REVOLUTIONIZING HOW THE WORLD ENGAGES WITH IDEAS AND INFORMATION
LETTER TO STOCKHOLDERS

Adobe

2006 was a year of many changes and challenges for Adobe. We gained new talent and technology that are among the best in the industry. We forged strategic alliances in key markets. And we continued to innovate, launching new versions of our market-leading products. All this helped us achieve or exceed most of our objectives, but more importantly sets us up for an exciting 2007 and beyond.

Current trends, both cultural and technological, are serving as a tailwind to Adobe's ongoing success. The explosion of digital content. Rich Internet applications. Web 2.0. Mobile devices. And ever-increasing Internet bandwidth. These market forces drive—and are driven by—Adobe's mission to revolutionize the way people engage with ideas and information.

As we prepare to celebrate our 25th year, Adobe boasts a stronger-than-ever product line and the talented teams of people to continue to turn market potential into financial success. We are infused with new energy and enthused by the prospect of another exciting year for the entire Adobe community.

Record financial results

In fiscal year 2006, Adobe reached a major milestone, surpassing two billion dollars in revenue. This was achieved by delivering double-digit growth for the fourth consecutive year. Annual revenue grew to a record $2,575.3 billion in fiscal 2006, a 31% increase from fiscal 2005 revenue.

Coinciding with the integration of Macromedia and the start of fiscal 2006, we categorized our products and services into five business segments to be aligned with our market opportunities:

• Creative Solutions includes most of the products of our prior Creative Professional and Digital Imaging and Video business segments, along with the creative professional–focused products and solutions that we obtained through our acquisition of Macromedia. In this business segment, revenue was $1,424.9 billion, making it our largest business segment.

• Knowledge Worker Solutions contains our Adobe® Acrobat® family of products, including Adobe Acrobat Connect™ software (formerly Macromedia® Breeze®). In this business segment, we achieved revenue of $671.0 million, driven by continued adoption of Acrobat by enterprise users who want to communicate and collaborate with confidence.

• Enterprise and Developer Solutions includes our LiveCycle,® ColdFusion,® and Flex™ lines of products. This emerging business, which is helping enterprises and governments streamline people-centric processes, achieved revenue of $189.2 million and represents one of our largest growth opportunities.

• Mobile and Device Solutions includes our Flash® Lite™ and FlashCast™ products, used for creating and enabling compelling experiences on mobile and non-PC devices. In this exciting business segment, we achieved revenue of $37.8 million.

• Our Other segment comprises three categories. The Print and Classic Publishing group addresses the diverse needs of our customers in technical and business publishing. The OEM PostScript® group provides enabling technology for our OEM printing business partners. And the Platform group oversees new strategic opportunities such as OEM revenue generated from our Adobe Reader® and Adobe Flash Player clients. Revenue for this segment was $252.5 million.

2006 was another hugely successful year for Adobe. We continue to have a healthy balance sheet, with a cash and cash equivalent position of approximately $2.3 billion at the end of fiscal year 2006, and no long-term debt. Results from our operations once again generated strong cash flow, which we use to invest for Adobe's future as well as to repurchase shares of our stock.

WE ARE INFUSED WITH NEW ENERGY AND ENTHUSED BY THE PROSPECT OF ANOTHER EXCITING YEAR FOR THE ENTIRE ADOBE COMMUNITY

2006 highlights

Continuing to revolutionize how the world engages with ideas and information, Adobe unveiled major product updates across many customer segments in 2006. Moving forward, as new product releases and suites are unveiled, our customers will benefit from the ongoing synergies and integration of technologies obtained from Adobe's acquisition of Macromedia—innovations that support and extend Adobe's technology platform.

Adobe's technology platform

Adobe's technology platform helps businesses inspire commitment in their customers by engaging them—anywhere, anytime, and through any medium—through Adobe's clients and application solutions. In conjunction with HTML, Adobe Reader and Adobe Flash Player software are key technologies that make up Adobe's technology platform. With the broad reach of our ubiquitous clients—buoyed by new versions of Flash Player and Adobe Reader that were released in 2006—Adobe customers used our application solutions in new and imaginative ways to engage their customers with diverse capabilities, including interactive online advertising, automated electronic form solutions, and digital video–based delivery of popular television shows.

Also unveiled in 2006 was project Apollo, a universal client that enables rich Internet applications (RIAs) to run outside the browser across multiple operating systems on desktop computers and other devices. With more than a million Web developers already creating RIAs based on Flash technology, Apollo will extend the reach of their creations while enabling them to maintain the same Adobe software development tools and skills they use today. As a future core element of Adobe's technology platform, Apollo will help open up new markets for Adobe and keep us positioned at the forefront of the Web 2.0 movement.

Creative solutions

To create compelling content and engaging experiences, designers and developers have long relied on a combination of Adobe and Macromedia software for their daily work. In December 2005, Adobe announced a lineup of software bundles that brought together the essential tools for specific functions into a single convenient purchase. The software bundles for design, web, and video were well received in the marketplace, and served as immediate evidence that the Macromedia acquisition would benefit our customers. With the popular Adobe Creative Suite® 2, creative professionals can communicate their ideas in powerful ways, providing a consistently compelling experience in print, on the web, with video, and on mobile devices. Promising even greater integration of features, functionality, and user interface, Adobe Creative Suite 3 software is expected to ship in spring 2007.

In the entertainment industry, the shift to online digital video continues, and Adobe stands as a clear leader in this space. In January Adobe unveiled the all-new Adobe Production Studio, a suite of market-leading applications that includes powerful new versions of Adobe Premiere® Pro, After Effects,® Audition,® and Encore® DVD, along with advanced Macromedia Flash Video support. As the preferred format for secure, high-quality streaming media, Flash Video technology is being used in high-traffic web properties such as the *New York Times*.

Macromedia Dreamweaver® and Flash Professional software continue to lead the web design market. As part of Studio 8, countless customers depend on these tools to create compelling online experiences. For example, Harris Publications uses Studio 8 to create engaging websites for more than 70 special-interest magazines, ensuring that their brands are as relevant online as they are on the newsstand.

Adobe InDesign,® our professional page layout solution, achieved record revenue in fiscal year 2006 as it continued to gain key customers. Publishing giants such as Hearst Magazines and Cox Newspapers now use InDesign as their essential application for publishing titles such as *Cosmopolitan* and the *Atlanta Journal-Constitution*, respectively. Major retailers such as Macy's West and Recreational Equipment, Inc. (REI) use InDesign for their advertising and promotional mailers. And in Japan, Toppan Printing is now using InDesign as the standard platform for computer typesetting. This is a milestone for InDesign adoption in Japan.

For digital imaging professionals, our flagship Adobe Photoshop® software remains the gold standard for photographers around the world. In 2006, we announced our intent to grow the Photoshop product family with the announcement of Adobe Photoshop Lightroom,™ a complete photography workflow solution that helps professional photographers manage and showcase large volumes of digital images. This truly innovative product promises to be an essential tool for photographers in the years to come.

With our market-leading Adobe Photoshop Elements and Adobe Premiere Elements consumer products, customers are utilizing the integration between the two to enhance their photos and videos, and then easily share their creations with family and friends on photo-sharing sites or by sending them in formats such as video CDs and online Flash Video. We're all familiar with the term *creative professional*, but now creative amateurs have the spotlight on sites like MySpace. Adobe software such as Photoshop and the Elements product line are a driving force behind the content posted to these fast-growing social networking sites.

Knowledge worker solutions

With a new business segment dedicated to helping today's knowledge workers communicate and collaborate with confidence, we are building on Adobe's decade-plus heritage in the digital documents business. With strong growth in fiscal year 2006, the Acrobat product family and Adobe PDF continue to be de facto standards for how enterprises share information reliably with their constituents. More importantly, Acrobat customers are increasingly using features such as collaboration, security, and electronic forms—signaling there is more to Acrobat than simply creating digital documents. This is certainly the focus of our new Adobe Acrobat 8 software, which introduces groundbreaking innovations and a streamlined user interface that we believe will take the use of Acrobat and Adobe PDF to new levels in 2007.

The power of Acrobat has also been extended to the third dimension. With Acrobat 3D software, users can easily convert 3D models from a wide variety of major computer-aided design (CAD) formats and embed them into Adobe PDF files for clients or other team members to review—regardless of whether they have CAD software. This is a major advance for design engineering, technical publishing, and creative professionals in manufacturing industries such as automotive, aerospace, and industrial machinery, as well as the architecture, engineering, and construction (AEC) market.

Another exciting enhancement in the Acrobat family is the integration of Adobe Acrobat Connect software. Representing a new class of web conferencing software, Acrobat Connect enables professionals to instantly communicate and collaborate through easy-to-use, easy-to-access online rooms. Organizations can license Acrobat Connect and implement it on their own servers, or take advantage of Adobe's hosted service.

Looking to the future, as Internet bandwidth improves and our customers look to web-based services for the functionality of desktop applications, we are investing in the ability to offer the capabilities of some of our applications as online, hosted services. We already offer online solutions such as Acrobat Connect, Create Adobe PDF Online, and a new hosted service called Adobe Document Center. Document Center, released in 2006, enables knowledge workers to engage with colleagues and clients by sharing Adobe PDF and other business documents online, managing access rights and auditing actions of the documents to protect the confidentiality of information.

ADOBE'S TECHNOLOGY PLATFORM HELPS BUSINESSES INSPIRE COMMITMENT IN THEIR CUSTOMERS BY ENGAGING THEM

Enterprise and developer solutions

Many of Adobe's large enterprise customers use Adobe LiveCycle software to more efficiently capture, process, and archive information, and to better engage with their customers and constituents. With a growing ecosystem of solutions based on LiveCycle that are being created by strategic partners, we expect increased adoption of LiveCycle to continue. And with a major new release planned for the first half of 2007, LiveCycle will do even more to help our customers leverage the benefits of Adobe's technology platform.

Another exciting use of Adobe developer tools is in the area of RIAs. Combining the visual development environment of Flex and the productivity features of ColdFusion, in conjunction with LiveCycle on the back end and Flash player as the client, developers can extend applications from mobile devices to the web and back into an enterprise infrastructure. Category leaders across various industries—including Dow Jones Indexes and SAP—have been actively using Adobe development tools to build next-generation web applications that combine the benefits of desktop software with the reach of the web to create more valuable user experiences.

Mobile and device solutions

With millions of people accessing the web from non-PC devices every day, Adobe's technology platform plays a critical role by enabling the delivery of rich Internet content anywhere, anytime, and in any medium. Today more than 150 million Flash technology–enabled devices have shipped worldwide, a number we expect will continue to grow in the coming years.

In 2006, Adobe established strategic relationships with key OEMs such as Nokia, BenQ Mobile, and LG Electronics. This builds on the success of partners such as Japan's NTT DoCoMo and its iChannel service, which is based on Adobe's FlashCast technology. DoCoMo has announced publicly that iChannel has more than 7 million subscribers. We anticipate similar success in North America, where our newest partner Verizon Wireless has just started to leverage Macromedia Flash Lite and Flash based content to build out its Flash ecosystem.

Additionally, content owners such as Viacom are partnering with Adobe to find broader audiences. Viacom will utilize Flash Video as an interactive online video solution and provide Viacom-branded content to mobile phone handsets via FlashCast channels. Using Adobe technology, Viacom will also develop entirely new applications leveraging content from Viacom properties, including MTV, Comedy Central, Spike TV, and Nickelodeon.

The market opportunities for mobile and device solutions also extend to consumer electronics devices. Manufacturers such as Kodak, Sony, and iriver are rapidly adopting Flash technology to deliver customizable user interfaces, enhanced content, and superior browsing experiences to end users. Flash technology is now available on consumer devices as diverse as televisions, media players, digital billboards, cameras, educational toys, and even car navigation systems.

Other business

Continuing to address the needs of our customers in the publishing arena, we launched the Adobe PDF Print Engine in 2006, which is a comprehensive design-to-print solution that leverages Adobe PDF to deliver control, consistency, and efficiency throughout the entire print workflow. Many of the print industry's biggest names, including Agfa Graphics, Dainippon Screen Mfg. Co., Ltd, FUJIFILM Corporation, Heidelberger Druckmaschinen AG, Kodak's Graphic Communications Group, and RIPit are showcasing the Adobe PDF Print Engine as a key enabling technology within their products. And through OEM partners such as EFI, Fuji Xerox, Ricoh, and Xerox, Adobe PostScript software continues to provide a sizable revenue stream.

In our Platform group, we are generating revenue through distribution relationships with partners such as Google and Yahoo. Equally important is that Adobe Reader and Flash Player—core elements of Adobe's technology platform—are gaining even greater reach. We distribute tens of millions of copies of our ubiquitous clients every year, which enables us to bring to market solutions in all of our businesses that can use the capabilities of these popular software tools on desktops and mobile devices.

Adobe in the era of Web 2.0 and beyond

A variety of market trends—among them Web 2.0—are driving the next generation of the Internet, and these trends synchronize perfectly with Adobe's mission to revolutionize the way the world engages with ideas and information. With ever-increasing amounts of user-generated content, Adobe software is at the forefront with applications that enable people of any skill level to create and publish. With the emergence of richer and more user-friendly Internet applications, Adobe is again leading the way with development platforms such as Flash, Flex, and LiveCycle. And as a key enabler of it all, Adobe's technology platform serves as a common infrastructure for capturing and holding audiences' attention through more active and effective applications and media.

Even as the current generation of Web 2.0 is taking shape, Adobe is already looking to what comes next. To encourage even more innovation, we plan to invest approximately $100 million in venture capital over the next three to five years in companies that leverage Adobe platform technologies, particularly companies that deliver applications via Apollo. We're committed to building an ecosystem for Adobe's technology platform. eBay and MySpace are on the growing list of innovative companies already developing pilot projects of new Apollo-based applications.

Adobe and the future

While innovation, high energy, and solid execution drive the success of our products and our business, it is compassion and commitment that make Adobe employees a credit to their communities.

Through a new program called Adobe Youth Voices, we help young people engage with their communities by providing access to multimedia tools, training, and a worldwide network of peers, teachers, and leaders. Through the Adobe Action Grant program, we provide cash grants to nonprofit organizations that are making a lasting, positive impact on their communities. And as a result of our environmental policies, Adobe won the top California Flex Your Power award for energy efficiency, with our San Jose headquarters site named among the best overall for energy conservation. Adobe saves approximately $1 million annually as a result of our energy efficiency improvements.

2006 was an exciting year for Adobe. Heading into 2007, we feel that the company is stronger than ever, rich with talent, infused with energy, and enthused by market trends that clearly align with our vision, our strategy, and our solutions. Just like our first 25 years in business, we expect to move forward with exciting innovation and solid execution—leading to a future made more engaging than ever by Adobe.

Sincerely,

John E. Warnock
Chairman of the Board

Charles M. Geschke
Chairman of the Board

Bruce R. Chizen
Chief Executive Officer

WE EXPECT TO MOVE FORWARD WITH EXCITING INNOVATION AND SOLID EXECUTION

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 2006 annual report on Form 10-K and quarterly reports on Form 10-Q to be filed in 2007. When used in this report, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "targets," "estimates," "looks to," "looks for," "strives," 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*.

To contact Adobe's Investor Relations department, please use the following information:

Investor Relations Department
Adobe Systems Incorporated
345 Park Avenue
San Jose, CA 95110-2704 USA
Tel: 408-536-4416
ir@adobe.com

To report a change of address or lost stock certificates, please notify our Transfer Agent:

Shareholder Communications
Computershare Investor
Services LLC
250 Royall Street
Canton, MA 02021 USA
Tel: 800-455-1130

Stock exchange listing

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