus for the future, are generally intended to identify forward-looking statements. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this document. We undertake no obligation to publicly release any revisions to the forward-looking statements that reflect events or circumstances after the date of this document.

Investor relations

If you would like to receive additional financial documents, such as prior annual reports, earnings press releases, or Adobe's SEC filings on Form 10-Q or Form 10-K, you can request them without charge by calling 408-536-4700 or sending an e-mail to adobe@kpcorp.com. Please include your contact information with the request.

You can obtain Adobe financial calendar information such as earnings release dates, listen to Adobe management conference calls, view recent Adobe investor presentations, sign up to automatically receive Adobe investor news via e-mail, and obtain other Adobe finance-related documents online at www.adobe.com/ADBE.

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