adidas GROUP

ANNUAL REPORT 2007

UNITED BY SPORT

SPORT KNOWS NO BOUNDARIES. SPORT IS PASSION. ALL OVER THE WORLD.
EVERY ATHLETE LIVES IT. AND WE DO, TOO. EVERY SECOND.

FINANCIAL HIGHLIGHTS (IFRS)

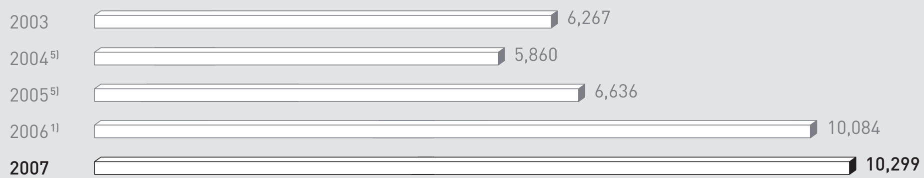
	2007	2006[1]	Change
Operating Highlights (€ in millions)			
Sales	**10,299**	10,084	2.1 %
EBITDA	**1,165**	1,078	8.0 %
Operating profit	**949**	881	7.8 %
Net income attributable to shareholders	**551**	483	14.2 %
Key Ratios (%)			
Gross margin	**47.4 %**	44.6 %	2.8 pp
Operating expenses as a percentage of sales	**39.2 %**	36.7 %	2.5 pp
Operating margin	**9.2 %**	8.7 %	0.5 pp
Effective tax rate	**31.8 %**	31.4 %	0.4 pp
Net income attributable to shareholders as a percentage of sales	**5.4 %**	4.8 %	0.6 pp
Operating working capital as a percentage of sales	**25.2 %**	25.8 %	(0.6 pp)
Equity ratio	**36.3 %**	33.8 %	2.6 pp
Financial leverage	**58.4 %**	78.9 %	(20.5 pp)
Return on equity	**18.2 %**	17.1 %	1.2 pp
Balance Sheet and Cash Flow Data (€ in millions)			
Total assets	**8,325**	8,379	(0.6 %)
Inventories	**1,629**	1,607	1.3 %
Receivables and other current assets	**2,048**	1,913	7.1 %
Working capital	**1,708**	1,733	(1.5 %)
Net borrowings	**1,766**	2,231	(20.9 %)
Shareholders' equity	**3,023**	2,828	6.9 %
Capital expenditure	**289**	277	4.3 %
Net cash provided by operating activities	**780**	762	2.4 %
Per Share of Common Stock (€)			
Basic earnings	**2.71**	2.37	14.1 %
Diluted earnings	**2.57**	2.25	13.9 %
Operating cash flow	**3.83**	3.74	2.5 %
Dividend	**0.50**[2]	0.42	19.0 %
Share price at year-end	**51.26**	37.73	35.9 %
Other (at year-end)			
Number of employees	**31,344**	26,376	18.8 %
Number of shares outstanding	**203,628,960**	203,536,860	0.0 %
Average number of shares	**203,594,975**	203,386,104	0.1 %

Rounding differences may arise in percentages and totals.
1) Including Reebok business segment from February 1, 2006 onwards.
Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.
2) Subject to Annual General Meeting approval.
3) 2006 figures only include eleven months of the twelve-month period.
4) 2006 figures include Greg Norman apparel business from February 1 to November 30.
5) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.

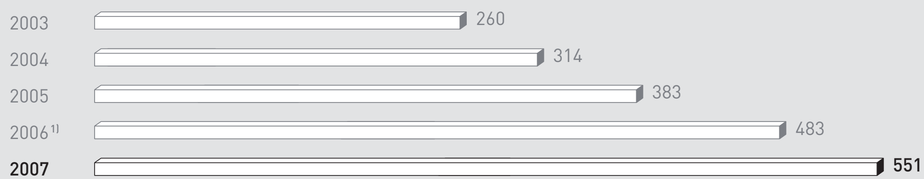
ADIDAS GROUP
€ in millions

	2007	2006	Change
adidas			
Sales	**7,113**	6,626	7.3 %
Gross profit	**3,370**	3,059	10.2 %
Gross margin	**47.4 %**	46.2 %	1.2 pp
Operating profit	**920**	788	16.8 %
Operating margin	**12.9 %**	11.9 %	1.0 pp
Number of employees	**18,678**	14,906	25.3 %
Reebok[3]			
Sales	**2,333**	2,473	(5.7 %)
Gross profit	**902**	865	4.4 %
Gross margin	**38.7 %**	35.0 %	3.7 pp
Operating profit	**109**	86	26.8 %
Operating margin	**4.7 %**	3.5 %	1.2 pp
Number of employees	**6,751**	7,545	(10.5 %)
TaylorMade-adidas Golf[4]			
Sales	**804**	856	(6.0 %)
Gross profit	**360**	376	(4.2 %)
Gross margin	**44.7 %**	43.9 %	0.8 pp
Operating profit	**65**	73	(10.0 %)
Operating margin	**8.1 %**	8.5 %	(0.4 pp)
Number of employees	**1,393**	1,368	1.8 %

NET SALES
€ in millions



NET INCOME ATTRIBUTABLE TO SHAREHOLDERS
€ in millions





2007 TARGETS	2007 RESULTS	2008 TARGETS
Mid-single-digit currency-neutral sales growth	Net sales reach € 10.3 billion; Group currency-neutral sales grow 7 %	High-single-digit currency-neutral sales growth
Bring major new concepts, technology evolutions and revolutions to market	Major 2007 product launches: **adidas** new technologies in adiSTAR, SuperNova and Response running shoe families, Stella McCartney "Gym / Yoga" collection, TechFit™ apparel **Reebok** running shoes Trinity KFS II and HATANA, Rbk EDGE Uniform System™ apparel collection **Rockport** first footwear collection incorporating adidas Torsion® technology **TaylorMade-adidas Golf** r7® SuperQuad drivers, POWERBAND shoe, Clima concept extended to Golf apparel	Bring major new concepts, technology evolutions and revolutions to market
Currency-neutral sales to grow at all brands and in all regions	Currency-neutral sales increase 12 % at adidas, remain stable at Reebok and grow 9 % on a like-for-like basis at TaylorMade-adidas Golf; currency-neutral sales grow in all regions except North America	Currency-neutral sales to grow at all brands and in all regions except North America
Gross margin range 45 – 47 %	Gross margin: 47.4 %	Gross margin range 47.5 % and 48 %
Operating margin around 9 %	Operating margin: 9.2 %	Operating margin to be at least 9.5 %
Reduce operating working capital as a percentage of sales to below 25 %	Operating working capital as a percentage of sales: 25.2 %	Further reduce operating working capital as a percentage of sales
Capital expenditure range € 300 million – € 400 million	Capital expenditure: € 289 million	Capital expenditure range € 300 million – € 400 million
Reduce year-end net borrowings to below € 2 billion	Net borrowings reduced to € 1.766 billion; year-end financial leverage: 58.4 %	Maintain or further reduce net borrowings despite share buyback
Net income growth to approach 15 %	Highest ever net income attributable to shareholders at € 551 million (+ 14 %)	Net income to grow at least 15 %
Further increase shareholder value	adidas AG share increased 36 %, outperforming DAX-30 and MSCI World Textiles, Apparel and Luxury Goods Index; 19 % dividend increase proposed; share buyback program initiated in January 2008	Further increase shareholder value

SPORT IS PASSION. INTENSITY.
IT CREATES EXCITEMENT AND ENTHUSIASM ALL OVER THE WORLD.
IN EVERY ATHLETE. IN EVERY SPORTS FAN.

WE WERE THE FIRST COMPANY TO DEFINE SPORT ON A GLOBAL SCALE.
AND WE REDEFINE IT EVERY DAY. THROUGH OUR GROUP VALUES:
PERFORMANCE, PASSION, INTEGRITY AND DIVERSITY.
THE ADIDAS GROUP LIVES FOR SPORT LIKE NO OTHER COMPANY.
ALL OF OUR BRANDS SHARE THIS UNCOMPROMISING DEDICATION.

-UNITED BY SPORT-

-- YOUR FAVORITE COVER --

DO YOU WANT TO SEE YOUR FAVORITE PRODUCT OR CAMPAIGN ON THE FRONT OF THIS REPORT?
NO PROBLEM. JUST REPLACE THE STARTER INSERT WITH THE IMAGE OF YOUR CHOICE FROM CHAPTER 04.


EXPERIENCE & AMBITION
YOUR INDIVIDUAL EXCELLENCE. YOUR MUTUAL RESPECT. YOUR UNWAVERING FOCUS. YOUR UNBREAKABLE WILLPOWER.
THIS IS WHAT MAKES A GREAT TEAM. DEMONSTRATED SUCCESSFULLY BY 2007 UEFA CHAMPIONS LEAGUE™ WINNER A. C. MILAN.
-UNITED BY PERFORMANCE-
A.C. Milan


ENTHUSIASM & DEDICATION
YOUR DRIVE FOR SUCCESS. YOUR TOTAL COMMITMENT. YOUR WORLD-CLASS PERFORMANCE.
AND YOUR ONE-OF-A-KIND ENTHUSIASM THAT INSPIRES EVERYONE ELSE.
-UNITED BY PASSION-
170

CAROLINA KLÜFT
DISCIPLINE: **HEPTATHLON**
BIRTHDATE: **FEBRUARY 2, 1982**
PLACE OF BIRTH: **BORAS, SWEDEN**
HEIGHT / WEIGHT: **5 FT 10 IN (1.78 M) / 143 LB (65 KG)**
NATIONALITY: **SWEDISH**

YOUR PASSION, TALENT AND ABSOLUTE DEDICATION ARE THE KEYS TO YOUR SUCCESS.
DEMONSTRATED SUCCESSFULLY BY CAROLINA KLÜFT:

CAREER HIGHLIGHTS & AWARDS

- 2007 -
WORLD CHAMPION (HEPTATHLON)
EUROPEAN INDOOR CHAMPION (PENTATHLON)

- 2006 -
EUROPEAN ATHLETE OF THE YEAR (WOMEN)
EUROPEAN CHAMPION (HEPTATHLON)

- 2005 -
WORLD CHAMPION (HEPTATHLON)
EUROPEAN INDOOR CHAMPION (PENTATHLON)

- 2004 -
OLYMPIC CHAMPION (HEPTATHLON)

- 2003 -
WORLD CHAMPION (HEPTATHLON)
WORLD INDOOR CHAMPION (PENTATHLON)

- 2002 -
EUROPEAN CHAMPION (HEPTATHLON)
JUNIOR WORLD CHAMPION (HEPTATHLON)
EUROPEAN INDOOR BRONZE MEDALIST (PENTATHLON)

- 2001 -
JUNIOR EUROPEAN CHAMPION (HEPTATHLON)

- 2000 -
JUNIOR WORLD CHAMPION (HEPTATHLON)

TRACY McGRADY
DISCIPLINE: **BASKETBALL**
POSITION: **SHOOTING GUARD / SMALL FORWARD**
TEAM: **HOUSTON ROCKETS**
BIRTHDATE: **MAY 24, 1979**
PLACE OF BIRTH: **BARTOW, FLORIDA, USA**
HEIGHT / WEIGHT: **6 FT 8 IN (2.03 M) / 223 LB (101 KG)**
NATIONALITY: **US-AMERICAN**

YOUR TEAM SPIRIT HELPS YOU BREAK DOWN BOUNDARIES. DEMONSTRATED SUCCESSFULLY BY TRACY McGRADY:

CAREER HIGHLIGHTS & AWARDS

- 2007 -
7-TIME NBA ALL-STAR (2001 TO 2007)

- 2003 -
NBA SCORING CHAMPION (2002 AND 2003)

- 2001 -
NBA MOST IMPROVED PLAYER AWARD

YAO MING
DISCIPLINE: **BASKETBALL**
POSITION: **CENTER**
TEAM: **HOUSTON ROCKETS**
BIRTHDATE: **SEPTEMBER 12, 1980**
PLACE OF BIRTH: **SHANGHAI, PEOPLE'S REPUBLIC OF CHINA**
HEIGHT / WEIGHT: **7 FT 6 IN (2.29 M) / 310 LB (141 KG)**
NATIONALITY: **CHINESE**

YOUR TEAM SPIRIT HELPS YOU BREAK DOWN BOUNDARIES. DEMONSTRATED SUCCESSFULLY BY YAO MING:

CAREER HIGHLIGHTS & AWARDS

- 2007 -
5-TIME NBA ALL-STAR (2003 TO 2007)
ALL-NBA, SECOND TEAM

- 2006 -
WESTERN CONFERENCE PLAYER OF THE MONTH
ALL-NBA, THIRD TEAM (2004 AND 2006)

- 2003 -
NBA ALL-ROOKIE, FIRST TEAM
TSN NBA ROOKIE OF THE YEAR
LAUREUS WORLD NEWCOMER OF THE YEAR AWARD


TALENT & TEAMWORK
CELEBRATING YOUR DIFFERENCES. EMBRACING CHANGE. AND BRINGING OUT THE BEST IN EACH OTHER.
THIS IS WHAT MAKES A WINNING COMBINATION.
-UNITED BY DIVERSITY-


TENACITY & COMPASSION
STEPPING UP TO THE PLATE. STICKING TO YOUR PRINCIPLES.
STANDING UP FOR FAIR PLAY.
-UNITED BY INTEGRITY-

DAVID ORTIZ
DISCIPLINE: **BASEBALL**
POSITION: **DESIGNATED HITTER**
TEAM: **BOSTON RED SOX**
BIRTHDATE: **NOVEMBER 18, 1975**
PLACE OF BIRTH: **SANTO DOMINGO, DOMINICAN REPUBLIC**
HEIGHT/WEIGHT: **6 FT 4 IN (1.93 M)/230 LB (104 KG)**
NATIONALITY: **US-AMERICAN**

BEING REAL, STRONG, AND COURAGEOUS. THIS IS WHAT TAKES **YOU TO NEW LEVELS. DEMONSTRATED SUCCESSFULLY BY DAVID ORTIZ:**

CAREER HIGHLIGHTS & AWARDS

- 2007 -
4-TIME MLB ALL-STAR (2004 TO 2007)
5-TIME TOP 5 MVP VOTE-RECEIVER (2003 TO 2007)
4-TIME WINNER OF THE SILVER SLUGGER AWARD (2004 TO 2007)
5-TIME WINNER OF THE EDGAR MARTINEZ AWARD (2003 TO 2007)
MEMBER OF THE WORLD SERIES CHAMPION
BOSTON RED SOX BASEBALL TEAM (2004 AND 2007)
LED THE AMERICAN LEAGUE IN EXTRA BASE HITS

- 2006 -
LED THE AMERICAN LEAGUE IN HOME RUNS
LED THE AMERICAN LEAGUE IN RUNS BATTED IN
BOSTON RED SOX SINGLE SEASON HOME RUN LEADER (54)
FIRST PLAYER IN BOSTON RED SOX HISTORY TO HIT 40 OR MORE HOME RUNS
IN THREE CONSECUTIVE SEASONS (2004 TO 2006)

- 2005 -
2005 HANK AARON AWARD WINNER
LED THE AMERICAN LEAGUE IN RUNS BATTED IN
LED THE AMERICAN LEAGUE IN EXTRA BASE HITS

- 2004 -
MVP OF THE AMERICAN LEAGUE CHAMPIONSHIP SERIES
LED THE AMERICAN LEAGUE IN EXTRA BASE HITS

NATALIE GULBIS
DISCIPLINE: **GOLF**
BIRTHDATE: **JANUARY 7, 1983**
PLACE OF BIRTH: **SACRAMENTO, CALIFORNIA, USA**
HEIGHT / WEIGHT: **5 FT 9 IN (1.77 M) / 130 LB (59 KG)**
NATIONALITY: **US-AMERICAN**

YOU KNOW WHAT IT TAKES TO WIN AND YOU ARE GETTING THERE STEP BY STEP.
DEMONSTRATED SUCCESSFULLY BY NATALIE GULBIS:

CAREER HIGHLIGHTS & AWARDS

- 2007 -
1ST AT EVIAN MASTERS
MEMBER OF WINNING UNITED STATES SOLHEIM CUP TEAM

- 2006 -
3RD AT KRAFT NABISCO CHAMPIONSHIP

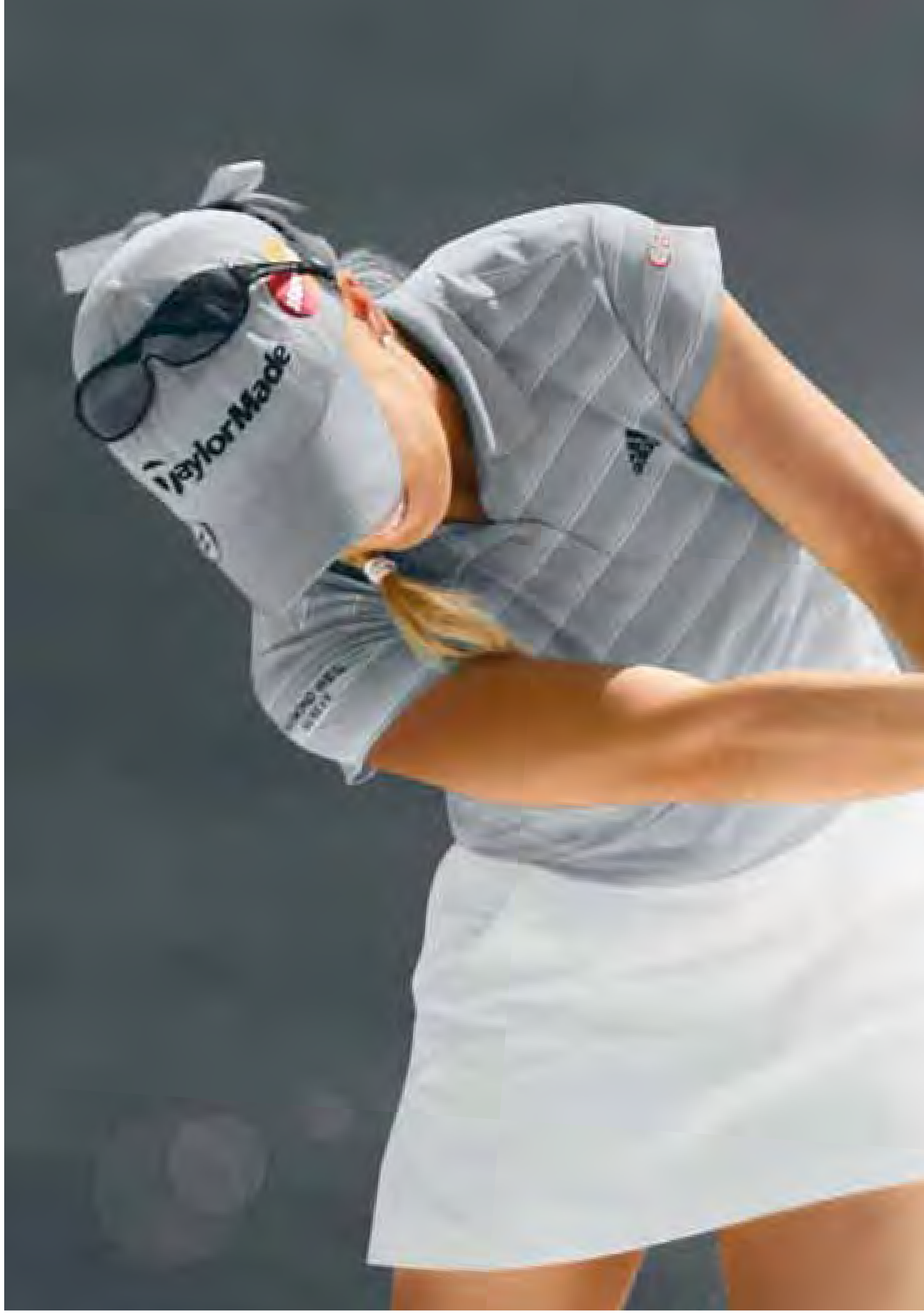
- 2005 -
5TH AT LPGA CHAMPIONSHIP
8TH AT WOMEN'S BRITISH OPEN
4TH AT US WOMEN'S OPEN
MEMBER OF WINNING UNITED STATES SOLHEIM CUP TEAM

- 2002 -
2ND IN LOUISE SUGGS ROLEX ROOKIE OF THE YEAR

- 2001 -
TURNED PROFESSIONAL
FINISHED 3RD AT LPGA FINAL QUALIFYING TOURNAMENT

- 1998 -
US WOMEN'S AMATEUR CHAMPIONSHIP MEDALIST

- 1997 -
1ST AT CALIFORNIA STATE WOMEN'S AMATEUR
YOUNGEST PLAYER TO QUALIFY FOR AN LPGA TOURNAMENT




FOCUS & DRIVE
CONCENTRATING. KEEPING YOUR EYE ON THE BALL.
AND FOLLOWING IT THROUGH. TIME AND AGAIN.
-UNITED BY DIRECTION-

AS A LEADER IN THE SPORTING GOODS INDUSTRY,
THE ADIDAS GROUP INSPIRES CONSUMERS ALL OVER THE WORLD.
WE CONTINUOUSLY STRIVE TO IMPROVE OUR PRODUCTS,
PERFORMANCE AND SHAREHOLDER RETURNS.

IN 2008, WE WILL USE THE OLYMPICS IN BEIJING, THE UEFA EURO 2008™
IN AUSTRIA AND SWITZERLAND AND THE SUPER BOWL
IN PHOENIX, ARIZONA, USA, TO STRENGTHEN OUR GROUP'S STRONG POSITIONING.
BUT IT'S MORE THAN JUST BIG SPORTS EVENTS.
INNOVATION, STATE-OF-THE-ART DESIGN AND EXCITING BRAND COMMUNICATION
ARE WHAT DRIVE OUR GROUP'S ONGOING SUCCESS.

ALL OF OUR ATHLETES. ALL OF OUR CONSUMERS. ALL OF OUR BRANDS.

-UNITED BY SPORT-

01 TO OUR SHAREHOLDERS

02 GROUP MANAGEMENT REPORT – OUR GROUP

03 GROUP MANAGEMENT REPORT – OUR FINANCIAL YEAR

04 PRODUCTS AND CAMPAIGNS

05 CONSOLIDATED FINANCIAL STATEMENTS

INTERVIEW WITH THE CEO Positive momentum throughout 2007 propelled the adidas share to reach an all-time high at the end of the year. The Group again improved key financial metrics, including a 7 % currency-neutral sales increase and 14 % earnings growth. 2008 will be a year where the world will be "United by Sport" at the European Championship in Austria and Switzerland, and then at the Beijing Olympics. With prominent positions at these two events and strong execution of brand strategies, the Group expects even stronger top- and bottom-line growth in 2008.

Herbert Hainer
CEO and Chairman of the Executive Board

IN THE FOLLOWING INTERVIEW, HERBERT HAINER, ADIDAS GROUP CEO AND CHAIRMAN, REVIEWS 2007, AND DISCUSSES THE GROUP'S STRATEGIC AND FINANCIAL OUTLOOK.

HERBERT, THE ADIDAS GROUP AGAIN MADE BIG STRIDES IN 2007. WHAT DO YOU THINK WERE THE CENTRAL DRIVERS OF YOUR STRONG PERFORMANCE?

Following the acquisition of Reebok and the big success we achieved at the FIFA World Cup™ in 2006, we knew we had a lot to accomplish in 2007 to keep the Group's momentum moving in the right direction. And I am extremely proud that all our hard work has helped the Group achieve new record sales and net income levels. Currency-neutral sales grew 7%. Gross margin increased strongly to 47.4%. Operating margin met our initial expectations – reaching 9.2%. Net income and EPS grew 14% – and all this despite conditions that got tougher in some important markets as the year went on.

"I am extremely proud that all our hard work has helped the Group achieve new record sales and net income levels."

Our focus on performance and executional excellence was a big contributor to our success in 2007. We took further strides in innovation and design leadership, winning several awards, and gained market share in core sports categories such as running and football. We put increased emphasis on controlled space as a key distribution channel for future growth – which means everything from new own-retail formats and expanded franchise networks in emerging markets to creative shop-in-shop concepts in more mature markets. We also made digital communication a strategic priority for all our brands. And as we gear up for another intense year of competition both on and off the playing field, I am convinced these steps have positioned our Group to go even further, even faster.

THE ADIDAS BRAND EXCEEDED YOUR INITIAL EXPECTATIONS FOR THE YEAR WITH 12% CURRENCY-NEUTRAL SALES GROWTH. WHAT WERE THE MAIN FACTORS BEHIND THIS SUCCESS?

A strong product pipeline and commitment to innovation are the fundamental factors behind adidas' success. The brand continued to strengthen its focus on five strategic categories – and grew in all of them. Sales outpaced industry growth rates in all regions. The brand's success in emerging markets, controlled space expansion and continued dominance in its European home market fueled a third consecutive year of double-digit currency-neutral revenue growth. Even more important – the segment broke new gross and operating margin records at 47.4% and 12.9%, respectively. This is proof that adidas' priorities and positioning, coupled with its ability to harness synergies from the Reebok acquisition, helped take the brand a major step forward in operational performance. With order backlogs up 17% – the highest level in nearly 10 years – I am confident adidas will further enhance its leading market positions around the globe in 2008.

"adidas' success in emerging markets, controlled space expansion and continued dominance in its European home market fueled a third consecutive year of double-digit currency-neutral revenue growth."

YOU ARE AN OFFICIAL SPONSOR OF THE UEFA EURO 2008™ AND THE BEIJING OLYMPIC GAMES. HOW IMPORTANT ARE THESE AND OTHER MAJOR SPORTING EVENTS FOR THE ADIDAS GROUP?

A key competitive advantage of our Group is the tremendous experience and know-how we have gained from our long tradition of partnering with major sporting events and leagues. We are the only sports company to ever sponsor a football World Cup. We currently partner with a number of the top marathons around the world – including London, Boston and Berlin. And our Group has long-term relationships with every major sports league in North America.

I firmly believe we are unrivalled in leveraging the opportunities major sporting events provide. That means not only maximizing licensed sales, but also enhancing the visibility of our top products and promotion partners to underscore the Group's credibility and authenticity in performance sport. Although sponsoring these events comes at a cost, we have seen time and time again that the long-term benefits to brand image far exceed the short-term expenses associated with these events.

"I firmly believe we are unrivalled in leveraging the opportunities major sporting events provide."

In 2008, the European Football Championship will be the perfect stage to demonstrate our Group's dominance in the world's favorite sport. adidas' role as an Official Sponsor of the event and Outfitter of five participating teams will help the brand achieve a new sales record in the football category of over € 1.2 billion – generated solely from true performance products.

And at the Beijing Olympics, both of our two biggest brands will be front and center. For adidas this means being the Official Sportswear Partner to the event as well as outfitting 16 National Olympic Committees – including the hosts China. For Reebok, this means partnering with the event's biggest local star – basketball great – Yao Ming. This event will help our Group become the market leader in China this year, as well as drive sales growth throughout the region in 2008 and beyond.

SALES FOR THE REEBOK SEGMENT IN 2007 WERE FLAT, AND MANY PEOPLE IN THE FINANCIAL COMMUNITY HAVE EXPRESSED CONCERN ABOUT REEBOK'S PROSPECTS IN 2008. WHAT ARE YOU DOING TO ENHANCE THE BRAND'S POSITIONING AND PERFORMANCE GOING FORWARD?

Let me start by saying that while we are pleased with the new market opportunities and scale benefits that have already come to our Group as a result of the Reebok integration, you are right that we still need to complete the repositioning of the Reebok brand – especially in its two largest markets – the USA and the UK. To do this, we clearly have to maintain our discipline and focus on Reebok. In 2007, we made major management changes at the Reebok brand. We took tough decisions to improve US distribution – even stopping supply to the brand's largest customer where excess inventories had led to a significant decline in profitability.

"We still need to complete the repositioning of the Reebok brand – especially in its two largest markets – the USA and the UK."

But the real test is still in front of us – making the Reebok brand more relevant to consumers. The brand needs simple messages that stick, and that's why its 2008 products and marketing strategies focus on two important concepts – fit and choice. Reebok is striving to be the brand that "fits me". This means creating the perfect fit with all its consumers, customers and business partners alike. Therefore, Reebok has sharpened its 2008 product offering by including 893 new fit initiatives throughout its collections. In addition, Reebok is customizing its product offering for key retail partners – which means more relevant products for consumers, and higher margins for Reebok. And through the launch of the brand's global communication campaign –"Your Move"– Reebok is set to establish itself as a supporter of individual choice and a challenger of convention.

We still have a long way to go. As we announced at our Investor Day six months ago, sales will not grow for Reebok in the USA and the UK in 2008. But I do expect the order situation in these markets to improve later this year. And sales will grow in nearly all other markets – especially Russia and China – where the brand took over distribution for the first time in 2007. As a result, we not only expect sales and profitability for the segment to increase in 2008 – but more importantly, the brand perception amongst consumers around the world should also improve.

"We not only expect sales and profitability for the segment to increase in 2008 – but more importantly, the brand perception amongst consumers around the world should also improve."

THE ECONOMIC CLIMATE IN NORTH AMERICA HAS DETERIORATED IN RECENT MONTHS. HOW DO YOU SEE THE ADIDAS GROUP NAVIGATING THROUGH THESE CHALLENGES IN 2008?

Yes, economic conditions in North America have become more difficult. Nonetheless, I am optimistic we will outperform most of our competitors during this period of relative economic weakness. We are a regionally diversified Group, which is one of our most significant strengths. We have been diligent in managing the adidas brand in the USA over the past few years – which has brought adidas four years of consecutive growth in the world's largest sporting goods market. Today, we have a much broader distribution base and a significantly improved performance product and partnership portfolio in the region. Therefore, I am confident that the adidas brand will again grow in North America in 2008 – although it is likely to be at lower levels than in recent years. At Reebok, there are still a lot of challenges – and tough market conditions don't make it any easier. But I am confident the brand has the right initiatives in place to position itself for growth in this market in 2009.

"I am optimistic we will outperform most of our competitors during this period of relative economic weakness."

HOW DO YOU RATE THE PERFORMANCE OF TAYLORMADE-ADIDAS GOLF IN 2007 AND WHAT PRIORITIES HAVE YOU SET FOR THIS BUSINESS GOING FORWARD?

TaylorMade-adidas Golf strives to be the best performance golf business in the world. And nothing highlights this more than our performance in metalwoods last year. Despite fierce competition and technological hype in golf's most prestigious category, TaylorMade extended its market share lead over its closest competitor to more than ten points. And adidas Golf sales of footwear and apparel grew at double-digit rates for the fifth consecutive year. Segment like-for-like sales, excluding the effects of the Greg Norman Collection wholesale business divestiture, grew 9 % on a currency-neutral basis, driven by increases in all major categories. For 2008, increasing profitability is our top priority. We believe there is no reason why TaylorMade-adidas Golf shouldn't be delivering a double-digit operating margin in the very near future. We sold Maxfli because we now have all the know-how we need to be successful in the premium golf ball category. We are focused on growing our core golf brands: TaylorMade and adidas Golf.

AFTER A SOLID 2007, WHAT CAN WE EXPECT FROM THE GROUP IN TERMS OF FINANCIAL PERFORMANCE IN 2008?

We have worked hard to position ourselves for continued growth in 2008. I am confident our progress will accelerate versus last year and we will reach new heights on both the top and bottom line. We expect high-single-digit currency-neutral sales growth – driven by improvements at all of our brands. Gross margin will range between 47.5 % and 48 %. And our operating margin will expand to at least 9.5 %. Through this strong operational performance, we will increase net income by at least 15 %.

"In 2008, we will reach new heights on both the top and bottom line."

GIVEN THE STRONG TOP-LINE TARGET AND PROJECTED NET SYNERGIES FOR 2008, HOW DID YOU ARRIVE AT YOUR GUIDANCE OF AT LEAST 15 % NET INCOME GROWTH, WHICH APPEARS CONSERVATIVE?

Our top priority is ensuring long-term sustainable growth and profitability increases for the Group. Maintaining a strong gross margin is crucial, and although we see great potential in the Reebok segment and throughout our supply chain for further improvement, rising input costs towards the end of the year will counteract some of the progress we expect. We also need to keep investing in our brands to capitalize on both short-term opportunities and to realize our long-term strategic goals. In 2008, we will also have costs related to the year's major sporting events and other important brand initiatives such as expanding our controlled space activities. In addition, our share buyback program will moderate our progress on financial expense reduction. Underlying improvements at all of our brands and increased net synergies relating to the Reebok integration, however, will more than offset these negative effects. As a result, I am proud that we will be able to deliver earnings improvement of at least 15 % – marking our eighth consecutive year of double-digit earnings growth.

"Our top priority is ensuring long-term sustainable growth and profitability increases for the Group."

INCREASING SHAREHOLDER VALUE AND RETURNS IS ONE OF THE ADIDAS GROUP'S GUIDING PRINCIPLES. WHAT ARE YOUR PLANS IN THIS RESPECT, GIVEN YOUR RECENTLY ANNOUNCED SHARE BUYBACK PROGRAM?

The best way to deliver value to our shareholders is through strong financial performance and disciplined balance sheet management. Since completing the Reebok acquisition in the first quarter of 2006, we have reduced our net borrowings by around € 1.2 billion. With financial leverage of 58.4 % at the end of 2007, we now have flexibility to deliver more aggressive shareholder returns. As a result, we announced a share buyback program of up to € 420 million in January. This tool will provide our shareholders with an even higher participation in our future financial performance through enhanced earnings per share growth. And combining this with our total dividend increase of 19 %, we will return more to shareholders in 2008 than ever before. These initiatives clearly highlight our confidence in the health of our business, our future business prospects and the strong cash flows we expect to generate going forward.

HERBERT, THANK YOU FOR THIS INTERVIEW.

EXECUTIVE BOARD Our Executive Board is comprised of four members who reflect the diversity and international character of our Group. Each Board member is responsible for at least one major business unit within the Group.

HERBERT HAINER was born in Dingolfing, Germany, in 1954. Following his business studies, Herbert Hainer spent eight years with Procter & Gamble in various sales and marketing positions. He joined adidas Germany in 1987 and has held numerous management positions within the Group, including Managing Director Germany and Senior Vice President for Sales and Logistics in Europe, Africa and the Middle East. Herbert Hainer joined the Executive Board in 1997 and became CEO and Chairman of the Executive Board of adidas AG[1] in 2001. He is married, has one daughter and lives in Herzogenaurach. 3rd position from left

Herbert Hainer is also:
-- Deputy Chairman of the Supervisory Board, FC Bayern München AG, Munich, Germany
-- Member of the Supervisory Board, Engelhorn KGaA, Mannheim, Germany
-- Member of the Supervisory Board, Allianz Deutschland AG, Munich, Germany

GLENN BENNETT was born in New Hampshire, USA, in 1963. With a degree in computer science, he began his professional career with Reebok International Ltd. in 1983, where he worked for ten years in various operations and product functions of which the latest was Director of Footwear Development. In 1993, Glenn Bennett joined adidas AG and began working as the Head of Worldwide Footwear Development. He was promoted to Senior Vice President of Footwear Operations a few months later. In 1997, Glenn Bennett was appointed to the Executive Board where he assumed responsibility for all Footwear, Apparel and Accessories & Gear Operations activities shortly thereafter. Glenn Bennett lives in Boston, Massachusetts, USA. 1st position from left

ROBIN J. STALKER was born in Palmerston North, New Zealand, in 1958. In 1982, following his degree in business studies, he began his professional career and qualified as a Chartered Accountant. He worked for Arthur Young in New Zealand and London and subsequently held financial and controlling positions in the entertainment industry, including United International Pictures and Warner Bros. International as well as working as an independent consultant. Robin J. Stalker joined adidas AG in 1996. Since February 2000, he has been Chief Financial Officer of adidas AG[1] and was appointed to the Executive Board, responsible for Finance, in 2001. In 2005, he assumed additional responsibility as Labor Director. Robin J. Stalker is married and lives near Herzogenaurach. 2nd position from left

ERICH STAMMINGER was born in Rosenberg, Germany, in 1957. After obtaining a degree in business studies, he started his career at GfK, a German consumer research institute. In 1983, Erich Stamminger joined adidas Germany. He served in numerous marketing positions before becoming Managing Director for Germany and later Europe and Asia / Pacific. In 1997, he was appointed to the Executive Board and became Head of Global Marketing in 2000. Four years later, he was named President and CEO of adidas North America, while maintaining his position as Head of Global Marketing. In 2006, he was named President and CEO of the adidas brand. Erich Stamminger is married and lives in Nuremberg. 4th position from left

1) adidas-Salomon AG from December 19, 1997 to May 29, 2006.

SUPERVISORY BOARD REPORT

Dear Shareholders, 2007 was another very successful year for the adidas Group. This success represents both a challenge as well as a motivation for us to consistently continue implementing the Group's strategic goals going forward. In 2008, we expect major sports events and exciting new product launches to drive further expansion of our brands' market positions around the world.

Dr. Hans Friderichs
Chairman of the Supervisory Board

SUPERVISORY FUNCTIONS *In the year under review, we, as the Supervisory Board, carefully and regularly monitored the Group's management. We advised the Executive Board on matters relating to the strategic development of the Group as well as major individual initiatives. In this respect, the Executive Board informed us regularly, extensively and in a timely manner at Supervisory Board meetings as well as by additional oral and written reports. This information covered the Group's corporate policy as well as all relevant aspects of business planning, including finance, investment and personnel planning. We were also kept up-to-date on the course of business, the operational position of adidas AG and the Group (including the risk situation and risk management), the Group's financial position and profitability, as well as all major decisions and business transactions. We were involved in all of the Group's fundamental decisions at an early stage.*

We held four Supervisory Board meetings in 2007 and one constituent meeting immediately following our meeting on November 7, 2007. Further, we passed additional resolutions on urgent matters between our meetings. All Supervisory Board members attended more than half of the Supervisory Board meetings. The external auditor KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main (KPMG) attended all meetings. In addition, Henri Filho (Chairman of the Supervisory Board until November 7, 2007) and Dr. Hans Friderichs (formerly Deputy Chairman of the Supervisory Board and now Chairman of the Supervisory Board, since November 7, 2007) also maintained regular contact with the Executive Board beyond the Supervisory Board meetings. We kept ourselves thoroughly informed regarding the current business situation, major business transactions and upcoming decisions.

MAIN TOPICS COVERED AND EXAMINED BY THE SUPERVISORY BOARD AS A WHOLE *The development of sales and results as well as the financial position of the Group and development of the individual brand segments was presented to us in detail by the Executive Board and subsequently discussed at each of our meetings. Other Supervisory Board agenda items included numerous individual topics which we discussed in depth with the Executive Board. These discussions did not give rise to any doubt as to the legality or regularity of the Executive Board's management.*

The main topic on the March 6, 2007 financial statements meeting agenda was the review of the adidas AG annual financial statements, the consolidated financial statements and the respective Management Reports for the year ending December 31, 2006, as certified by the auditor. The Supervisory Board also reviewed the Executive Board's proposal regarding the appropriation of retained earnings. Following initial Audit Committee examination and consultation, the Supervisory Board as a whole discussed material aspects of these financial statements with the Executive Board and KPMG. Both provided us with detailed responses to all of our questions. After having carefully considered adidas AG's financial position and the expectations of shareholders and the capital market, we approved the proposal put forward by the Executive Board regarding the appropriation of retained earnings. In addition, we discussed resolutions to be proposed to the 2007 Annual General Meeting. Of particular importance was the restructuring of Supervisory Board compensation which will become effective as of 2008.
see Compensation Report, p. 030 *On the basis of the previous Audit Committee discussions, we also resolved to propose to the Annual General Meeting that KPMG again be appointed as Auditor and Group Auditor. KPMG was not present during the discussions regarding this resolution. We also approved all other resolutions which would later be put to the Annual General Meeting. Lastly, the Executive Board reported to us at this meeting on the development of the TaylorMade-adidas Golf segment, including the Maxfli golf ball brand acquired at the beginning of 2003.*

The main focus of our May 9, 2007 meeting was the first quarter 2007 financial results as presented by the Executive Board as well as the business development of the Rockport brand, which was purchased as part of the Reebok acquisition. Additional topics we dealt with included confidentiality of the Supervisory Board's work, Insider Law and Directors' Dealings.

At our August 7, 2007 Supervisory Board meeting, discussions focused on the financial report for the first six months of the year and the anticipated development of business for the remainder of 2007. Several internal corporate restructuring measures in the context of the Reebok integration were also reviewed. In addition, we discussed the potential sale of the Herzo-Base to an external investor group and established the "Herzo-Base" Committee ad hoc. A further agenda item was the appointment of KPMG as auditor of the 2007 annual financial statements of adidas AG and the consolidated financial statements as well as a review of the audit points and priorities agreed between the Audit Committee and KPMG.

At our November 7, 2007 Supervisory Board meeting, the Executive Board presented its report on the business development in the first nine months of the year. After in-depth consideration, we also approved the budget and investment plan for 2008, which was presented by the Executive Board with detailed documentation. Following the resignation of Henri Filho at the end of this meeting, we immediately held a constituent Supervisory Board meeting, at which we discussed Corporate Governance topics and personal changes on the Supervisory Board.

Resolutions of fundamental importance passed outside of our regular meetings related to a capital increase at our subsidiary adidas North America, Inc., with a view to optimizing the finance needs of several US companies, as well as the presentation of the Declaration of Compliance.

REPORT FROM THE COMMITTEES *In order to perform our tasks in an efficient manner, we have four Supervisory Board standing committees. We also established the project-related "Herzo-Base" Committee ad hoc. The standing committees prepare specific topics to be dealt with by the Supervisory Board as a whole.* see Supervisory Board, p. 025 *In a few individual cases, as appropriate by law, we have delegated decision-making powers to these committees. At our Supervisory Board meetings, the chairmen of the committees always reported to us in detail about the committees' work and meetings, ensuring complete exchange of information and good cooperation between the committees and the Supervisory Board as a whole.*

The committees' work in the year under review is summarized as follows:

- *The Steering Committee, which is authorized to pass resolutions on behalf of the Supervisory Board in special urgent cases, did not meet in the year under review as there was no reason to do so.*

- *The General Committee met three times in 2007. The main topics of this committee's discussions and resolutions were the structure and amount of Executive Board compensation, as well as the routine review of Executive Board agreements. In addition, the committee approved the extension of a project-related consultancy agreement with one Supervisory Board member until June 30, 2007.*

- *The Audit Committee met four times in 2007. The auditor was always in attendance. Committee members discussed the annual financial statements of adidas AG and consolidated financial statements for 2006 intensively, as well as the half year and nine months results for 2007, as presented by the Executive Board. The auditor reported to the committee on its auditing activities and results in detail, as well as on the implementation of risk management throughout the Group following the acquisition of Reebok. Further, the Audit Committee prepared a Supervisory Board proposal for the Annual General Meeting recommending the appointment of the auditor and obtained the auditor's declaration of independence. Committee members also established the priority topics for the audit and decided on the auditor's fee. Additionally, the Audit Committee thoroughly reviewed the Global Internal Audit report on internal auditing activities.*

- *The Mediation Committee again had no reason to meet in 2007.*

- *The "Herzo-Base" Supervisory Board Committee established ad hoc met in December 2007 to deal with the "Sale of Herzo-Base" project.*

DECLARATION OF COMPLIANCE AND GOOD CORPORATE GOVERNANCE *The subject of Corporate Governance is very important to the Supervisory Board. We report on Corporate Governance together with the Executive Board.* see Corporate Governance Report, p. 026 *At our constituent meeting on November 7, 2007, we discussed the content and implementation of the new provisions and stipulations of the German Corporate Governance Code as amended on June 14, 2007, with the Executive Board. This also included our deviations from the recommendations. Additionally, we decided to establish a Nomination Committee to prepare for the election of Supervisory Board members at the Annual General Meeting in 2009. We expect to form this committee in spring 2008. We also resolved to conduct an efficiency examination regarding our Supervisory Board work.* see Corporate Governance Report. p . 026 *On February 11, 2008, together with the Executive Board, we presented our updated Declaration of Compliance with the German Corporate Governance Code in accordance with § 161 of the German Stock Corporation Act (Aktiengesetz – AktG). This declaration was made permanently available to our shareholders on the corporate website at* www.adidas-Group.com/corporate_governance *on the same day.*

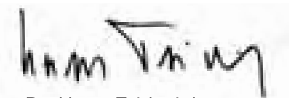
DETAILED EXAMINATION AND DISCUSSION OF THE 2007 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS *KPMG audited the 2007 annual financial statements and Management Report of adidas AG prepared in accordance with the requirements of the German Commercial Code (Handelsgesetzbuch – HGB) and issued an unqualified opinion thereon. The auditor also approved the consolidated financial statements and Group Management Report without qualification. These were prepared in accordance with § 315a HGB in compliance with IFRS.*

The financial statements, the proposal put forward by the Executive Board regarding the appropriation of retained earnings and the auditor's reports were submitted to the Audit Committee and the Supervisory Board in a timely manner. They were examined first by the Audit Committee on March 3, 2008. At our meeting on March 4, 2008, the annual financial statements were then examined by the Supervisory Board as a whole and discussed in the presence of the auditor. The auditor reported the material results of the financial statements audit with focus on the 2007 priority topics as agreed with the Audit Committee. These included the regularity of the annual financial statements as incorporated in the consolidated financial statements, impairment tests for goodwill and intangible assets as well as the completeness of financial instrument information in accordance with IFRS 7 as presented for the first time in the Notes to the Group's financial statements. The auditor was available for questions and the provision of supplementary information. Having examined the annual financial statements of adidas AG, the consolidated financial statements and the Management Reports, we came to the conclusion that there were no objections to be raised. Following the recommendation of the Audit Committee, we therefore approved the audit results and adopted the financial statements prepared by the Executive Board at our financial statements meeting. The annual financial statements of adidas AG were thus adopted. We discussed the Group's dividend policy with the Executive Board and, in light of the financial position of adidas AG as well as shareholders' and capital market expectations, we approved the proposal regarding the appropriation of retained earnings.

CHANGES ON THE SUPERVISORY BOARD *Henri Filho retired as a member and Chairman of the Supervisory Board as well as several Supervisory Board committees effective from the end of the November 7, 2007 Supervisory Board meeting, for personal reasons. He was a member of the adidas AG Supervisory Board for 14 years, and during this eventful period he provided valuable supervisory and advisory support to our Executive Board. Dr. Stefan Jentzsch, member of the Executive Board of Dresdner Bank and elected as substitute member by the shareholders at the Annual General Meeting in May 2004, became a full member of the Supervisory Board on the same date. At the constituent meeting on November 7, 2007, the Supervisory Board elected Dr. Hans Friderichs as Supervisory Board Chairman for the remaining tenure of the current Supervisory Board. Igor Landau was elected as additional Deputy Chairman, and Dr. Manfred Gentz was elected as a member of the Audit Committee and the ad hoc "Herzo-Base" Committee. At the constituent meetings of the Audit Committee and the General Committee which immediately followed, these committees elected their respective chairmen.*

We wish to thank Henri Filho for his many years of exceptional service to the benefit of adidas AG as a member and as Chairman of the Supervisory Board. Additionally, we would like to express our appreciation of the tremendous personal dedication, the performance and the ongoing commitment of the Executive Board, the managements of Group companies, the Works Council and all adidas Group employees. We thank all of them for their contributions.

For the Supervisory Board



Dr. Hans Friderichs
Chairman of the Supervisory Board

March 2008

DR. HANS FRIDERICHS

CHAIRMAN[1]
Management Consultant
-- Chairman of the Supervisory Board, allit AG Kunststofftechnik, Bad Kreuznach, Germany
-- Chairman of the Supervisory Board, Racke Weinkeller GmbH & Cie. KGaA, Mainz, Germany (until November 29, 2007)

FRITZ KAMMERER[2]

DEPUTY CHAIRMAN
Chairman of the Central Works Council, adidas AG

IGOR LANDAU

DEPUTY CHAIRMAN[3]
Former Chief Executive Officer of Aventis S. A., Paris, France
-- Member of the Supervisory Board, Allianz AG, Munich, Germany
-- Member of the Board of Directors, Sanofi-Aventis S. A., Paris, France
-- Member of the Board of Directors, HSBC France S. A., Paris, France

SABINE BAUER[2]

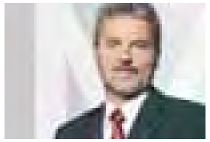
Senior Manager Quality Service Systems, Global Operations, adidas AG

DR. IUR. MANFRED GENTZ

Chairman of the Administrative Board, Zurich Financial Services S. A., Zurich, Switzerland
-- Member of the Supervisory Board, Deutsche Börse AG, Frankfurt am Main, Germany
-- Member of the Supervisory Board, DWS Investment GmbH, Frankfurt am Main, Germany
-- Chairman of the Administrative Board, Zurich Financial Services S. A., Zurich, Switzerland

DR. STEFAN JENTZSCH[3]

Member of the Executive Board, Dresdner Bank AG, Frankfurt am Main, Germany
-- Member of the Supervisory Board, Premiere AG, Unterföhring, Germany



ROLAND NOSKO[2]

Trade Union Official, IG BCE Trade Union, Headquarter Nuremberg, Germany
-- Member of the Supervisory Board, BP Gelsenkirchen GmbH, Gelsenkirchen, Germany
-- Member of the Supervisory Board, CeramTec AG, Plochingen, Germany

HANS RUPRECHT[2]

Sales Director Customer Service, Area Central, adidas AG

WILLI SCHWERDTLE

General Manager, Procter & Gamble Holding GmbH, Schwalbach am Taunus, Germany

HEIDI THALER-VEH[2]

Member of the Central Works Council, adidas AG

CHRISTIAN TOURRES

Former Member of the Executive Board of adidas AG
-- Member of the Board of Directors, Beleta Worldwide Ltd., Guernsey, Channel Islands

KLAUS WEIß[2]

Trade Union Official, IG BCE Trade Union, Headquarter Hanover, Germany
-- Member of the Supervisory Board, Wohnungsbaugesellschaft mbH Glück Auf Brambauer, Lünen, Germany

HENRI FILHO

Chairman and member of the Supervisory Board until November 7, 2007
Management Consultant
-- Deputy Chairman of the Supervisory Board, Groupe Vendôme Rome S. A., Paris, France

STANDING COMMITTEES

Steering Committee Dr. Hans Friderichs (Chairman)[4]; Fritz Kammerer; Igor Landau[3]; Henri Filho[5]
General Committee Dr. Hans Friderichs (Chairman)[4]; Fritz Kammerer; Igor Landau[3]; Klaus Weiß; Henri Filho[5]
Audit Committee Dr. iur. Manfred Gentz (Chairman)[3]; Dr. Hans Friderichs[7]; Hans Ruprecht; Klaus Weiß; Henri Filho[6]
Mediation Committee Dr. Hans Friderichs; Fritz Kammerer; Igor Landau[3]; Roland Nosko; Henri Filho[6]

OTHER COMMITTEES

"Herzo-Base" Committee Dr. iur. Manfred Gentz (Chairman)[8]; Hans Ruprecht; Heidi Thaler-Veh; Henri Filho[6]

1) Since November 7, 2007, formerly Deputy Chairman of the Supervisory Board.
2) Employee representative.
3) Since November 7, 2007.
4) Since November 7, 2007, formerly member of the committee.
5) Chairman of the committee until he retired on November 7, 2007.
6) Member of the committee until he retired on November 7, 2007.
7) Chairman of the committee until November 7, 2007, subsequently member of the committee.
8) Since December 19, 2007, formerly member of the committee.

CORPORATE GOVERNANCE REPORT

We are committed to the principles of good Corporate Governance and continually strive to strengthen and sustain the trust that investors, business partners, employees and the public have placed in us. Accordingly, our Executive and Supervisory Boards regularly evaluate current national and international standards regarding responsible, transparent and efficient company management with the objective of enhancing corporate governance at the adidas Group and increasing sustainable value. Corporate Governance activities in 2007 focused on the implementation of another efficiency examination of our Supervisory Board on the consultation regarding newly introduced recommendations and suggestions of the German Corporate Governance Code as well as on the measures necessary for the early implementation of the EU Audit Directive.

DUAL BOARD SYSTEM As required by the German Stock Corporation Act (Aktiengesetz – AktG), adidas AG has a dual board system which assigns management functions to the Executive Board and control functions to the Supervisory Board. These two boards. are strictly separated in terms of membership and competencies. Our Executive Board is currently composed of four members. see Executive Board, p. 018 Our 12-member Supervisory Board comprises an equal number of shareholder and employee representatives in accordance with the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG). see Supervisory Board, p. 025

INCREASED EFFICIENCY THROUGH SUPERVISORY BOARD COMMITTEES In order to perform its tasks in a most efficient manner, our Supervisory Board has formed expert committees, whose chairmen report to the entire Supervisory Board on a regular basis.

- The Steering Committee, which consists of the Supervisory Board Chairman and his two deputies, discusses major issues, prepares resolutions and is authorized in special urgent cases to take resolutions in lieu of the Supervisory Board.

- The co-determined General Committee, with four members, is responsible in particular for the preparation of Supervisory Board resolutions regarding the appointment of Executive Board members. Further, the General Committee decides on the content of the related employment agreements as well as the structure and level of Executive Board compensation.

- The co-determined Audit Committee, which also comprises four members, deals primarily with accounting, risk management and compliance issues. It assesses and supervises the auditor's independence and determines audit priorities. In addition, the Audit Committee examines the annual financial statements and consolidated financial statements including Management Reports. Further, the Audit Committee prepares the respective Supervisory Board resolutions as well as the agreement with the auditor. Furthermore, it deals with the quarterly and half-year financial reports.

- The four-member Mediation Committee, formed in accordance with § 27 section 3 of the German Co-Determination Act, is responsible for submitting a proposal to the Supervisory Board regarding the appointment or dismissal of Executive Board members if the two-thirds Supervisory Board majority required for an appointment or dismissal is not achieved in the preceding resolution.

- In addition, a committee was established ad hoc in 2007 with three members for the "Sale of Herzo-Base" project.

see Supervisory Board Report, p. 020

For a summary of the activities of the Supervisory Board and its committees in 2007. see Supervisory Board Report, p. 020 For an overview of the Supervisory Board and committee members. see Supervisory Board, p. 025

CLOSE COOPERATION BETWEEN EXECUTIVE AND SUPERVISORY BOARDS Our Executive and Supervisory Boards cooperate closely with each other on a basis of mutual trust in the best interest of the adidas Group. Our Executive Board develops the Group's strategic orientation, coordinates it with the Supervisory Board and ensures its implementation. The Executive Board informs the Supervisory Board frequently, expeditiously and comprehensively on the Group's strategy, planning, business development and risk management. In particular, the Chairmen of our Executive and Supervisory Boards maintain frequent contact. For certain business transactions and measures, the Executive Board must obtain the Supervisory Board's prior consent. This includes, for example, entering or exiting major fields of activity and acquiring or divesting substantial corporate holdings. Further, the Executive Board must obtain the Supervisory Board's approval for the budget including the annual capital expenditure and financial plan. For particularly urgent matters, the Supervisory Board may also resolve on issues by way of a written circular vote. The Rules of Procedure of the Executive Board and Supervisory Board can be viewed online at www.adidas-Group.com.

EXAMINATION OF THE EFFICIENCY OF THE SUPERVISORY BOARD Regular examination of Supervisory Board efficiency is an essential component of good Corporate Governance. The examination is conducted by an external advisor every two years by means of detailed questionnaires. All members of the Supervisory Board, with the exception of the Chairman who resigned in November, and the succeeding member, participated in 2007. Based on the results of the 2005 efficiency examination, this year's survey took the latest demands on the Supervisory Board functions into consideration and focused in particular on the timely supply of high-quality information by the Executive Board, activities of the committees taking into account all their functions and competencies as well as the meeting preparation and realization. The results show that the Supervisory Board and its committees fulfill all tasks set by the law, the Articles of Association and Rules of Procedure.

GROUP-WIDE CODE OF CONDUCT TRAINING STARTS IN 2007 With the implementation of the "Code of Conduct" in 2006, our Executive Board defined business principles and guidelines for law-compliant and ethical behavior for all employees towards other employees, business partners and third parties and introduced these principles and guidelines throughout our Group. Disciplinary measures are taken against employees who infringe upon a law or the internal Code of Conduct while carrying out the adidas Group's business. In 2007, we began to train employees in compliance-relevant matters by means of an e-learning seminar especially developed for this purpose. This guarantees further enhancement of our risk management. see Risk and Opportunity Report, p. 104

ENSURING TRANSPARENCY AND COMMUNICATION WITH OUR SHAREHOLDERS In accordance with the principles of fair disclosure, in view of our international shareholder structure and in order to achieve maximum transparency, we provide all institutional investors, private shareholders, financial analysts, employees and the interested public with the same information at the same point in time, in both English and German. For this purpose, we primarily use our website. www.adidas-Group.com There we publish all press releases and ad hoc announcements, financial reports, information on our analyst and press conferences, our Annual General Meeting and our financial calendar. In accordance with the new statutory regulations, we publish throughout Europe, inter alia, notifications on Directors' Dealings, on changes in the percentage of voting rights as well as all corporate information subject to disclosure requirements. These publications can then be accessed centrally through the electronic business register.

ANNUAL GENERAL MEETING ATTENDANCE INCREASED FURTHER The Annual General Meeting is a platform for dialog between our shareholders and the Executive and Supervisory Boards. It is also the forum for shareholders to execute their voting rights. At our Annual General Meeting on May 10, 2007. 44 % of the capital with voting rights was present. This represents an increase of 5 percentage points compared to the prior year. We attribute this considerable increase in the attendance rate to the proxy solicitation conducted prior to the Annual General Meeting, when our shareholders were directly contacted and informed on the exact deadlines, registration requirements and possibilities for exercising their voting rights. Furthermore, our shareholders may utilize our enhanced Internet service. This service offers our shareholders the possibility to have their voting rights exercised by a proxy appointed by adidas AG, a service which can be requested in writing or via the Internet until the end of the general debate (7.8% of the stock capital exercised voting rights via the Internet at the 2007 Annual General Meeting). In light of the increasing importance of electronic transmission of information, we created the necessary preconditions for this with the amendment to the Articles of Association resolved by the shareholders. The use of the Internet service has been sustainably supported, and obstacles, especially with regard to the cross-border exercise of voting rights, have been reduced. At our next Annual General Meeting, taking place on May 8, 2008 in Fuerth (Bavaria), we will again provide our shareholders with the best possible service.

DIRECTORS' DEALINGS AND SHARE OWNERSHIP Pursuant to § 15a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) Executive and Supervisory Board members, other key executives as well as persons in close relationship with them are required to disclose the purchase or sale of adidas AG shares or related financial instruments within five business days (Directors' Dealings). In 2007, we received eight Directors' Dealings notifications relating to adidas shares (ISIN DE0005003404), which were published at www.adidas-Group.com/directors_dealings. We received no notification from our Executive or Supervisory Boards in 2007 relating to their ownership of adidas AG shares or financial instruments pursuant to Article 6.6 of the German Corporate Governance Code. Further, we did not receive any notifications in 2007 according to which individual Executive or Supervisory Board members' share ownership reached, exceeded or fell below the applicable notification thresholds provided in the German Securities Trading Act.

DIRECTORS' DEALINGS IN 2007

Frankfurt am Main, Date	Name	Position	Type of transaction	Number of shares	Price in €	Transaction volume in €
April 11, 2007	Christian Tourres	Supervisory Board	Sale	80,000	43.00	3,440,000.00
April 17, 2007	Christian Tourres	Supervisory Board	Sale	80,000	45.10588	3,608,446.40
November 8, 2007	Christian Tourres	Supervisory Board	Sale	100,000	47.915	4,791,500.00
November 16, 2007	Herbert Hainer	Executive Board	Purchase	1,094	46.50	50,871.00
November 16, 2007	Herbert Hainer	Executive Board	Purchase	500	46.44	23,220.00
November 16, 2007	Herbert Hainer	Executive Board	Purchase	406	46.49	18,874.94
November 27, 2007	Fritz Kammerer	Supervisory Board	Purchase	220	44.82	9,860.40
December 28, 2007	Christian Tourres	Supervisory Board	Sale	100,000	50.615	5,061,500,00

FURTHER RECOMMENDATIONS OF THE GERMAN CORPORATE GOVERNANCE CODE IMPLEMENTED By resolution of the Annual General Meeting held on May 10, 2007, we amended our Articles of Association to ensure that remuneration of Supervisory Board members will reflect committee participation effective as of 2008. This means we now follow an additional German Corporate Governance Code recommendation (hereinafter referred to as "Code"). In 2007, both the Executive and Supervisory Boards were regularly informed on the latest Corporate Governance developments by our Corporate Governance Officer. The Boards also examined our compliance with Code regulations, particularly with the new regulations which came into effect on June 14, 2007. As a result of these discussions, the Executive and Supervisory Boards issued an updated Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act on February 11, 2008. The full text version is available for download on our website at www.adidas-Group.com/corporate_governance together with all past Declarations of Compliance. Accordingly, we also fulfill all new recommendations introduced by the Code Commission in 2007 and comply with the majority of the Code's non-binding suggestions.

adidas AG has been and will continue to be in compliance with all recommendations of the German Corporate Governance Code dated June 14, 2007, with the following exceptions:

- The Directors & Officers' liability insurance for our Executive and Supervisory Board members does not include a deductible as this is not common practice outside Germany. Further, we believe that it is not appropriate for our Group insurance policy, which covers a large number of high-level executives in Germany and abroad, to differentiate between Executive and Supervisory Board members and other executives.

- The determination and review of the structure and level of Executive Board compensation was delegated by the Supervisory Board to its General Committee in its Rules of Procedure. The Supervisory Board plenum is informed on the respective results. This system has proven successful over time.

- Stock options granted to the Executive Board within the scope of the Management Share Option Plan (MSOP) do not provide a possibility of a retroactive limitation (cap) for extraordinary, unforeseen developments as all stock options were granted in May 2003 before this Code recommendation was introduced. As of 2008, our Executive Board members do not hold any further stock options. Should we decide, however, to initiate a new stock option plan in the future, we will comply with this recommendation.

- We do not specify an age limit for Supervisory Board members as our shareholders currently do not consider this necessary.

- The new regulation of Supervisory Board compensation applicable as of 2008 does not include a variable component linked to the Group's performance either, in order to ensure the independent supervision required.

- Ownership of adidas AG shares or related financial instruments by Executive and Supervisory Board members is reported if it reaches, exceeds or falls below the notification thresholds provided in the German Securities Trading Act and if adidas AG is notified of this fact. We consider the thresholds stipulated in § 21 and § 25 of the German Securities Trading Act as amended in January 2007 and the increased transparency thus achieved by German legislation to be appropriate and sufficient for adidas AG as well.

In addition, at the Supervisory Board meeting on November 7, 2007, the Supervisory Board resolved to comply with the recommendation of the Code to form a nomination committee. A decision upon the composition of the committee, which proposes suitable candidates to the Supervisory Board for recommendation to the Annual General Meeting, is expected in spring 2008 in order for the committee to have sufficient time for its tasks with regard to the next election of Supervisory Board members at the Annual General Meeting in 2009.

MORE INFORMATION ON CORPORATE GOVERNANCE All adidas AG corporate governance documents are available on our website at www.adidas-Group.com/corporate_governance.

COMPENSATION REPORT [1] In our Compensation Report, we summarize the principles relevant for determining the compensation of our Executive Board and outline the structure and level of Executive and Supervisory Board compensation. Furthermore, this report contains information on benefits which the members of our Executive Board will obtain if they resign from office or retire. This report was prepared in accordance with the requirements of German commercial law and the Executive Board Compensation Disclosure Act (Vorstandsvergütungs-Offenlegungsgesetz – VorstOG). Further, it is based on the recommendations of the German Corporate Governance Code.

EXECUTIVE BOARD COMPENSATION

THREE COMPONENTS OF COMPENSATION In 2007, the total Executive Board compensation amounted to € 11.127 million. In accordance with German Corporate Governance Code recommendations, compensation for members of our Executive Board consists of fixed and variable components. The latter have risk character and a long-term incentive effect. Compensation is comprised of (1) a non-performance-related component, (2) a performance-related component, and (3) a share-based component. The individual components are structured as follows:

- The non-performance-related component includes a fixed annual salary and other benefits. The fixed annual salary is paid in monthly installments and is regularly reviewed with regard to prevailing market standards and appropriateness. The review also takes the financial position of the Group into consideration. Other benefits mainly comprise the use of a company car, the payment of insurance premiums and, in exceptional cases, an adjustment amount paid to equalize tax treatment of personal income between the USA and Germany. Executive Board members receive no additional compensation for mandates held within the adidas Group.

- The performance-related component, which comprises the largest portion of Executive Board compensation, consists of a Performance Bonus as well as a bonus paid on the basis of the Long-Term Incentive Plan (LTIP). Both bonus systems are designed to provide a direct incentive for Executive Board members to achieve their defined targets and to support sustainable value-oriented management.

  - The amount of the Performance Bonus is linked to the fixed annual salary and is determined by individual performance of the respective Executive Board member as well as by the Group's financial results based on the development of profits considering the budget. The Performance Bonus is payable at the end of each year upon determination of target achievement.

  - The amount of the bonus from the Long-Term Incentive Plan 2006/2008 (LTIP Bonus 2006/2008) depends upon the attainment of certain cumulative earnings improvements based on income before taxes (IBT) during the three-year period from 2006 to 2008. If targets are met, payment will be due following the approval of the annual consolidated financial statements for the period ending December 31, 2008.

- The share-based component is comprised of compensation from the Management Share Option Plan (MSOP). Option rights, which were issued in annual tranches in the years 1999 to 2002, are exercisable over a period of five years following a two-year vesting period, provided that at least one of the two performance targets, absolute performance or relative performance, has been attained. see Note 32, p. 189 Shares are issued with a performance discount depending on target achievement. Subsequent changes to plan conditions are not possible. No new share option program was proposed at the Annual General Meeting in 2007 and it is not planned to submit a new proposal in this respect at the Annual General Meeting in May 2008.

RESPONSIBILITY ASSIGNED TO GENERAL COMMITTEE In accordance with its Rules of Procedure, our Supervisory Board has assigned all matters relating to the structure and appropriateness of the level of Executive Board compensation to its co-determined General Committee. see Supervisory Board Report, p. 020 This committee considers all compensation elements to be appropriate, both individually and in total. Criteria for the appropriateness of the compensation are the Group's size and global orientation as well as its financial position. In addition, the tasks and contribution of each Executive Board member to the Group's success, his individual performance as well as the performance of the entire Executive Board are taken into consideration.

EXECUTIVE BOARD TOTAL COMPENSATION IN 2007

€ in thousands

	Non-performance-related components		Performance-related components		Share-based component (MSOP)	Total
	Fixed annual salary	Other benefits	Performance Bonus	LTIP Bonus 2006/2008[1]		
Herbert Hainer (Chairman and CEO)	1,120	23	1,680	1,360	515	**4,698**
Glenn Bennett[2]	438	238[3]	657	680	0	**2,013**
Robin J. Stalker	500	11	680	680	0	**1,871**
Erich Stamminger	600	35	1,230	680	0	**2,545**
Total	**2,658**	**307**	**4,247**	**3,400**	**515**	**11,127**

1) Payment of this bonus will be made only upon achievement of LTIP targets and after approval of the consolidated annual financial statements for the period ending December 31, 2008.
2) In accordance with Glenn Bennett's contract, the following compensation components were granted in US dollars: fixed annual salary $ 600,000, other benefits $ 326,595, Performance Bonus $ 900,000. An exchange rate of 1.3709 $/€ (annual average rate 2007) was used as the basis for calculation.
3) Also contains a tax adjustment due to different tax rates in Germany and the USA.

EXECUTIVE BOARD TOTAL COMPENSATION IN 2006

€ in thousands

	Non-performance-related components		Performance-related components		Share-based component (MSOP)	Total
	Fixed annual salary	Other benefits	Performance Bonus	LTIP Bonus 2006/2008[1]		
Herbert Hainer (Chairman and CEO)	1,120	23	1,500	800	343	**3,786**
Glenn Bennett[2]	468	214[3]	637	400	0	**1,719**
Robin J. Stalker	485	12	600	400	260	**1,757**
Erich Stamminger	600	54	1,100	400	0	**2,154**
Total	**2,673**	**303**	**3,837**	**2,000**	**603**	**9,416**

1) Payment of this bonus will be made only upon achievement of LTIP targets and after the approval of the consolidated annual financial statements for the period ending December 31, 2008.
2) In accordance with Glenn Bennett's contract, the following compensation components were granted in US dollars: fixed annual salary $ 588,000, other benefits $ 269,000, Performance Bonus $ 800,000. An exchange rate of 1.2562 $/€ (annual average rate 2006) was used as the basis for calculation.
3) Also contains a tax adjustment due to different tax rates in Germany and the USA.

1) This Compensation Report is an integral component of the audited Group Management Report and Notes and is also part of the Corporate Governance Report.

OUTSTANDING STOCK OPTIONS EXERCISED IN FULL IN 2007 In 2007, current members of our Executive Board held a total of 2,800 options within the scope of the Management Share Option Plan (MSOP). All options were exercised. Compensation resulting from the exercise of these options totaled € 514,840. As of December 31, 2007, our Executive Board members no longer hold any stock options which could still be exercised.

COMMITMENTS TO EXECUTIVE BOARD MEMBERS UPON END OF TENURE Individual agreements have been concluded with our Executive Board members for severance payment provisions in case of non-continuation of their employment agreements. With one Executive Board member, compensation for a post-contractual competition prohibition has also been agreed.

- Employment contracts with our Executive Board members contain individual provisions governing severance payments. These amount to 100 % [2] of the annual fixed salary as a one-time payment in the event that adidas AG decides not to renew the respective contract although the Executive Board member would be willing to continue his function as Executive Board member under the existing conditions. If an Executive Board member dies during his term of office, his spouse will receive a one-time payment amounting to 25 % of his annual fixed salary.

- A post-contractual competition prohibition period of six months has been agreed upon with Executive Board member Glenn Bennett. adidas AG will pay compensation of 100 % of the annual fixed salary for this period unless adidas AG decides not to insist upon enforcing this prohibition.

PENSION COMMITMENTS GRANTED When members of our Executive Board reach the individually agreed retirement age of 65 years and resign from their Executive Board position, they are entitled to receive a retirement pension. In addition, each is entitled to receive a disability pension should he become incapacitated before reaching retirement age. Further, when an Executive Board member dies, a widow's pension will be paid.

- *Retirement pension:* The pension allowance is calculated as a percentage of the pensionable income, which currently equals the annual fixed salary. Starting from a base amount totaling 10 % of the pensionable income, the pension entitlement increases by 2 % for each full year of tenure as an Executive Board member of adidas AG [3] and can reach a maximum level of 40 % of pensionable income. In the event of the retirement of an Executive Board member prior to reaching the statutory retirement age, the non-forfeiture of the pension entitlement will be in line with the legal provisions. The increase of current pension payments or pension entitlements is index-linked in accordance with German law.

- *Disability pension:* The disability pension amounts to 100 % of pension entitlements.

- *Widow's pension:* When an Executive Board member dies, his surviving spouse receives an annuity amounting to 50 % of his pension entitlements.

PAYMENTS TO PENSION FUND / PENSION TRUST FUND

€ in thousands

	2007	2006 [1]
Herbert Hainer (Chairman and CEO)	240	4,490
Glenn Bennett	82	925
Robin J. Stalker	120	848
Erich Stamminger	103	2,412
Total	**545**	**8,675**

1) This contains a one-time payment into the pension fund for all future pension entitlements which arose through December 31, 2006.

COSTS FOR ACCRUED PENSION ENTITLEMENTS [1]

€ in thousands

	2007	2006
Herbert Hainer (Chairman and CEO)	215	238
Glenn Bennett	68	70
Robin J. Stalker	161	161
Erich Stamminger	96	108
Total	**540**	**577**

1) This also includes service costs which have arisen with regard to the provisions for pension obligations in the Consolidated Income Statement.

PENSION FUND AND PENSION TRUST FUND USED TO COVER PENSION ENTITLEMENTS For the settlement of the pension entitlements acquired by our current Executive Board members through the end of 2006, adidas AG made a one-time payment of € 8.675 million into a pension fund in 2006. This reflected the cash value of future pension entitlements and shall be split among our Executive Board members in proportion to the existing provisions for pension obligations as at that date. adidas AG made payments for pension entitlements arising as of 2007 into an external pension trust fund and plans to continue this practice in the future. In 2007, a total contribution of € 545,219 was made. For future pension entitlements of our Executive Board members, adidas AG has established pension reserves. In the Consolidated Balance Sheet, plan assets which have arisen from the payments into the pension fund or pension trust fund are reported on a settled basis with assets offset against accruals.

PENSIONS FOR FORMER EXECUTIVE BOARD MEMBERS In 2007, former Executive Board members received pension payments totaling € 1.727 million (2006: € 1.906 million). Total pension provisions for pension entitlements of this group of persons amount to € 37.576 million (2006: € 42.105 million).

NO LOANS TO EXECUTIVE BOARD MEMBERS No members of the Executive Board were granted loans in 2006 and 2007.

SUPERVISORY BOARD COMPENSATION

COMPENSATION IN 2007 Supervisory Board compensation consisted of a fixed annual payment amounting to € 21,000 for each member. Twice this amount was paid to the Chairman and one and a half times this amount was paid to each Deputy Chairman. In addition, all costs and expenses related to attending Supervisory Board meetings were reimbursed. Supervisory Board members who were not in office for the entire fiscal year received a pro rata payment based on the number of days served. This also applied for the Chairman of the Supervisory Board and his Deputies.

COMPENSATION REDEFINED IN ARTICLES OF ASSOCIATION AS OF 2008 Supervisory Board compensation was resolved upon and newly structured by a resolution of the Annual General Meeting on May 10, 2007. The new regulation becomes effective in 2008. Fixed annual payments will be increased to reflect increasing supervisory functions of the Supervisory Board. The regulation also provides for additional compensation for membership in and chairmanship of particular Supervisory Board committees. With this change, we follow an additional recommendation of the German Corporate Governance Code.

COMPENSATION FOR ADVISORY CONTRACTS adidas AG had a project-related, fixed-term advisory contract with Dr. Hans Friderichs, which ended on June 30, 2007. Under this contract, Dr. Hans Friderichs received remuneration amounting to € 195,000 (2006: € 213,386). Henri Filho, who was paid € 285,100 in 2006, did not receive any remuneration for project-related advisory services in 2007 following the expiration of his advisory contract at the end of 2006.

NO LOANS TO SUPERVISORY BOARD MEMBERS No members of the Supervisory Board were granted loans in 2006 and 2007.

2) For Robin Stalker, the severance payment amounts to 50%.
3) Herbert Hainer and Erich Stamminger were both appointed on April 1, 1997. Robin Stalker was appointed on January 1, 2001. For Glenn Bennett, January 1, 2000, instead of his appointment date (April 1, 1997), is used for the calculation of his pension entitlement. The base amount totals 20% of the pension entitlement.

SUPERVISORY BOARD MEMBERS' COMPENSATION
in €

	2007	2006
Dr. Hans Friderichs[1]	33,046	31,500
Igor Landau[2]	22,546	21,000
Fritz Kammerer	31,500	31,500
Sabine Bauer	21,000	21,000
Dr. Manfred Gentz	21,000	21,000
Roland Nosko	21,000	21,000
Hans Ruprecht	21,000	21,000
Willi Schwerdtle	21,000	21,000
Heidi Thaler-Veh	21,000	21,000
Christian Tourres	21,000	21,000
Klaus Weiß	21,000	21,000
Dr. Stefan Jentzsch[3]	3,092	0
Henri Filho[4]	35,816	42,000
Total	**294,000**	**294,000**

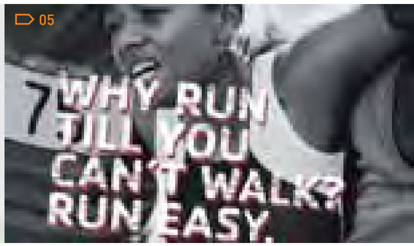
1) Dr. Hans Friderichs was elected Chairman of the Supervisory Board on November 7, 2007 for the remaining term of office until the Annual General Meeting of adidas AG in May 2009.
2) Igor Landau was elected additional Deputy Chairman of the Supervisory Board on November 7, 2007 for the remaining term of office until the Annual General Meeting of adidas AG in May 2009.
3) Dr. Stefan Jentzsch, previously a substitute member of the Supervisory Board, became a full member on November 7, 2007 for the remaining term of office until the Annual General Meeting of adidas AG in May 2009.
4) Henri Filho retired as a member and Chairman of the Supervisory Board on November 7, 2007.

01

OPERATIONAL AND SPORTING HIGHLIGHTS 2007

For the adidas Group, 2007 was truly exciting. Throughout the year, our brands captured the world's attention with compelling product and campaign launches as well as top performance of sponsored athletes and teams.

FIRST QUARTER -- 22.01. Picture 01 The NHL and Reebok partner to create a technologically advanced uniform system called Rbk EDGE Uniform System™, which is introduced during the 2007 NHL All-Star Celebration in Dallas, Texas, USA. **26.01.** Picture 02 TaylorMade-adidas Golf launches two new drivers, the Burner® and the r7® SuperQuad. They become the PGA Tour's most popular new driver models. **04.02.** Reebok, as the official outfitter of the NFL, dominates the field at Super Bowl XLI in Miami, Florida, USA. **18.02.** adidas is the official outfitter of the 56th NBA All Star Game in Las Vegas, Nevada, USA. Our Group outfits more starters than any other company with Tracy McGrady, Kevin Garnett, Tim Duncan and Gilbert Arenas for brand adidas and Yao Ming for brand Reebok. Reebok athlete Gerald Green wins the popular Slam Dunk contest. **23.02.** Brand adidas formalizes its two-divisional structure with the appointment of Chief Marketing Officers Bernd Wahler (Sport Performance) and Hermann Deininger (Sport Style). **01.03.** Reebok celebrates the 25th anniversary of the iconic Freestyle shoe bringing back now-trendy artwork from the late '80s. **06.03.** Picture 03 adidas unveils the new 2007 fully-integrated global brand campaign "Impossible Is Nothing" featuring some of the world's most inspiring athletes and their stories.



SECOND QUARTER -- 01.04. Picture 04 adidas by Stella McCartney starts into its sixth season with the fall/winter 2007 collection introducing Gym Dance as a new category. **04.04.** Picture 05 Reebok launches the brand's biggest campaign of the year "Run Easy". This campaign helps to significantly improve US annual growth in the Premier Running line. **23.05.** A.C. Milan wins the UEFA

Champions League™ final in Athens, Greece, in an all-adidas football final versus Liverpool FC. **01.06.** adidas launches its partnership with international humanitarian sports charity Right To Play. Brand adidas, through its employees and the Adi Dassler Fund, is able to show that sport can truly make the world a better place. **14.06.** Picture 06 Winning the 2007 NBA Finals in Cleveland, Ohio, USA, adidas sponsored Tim Duncan and the San Antonio Spurs take their fourth title in nine seasons. **15.06.** Reebok-CCM Hockey sponsored Sidney Crosby wins two NHL MVP awards and the League's scoring title.

07

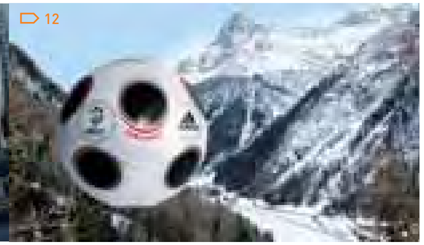
08


09

THIRD QUARTER -- 11.07. adidas and LA Galaxy launch the redesigned Galaxy team uniform and logo for the 2007 season, timed with Galaxy's media introduction of international football star David Beckham. **27.08.** Picture 07 The German Football Federation (DFB) and adidas announce the extension of their successful partnership of more than 50 years to 2018. **02.09.** Numerous adidas and Reebok sponsored athletes win gold at the 11th IAAF World Championships in Osaka, Japan: adidas sponsored pole vaulter Yelena Isinbayeva, sprinters Tyson Gay, Veronica Campbell, Jeremy Wariner and Allyson Felix as well as Reebok sponsored heptathlete Carolina Klüft. **07.09.** adidas is an official supplier to the 6th Rugby World Cup in France, as well as Principle Sponsor of the rugby federations of New Zealand and Argentina. **20.09.** Picture 08 adidas is announced as Tier One Partner of the London Organising Committee of the Olympic and Paralympic Games (LOCOG) 2012. **30.09.** Picture 09 The adidas sponsored German women's football team wins the FIFA Women's World Cup final in China against Brazil. **30.09.** Repeating his prior year victory in the Berlin Marathon, adidas sponsored long-distance legend Haile Gebrselassie breaks the world record, clocking 2:04:26.


10


11


12

FOURTH QUARTER -- 04.10. For the eighth consecutive time, adidas AG is included in the Dow Jones Sustainability Indexes. adidas AG is also again included into the FTSE4Good Index. **10.10.** TaylorMade-adidas Golf introduces a new product line of golf equipment called r7® CGB MAX, comprising a driver, fairway woods and irons. **08.11.** adidas AG announces that Dr. Hans Friderichs is appointed Chairman of the Supervisory Board succeeding Henri Filho. Igor Landau is appointed additional Deputy Chairman and Dr. Stefan Jentzsch becomes Supervisory Board member. **11.11.** adidas presents the new Predator® PowerSwerve football boot in Paris, France. **12.11.** Picture 10 adidas sponsored world number one tennis star Justine Henin wins her 10th title of the year at the WTA tournament in Madrid, Spain. **21.11.** Picture 11 adidas Originals and Diesel enter a four-year product collaboration starting in February 2008 by introducing the first adidas Originals Denim by Diesel collection. **25.11.** Sprinter and adidas athlete Tyson Gay is crowned as World Athlete of the Year by the International Athletic Foundation (IAF). **30.11.** adidas China, the Official Sportswear Partner of the Beijing 2008 Olympic Games, launches the "Together in 2008, Impossible Is Nothing" campaign. **02.12.** Picture 12 adidas and UEFA unveil the adidas EUROPASS, the Official Ball of the UEFA EURO 2008™. **18.12.** Kaká is voted FIFA World Player 2007.

OUR SHARE

The adidas AG share developed strongly in 2007, increasing 36% and outperforming both the DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index. Outstanding financial results throughout the year and growing confidence in the Group's medium-term strategy were the drivers of this outperformance. The Group's ADR and convertible bond also appreciated significantly in 2007. As a result of the Group's strong operational performance in 2007, we intend to propose a higher dividend at the 2008 Annual General Meeting. Our shareholder base is becoming increasingly international and analyst support for the adidas AG share has strengthened significantly versus the prior year.

SIGNIFICANT SHARE PRICE INCREASE After trading sideways at the beginning of the year, our share gained significantly following the release of our 2006 full year results in early March. Management's financial guidance for 2007 and the confirmation of our Group's medium-term targets strengthened investor sentiment. Buoyant merger and acquisition activity in our industry as well as shareholder notification and speculation around adidas AG also supported our share price development. In mid-2007, our share price declined in line with the DAX-30 and our sector as a result of the US subprime mortgage crisis. Our share price also suffered as a result of concerns about the short-term Reebok business outlook, the weak state of the US mall-based channel as well as several earnings announcements from suppliers and retailers which were below market expectations. Despite the positive reaction to our quarterly earnings release in early August, which exceeded consensus estimates, our share price trended downwards, in line with the overall market. Later in the month, our share price regained slightly after our Investor Day held in Canton, Massachusetts, USA, due to widespread positive response to the Group's medium-term strategic initiatives. Positive news flow from our sector in September and October helped drive improvements in our share. At the beginning of November, our well-received nine months results supported a share rally throughout the remainder of the year. The adidas share closed 2007 at its all-time high of € 51.26. As a result of this development, our market capitalization increased significantly to € 10.4 billion at the end of 2007 versus € 7.7 billion at the end of 2006.

ADIDAS AG SHARE A MEMBER OF IMPORTANT INDICES The adidas AG share is included in a variety of high-quality indices around the world, most importantly the DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index. The DAX-30 is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The MSCI World Textiles, Apparel & Luxury Goods Index comprises our Group's major competitors. At December 31, 2007, our weighting in the DAX-30, which is calculated on the basis of free float market capitalization and 12-month share turnover, was 1.31 % (2006: 1.12 %). Our increased weighting compared to the prior year was largely a result of the significant increase in our market capitalization. In addition, average daily trading volume of the adidas AG share (excluding bank trades) rose from 2.0 million in 2006 to more than 2.2 million in 2007. Within the DAX-30, we ranked 21st on market capitalization (2006: 24) and 22nd on turnover (2006: 21) at year-end 2007.

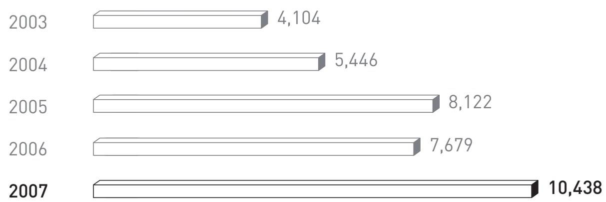
THE ADIDAS AG SHARE

Number of shares outstanding	
2007 average	203,594,975
At year-end 2007	203,628,960 [1]
Type of share	No-par-value share
Free float	100 %
Initial Public Offering	November 17, 1995
Share split	June 6, 2006 (in a ratio of 1:4)
Stock exchange	All German stock exchanges
Stock registration number (ISIN)	DE0005003404
Stock symbol	ADS, ADSG.DE
Important indices	DAX-30
	MSCI World Textiles, Apparel & Luxury Goods
	Deutsche Börse Prime Consumer
	Dow Jones STOXX
	Dow Jones EURO STOXX
	Dow Jones Sustainability
	FTSE4Good Europe
	Ethibel Pioneer
	Ethibel Excellence
	Vigeo ASPI Eurozone

1) All shares carry full dividend rights.

ADIDAS AG MARKET CAPITALIZATION AT YEAR-END

€ in millions



HISTORICAL PERFORMANCE OF THE ADIDAS AG SHARE

and Important Indices at Year-End 2007 in %

	1 year	3 years	5 years	since IPO
adidas AG	36	73	149	490
DAX-30	22	90	179	266
MSCI World Textiles, Apparel & Luxury Goods	8	50	170	167

STRONG SUSTAINABILITY TRACK RECORD REFLECTED IN INDEX MEMBERSHIPS In recognition of our social and environmental efforts, adidas AG is part of several sustainability indices. In 2007, adidas AG was included in the Dow Jones Sustainability Indexes for the eighth consecutive year. The indexes rated the adidas Group as an industry leader on sustainability issues and corporate social responsibility in the category "footwear, clothing & accessories". In addition, the adidas Group was again included in the FTSE4Good Index. This positive reassessment acknowledges the Group's social, environmental and ethical engagement, and encourages us to continue and intensify our efforts to improve our sustainability performance. Also, adidas AG was included in the Vigeo Group's Ethibel Excellence, Ethibel Pioneer and ASPI Indices. The Ethibel Indices consist of companies that meet financial and sustainability performance criteria established by the independent organization Forum Ethibel. The ASPI Eurozone Index is the European index of reference for companies and investors wishing to commit themselves in favor of sustainable development and corporate social responsibility. Further, the adidas Group was included for the third consecutive time in the list of The Global 100 Most Sustainable Corporations in the World.

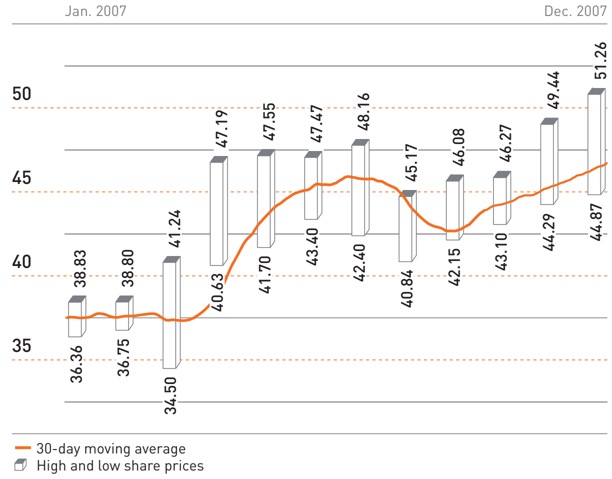
ADIDAS AG SHARE OUTPERFORMS MAJOR INDICES 2007 was a successful year for the adidas AG share. Our share price increased by 36 % compared to the 2006 year-end level. As a result, our share significantly outperformed the DAX-30 (+ 22 %) as well as the MSCI World Textiles, Apparel & Luxury Goods Index (+ 8 %). The DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index both started strongly in 2007, supported by positive macroeconomic trends, strong corporate news flow and merger and acquisition activity. However, index growth stalled in the second half of the year as a result of the crisis on the US subprime mortgage market, rising commodity prices and increasing fears about the US economy falling into a recession. Although the Federal Reserve intervened three times by cutting interest rates by a total of 75 basis points, the situation on the US market remained difficult with spill-over effects on the country's economy as well as international credit and capital markets.

ADIDAS AG HISTORICALLY OUTPERFORMS BENCHMARK INDICES The adidas Group is committed to continuously enhancing shareholder value. The long-term development of our share price reflects investor confidence and the growth potential of our Group. Since our IPO in November 1995, our share has gained 490 %. This represents a clear outperformance of both the DAX-30 and the MSCI Index, which increased 266 % and 167 % respectively during the period.

ADR OUTPERFORMS COMMON STOCK DUE TO EURO APPRECIATION Since its launch on December 30, 2004, our Level 1 American Depositary Receipt (ADR) facility has enjoyed great popularity among American investors. The Level 1 ADR closed the year at US $ 37.20, representing an increase of 48 % versus the prior year (2006: US $ 25.11). Due to the appreciating euro, the ADR outperformed our common stock. Despite growing volumes in the first half of the year, the number of year-end ADRs outstanding declined as a result of capital market uncertainty from the subprime mortgage crisis. The number of Level 1 ADRs outstanding decreased slightly to 11.1 million at year-end 2007 (2006: 11.3 million). In November 2007, we decided to list the adidas AG ADR on the international OTCQX. This electronic trading forum includes leading international companies with substantial operating businesses and credible disclosure policies. With this listing, we expect to further increase trading of our ADRs by US investors in 2008 and beyond.

CONVERTIBLE BOND TRADES AT A PREMIUM The publicly-traded convertible bond closed the year at € 202.65, which is 31 % higher than its prior year level (2006: € 154.90). This represents a premium of around 0.8 % above par value of the share.

HIGH AND LOW SHARE PRICES PER MONTH



SHAREHOLDER RIGHTS NOTIFICATIONS RECEIVED IN 2007

Date of notification	Notifying party	Threshold crossed	Voting rights of total shares outstanding
Dec. 20	FMR LLC	> 3 %	3.06 %
May 31	UBS AG	< 3 %	2.67 %
May 29	UBS AG	> 3 %	3.23 %
May 14	Michael Ashley	< 3 %	2.87 %
May 04	UBS AG	< 3 %	2.09 %
Apr. 30	UBS AG	> 3 %	3.12 %
Mar. 23	Michael Ashley	> 3 %	3.14 %
Mar. 20 + 21	AMVESCAP PLC	> 5 %	5.087 %

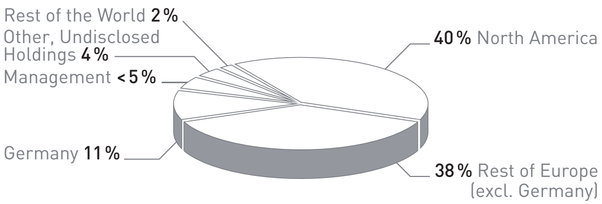
01

SHARE RATIOS AT A GLANCE

		2007	2006
Basic earnings per share	€	**2.71**	2.37
Diluted earnings per share	€	**2.57**	2.25
Operating cash flow per share	€	**3.83**	3.74
Year-end price	€	**51.26**	37.73
Year-high	€	**51.26**	44.00
Year-low	€	**34.50**	34.66
Dividend per share	€	**0.50**[1]	0.42
Dividend payout	€ in millions	**102**	85
Dividend payout ratio	%	**19**	18
Dividend yield	%	**0.98**	1.11
Shareholders' equity per share	€	**14.85**	13.90
Price-earnings ratio at year-end		**19.9**	16.8
Average trading volume per trading day	shares	**2,231,485**	2,039,527
DAX-30 ranking[2] at year-end			
by market capitalization		**21**	24
by turnover		**22**	21

1) Subject to Annual General Meeting approval.
2) As reported by Deutsche Börse AG.

SHAREHOLDER STRUCTURE[1]



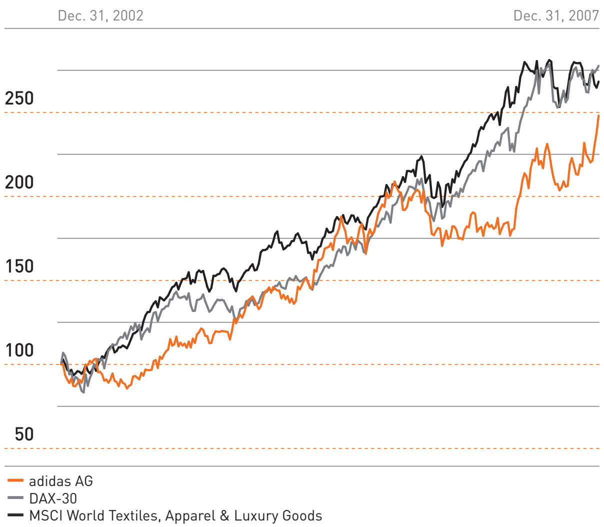
1) As at February 2008.

HIGHER DIVIDEND PROPOSED The adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 0.50 to our shareholders at the Annual General Meeting (AGM) on May 8, 2008 (2006: € 0.42). Subject to the meeting's approval, the dividend will be paid on May 9, 2008. The proposed dividend per share represents an increase of € 0.08 per share. This increase reflects the Group's strong operational performance in 2007 and highlights our confidence in the Group's future business performance. The total payout of € 102 million (2006: € 85 million) reflects an increase of our payout ratio to 19 % of net income (2006: 18 %). The dividend proposal follows our dividend policy, under which the adidas Group intends to pay out between 15 and 25 % of consolidated net income.

2007 AGM RESOLVES ON THE AUTHORIZATION FOR SHARE BUYBACK At the AGM on May 10, 2007, our shareholders approved an authorization to repurchase shares in an amount of up to 10 % of the stock capital until November 9, 2008. In January 2008, the Group initiated a share buyback program of up to 5 % of share capital. see Subsequent Events, p. 117

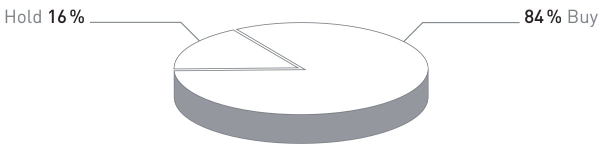
INCREASINGLY INTERNATIONAL INVESTOR BASE Based on the amount of invitations to our AGM in May 2007, we estimate that adidas AG currently has around 80,000 shareholders. According to our latest ownership analysis conducted in February 2008, known institutional investors continue to account for approximately 96 % (2007: 96 %) of our shares outstanding. In the North American market, institutional shareholdings increased to 40 % (2007: 37 %). German institutional investors accounted for 11 % of adidas AG shares (2007: 12 %). The shareholdings in the rest of Europe excluding Germany decreased to 38 % (2007: 40 %). 2 % are held by institutional shareholders in other regions of the world (2007: 2 %). adidas Group Management, which comprises current members of the Executive and Supervisory Boards, continues to hold less than 5 % in total. Smaller, undisclosed holdings, which also include private investors, continued to account for 4 % (2006: 4 %).

FIVE-YEAR SHARE PRICE DEVELOPMENT [1]



1) Index: December 31, 2002 = 100

RECOMMENDATION SPLIT [1]



1) At year-end 2007. Source: Bloomberg.

ANALYSTS RAISE RECOMMENDATIONS The adidas Group continued to receive strong analyst support in 2007. Around 30 analysts regularly published research reports on adidas AG. In 2007, both Lehman Brothers and Goldman Sachs shifted coverage on our share to Europe from North America. This follows a similar trend initiated by other banks in 2006, after our acquisition of Reebok, which strongly consolidated the number of footwear and apparel suppliers in the USA. Now the majority of adidas coverage takes place in Europe. Analyst recommendations improved considerably throughout 2007, as confidence grew regarding our ability to deliver sustainable operating margin improvement and earnings growth. The majority of analysts are confident about the medium- and long-term potential of our Group. This is reflected in the recommendation split for our share as of December 31, 2007. 84 % of analysts recommended investors to "buy" our share in their last publication during the 12-month period (2006: 38 %). 16 % advised to hold our share (2006: 56 %). No analyst recommended a "sell" rating (2006: 6 %).

AWARD-WINNING INVESTOR RELATIONS ACTIVITIES adidas AG strives to maintain continuous close contact to institutional and private shareholders as well as analysts. In 2007, Management and the Investor Relations team spent almost twenty full days on roadshows and presented at numerous national and international conferences. At the AGM in May 2007, we conducted a private shareholder survey regarding satisfaction with our share as an investment as well as our Investor Relations services. Survey results illustrated a high level of satisfaction from long-term shareholders and included feedback that more than one third of shareholders in attendance at our AGM use our Investor Relations website on a regular basis. In August, we held our eighth Investor Day in Canton, Massachusetts, USA, where Management presented updates on Group and brand strategies. The effectiveness of our Group's Investor Relations activities was highlighted by the Institutional Investor's 2007 Rankings, where buy-side participants ranked us as the best Investor Relations program in our sector. Further, adidas AG achieved the number two position in Extel's Pan-European Survey 2007 for the luxury goods sector. Our Investor Relations products also ranked strongly. The print version of our 2006 Annual Report took third place in the DAX-30 by the "manager magazin" competition "The Best Annual Reports" including the top ranking for content. Our IR Website and Online Annual Report were ranked number one in the consumer goods industry in the annual MZ awards.

EXTENSIVE FINANCIAL INFORMATION AVAILABLE ONLINE We offer extensive information around our share as well as the Group's strategy and financial results on our corporate website. www.adidas-Group.com/investors Our event calendar lists all conferences we attend and provides all presentations for download. In addition to live webcasts of all major events such as our Analyst Conference, the AGM and our Investor Day, we also offer podcasts of our quarterly conference calls. In 2007, we introduced a quarterly online chat and an RSS feed. In January 2008, we launched an event reminder service to ensure timely notification about upcoming corporate events to interested shareholders.


CHAMPION & CHALLENGER
DELIVERING YOUR PERSONAL BEST. AND GUIDING YOUR TEAM BEYOND ALL BOUNDARIES. THIS IS WHAT LEADERSHIP IS ALL ABOUT.
DEMONSTRATED SUCCESSFULLY BY AUSTRALIAN NATIONAL CRICKET TEAM CAPTAIN AND 2007 ICC CRICKET WORLD CUP WINNER RICKY PONTING.
-UNITED BY DEDICATION-

GROUP MANAGEMENT REPORT – OUR GROUP

CORPORATE MISSION STATEMENT

THE ADIDAS GROUP STRIVES TO BE THE GLOBAL LEADER IN THE SPORTING GOODS INDUSTRY WITH SPORTS BRANDS BUILT ON A PASSION FOR SPORTS AND A SPORTING LIFESTYLE.

WE ARE CONSUMER FOCUSED
and therefore we continuously improve the quality, look, feel and image of our products and our organizational structures to match and exceed consumer expectations and to provide them with the highest value.

WE ARE INNOVATION AND DESIGN LEADERS
who seek to help athletes of all skill levels achieve peak performance with every product we bring to market.

WE ARE A GLOBAL ORGANIZATION
that is socially and environmentally responsible, creative and financially rewarding for our employees and shareholders.

WE ARE COMMITTED
to continuously strengthening our brands and products to improve our competitive position.

WE ARE DEDICATED
to consistently delivering outstanding financial results.

adidas GROUP

ADIDAS (69 % of Group sales)

SPORT PERFORMANCE (80 % of adidas sales)

The adidas Sport Performance division has one guiding principle: to equip all athletes to achieve their own impossible. While adidas is proud to support athletes in all sports, the Sport Performance division is mainly focused on four key categories: running, football, basketball and training.

SPORT STYLE (20 % of adidas sales)

The adidas Sport Style division is a leading supplier of authentic sports lifestyle products with its Originals line. In addition, its Y-3 collection offers cutting-edge sports fashion products to fashion-forward consumers.

REEBOK (23 % of Group sales)

REEBOK (79 % of Reebok sales)

Reebok is an American-inspired, global brand that creates and markets sports and lifestyle products built upon a strong heritage and authenticity in sports, fitness and women's categories. The brand is committed to designing products and marketing programs that reflect creativity and the desire to constantly challenge the status quo.

REEBOK-CCM HOCKEY (9 % of Reebok sales)

Reebok-CCM Hockey is the world's largest designer, manufacturer and marketer of hockey equipment and apparel with two of the world's most recognized hockey brand names: Rbk Hockey and CCM.

ROCKPORT (12 % of Reebok sales)

Building on nearly four decades of engineering expertise and a commitment to innovation, Rockport designs and markets dress, casual and outdoor footwear as well as apparel and accessories that fuse dynamic technology and modern style to deliver real and tangible differences to the consumer.

TAYLORMADE-ADIDAS GOLF (8 %[1] of Group sales)

TAYLORMADE (71 % of TaylorMade-adidas Golf sales)

TaylorMade is a leader in the industry and is the number one metalwood supplier. It focuses on consumers who seek the most innovative, performance-enhancing golf equipment available, including technologically-superior drivers, fairway woods, irons, putters and balls.

ADIDAS GOLF (28 % of TaylorMade-adidas Golf sales)

adidas Golf targets active, serious, athletic-minded golfers who understand that the right technologies can dramatically improve the performance of golf footwear and apparel.

1) Includes 2007 Maxfli golf ball sales. The brand was divested effective February 11, 2008.

02

GROUP STRATEGY Our goal as a Group is to lead the sporting goods industry with brands built on a passion for sports and a sporting lifestyle. We continuously strive to generate consumer excitement and enhance brand profitability by executing a clear strategy. In everything we do, we are focused on strengthening and developing our brands to maximize the Group's operational and financial performance and create shareholder value.

PERFORMANCE AS CORE GROUP VALUE Our Group's mission and strategy are rooted in our desire to provide athletes with the best possible equipment to optimize their performance. This philosophy originated with our brands' founders Adi Dassler, J.W. Foster and Gary Adams whose passion for sport inspired them to develop innovative sports products and create new sports categories. We aim to consistently perform at a level where we not only meet but exceed the expectations of our stakeholders.

We strive to be closer to consumers than any of our competitors, and our unique understanding of consumers enables us to enhance their athletic experience. In support of these efforts, we continuously optimize our sales and distribution processes and improve our customer service efforts for our retail partners. We make every effort to align our employees' personal objectives with our Group and brand targets and reward our staff for high achievement. see Employees, p. 068 Further, we are particularly focused on ensuring best-practice social and environmental standards. see Sustainability, p. 065 A commitment to constantly increase value for our shareholders is at the core of our activities. This commitment to top performance differentiates us from other competitors and is a unifying principle across our multi-brand organization.

LEVERAGING OPPORTUNITIES ACROSS OUR BRAND PORTFOLIO The strength of our brands is a key factor in our Group's success. Within our brand portfolio, we primarily pursue two strategic options:

- Market penetration – gaining market share across all markets in which we compete, and
- Market development – expanding into new markets and addressing new consumer segments.

Our multi-brand approach allows us to tackle opportunities from several perspectives, as both a mass and niche player, providing distinct and relevant products to a broad spectrum of consumers. In this way, each brand is able to concentrate on its core competencies and excel. Across all brands, we focus on increasing awareness and visibility, providing clear and consistent messaging and supporting product initiatives at the point-of-sale. In addition, our commercial success also depends on leveraging the scale of our organization and sharing best practice across our Group.

LEADING POSITION IN MARKETS WORLDWIDE As a global organization, we target leading market positions in all regions where we compete. In Europe, where our Group is the market leader in terms of sales, our strategy is two-fold. First, we continue to strengthen our position in the major Western European markets by growing our brands through well-coordinated efforts with key account partners. Secondly, we are capitalizing on the strong growth opportunities in the region's emerging markets (i.e. Eastern Europe, the Middle East and Africa).

In North America, we see significant upside potential. As a Group, we are number two in terms of sales, but we believe we are currently underrepresented in the North American sporting goods market. Therefore, we target market share expansion via a strong, consumer-driven product offering, a diversified distribution strategy, and visible and engaging communication initiatives.

In Asia, where our Group is the market leader in terms of sales with number one positions in Japan, Korea, India, Thailand, Indonesia and New Zealand, our goal is to strengthen and extend our market leadership position. Our key priority in the medium term is expanding our business in the region's two most important markets Japan and China. In tandem, we will also continue to capitalize on opportunities in the other emerging markets of Asia.

Finally, in Latin America, our Group's fastest-growing region for the last several years, we are focused on rapidly expanding our business in the four most important markets: Brazil, Argentina, Mexico and Chile. Our target is to take over market leadership in terms of sales by 2010.

EXTENDING INNOVATION AND DESIGN LEADERSHIP We are determined to address every consumer in a specific and unique way – with product and communication initiatives that generate trade and consumer interest. As a result, we believe that technological innovation and cutting-edge design are essential to sustainable leadership in our industry.

Innovation plays a significant role in differentiating our product offering in the minds of consumers. By leveraging the extensive R&D expertise within our Group, see Research and Development, p. 072 we continuously challenge the boundaries of functionality and performance. It is our objective to launch at least one major new technology or technological evolution per year.

Through design partnerships and collaborations with Stella McCartney, Yohji Yamamoto, Porsche Design and Rolland Berry we are widening our design reach and imbuing our products with the excitement consumers demand. By continually expanding our capabilities in R&D and design, we are able to introduce new products at high price points, thus contributing to Group margin improvement.

CUSTOMIZING DISTRIBUTION Our Group will drive future success by engaging consumers with unique interactive product approaches and rewarding point-of-sale experiences. Our brands must be competitive in this environment where consumers make their final purchase decisions based on availability, convenience and breadth of product offering. As a result, we are continuously refining our distribution proposition, concentrating on two areas: expanding controlled space and improving retail relationships.

Controlled space includes:

- Our own-retail business
- Mono-branded stores run by retail partners
- Shop-in-shops that we establish with our key accounts
- Joint ventures with retail partners
- Co-branded stores with sports organizations or other brands

These formats provide us with a high level of brand control as we either manage the stores ourselves (i.e. own retail) or we work closely with our partners (mono-branded stores, shop-in-shops, joint ventures, co-branded stores) to ensure the appropriate product offering and presentation at the point-of-sale. Brand control helps us drive sales and profitability increases and expand our market positions. By 2010, we intend to generate at least 30% of our Group's revenues through controlled space.

Going forward, we will also further differentiate and segment our product offering to align our distribution more closely with a given retailer's customer base. In addition, we are partnering with retailers to increase the level and quality of sell-through information we receive. This creates a mutually beneficial relationship that will help us become a more valuable and reliable business partner to our retailers.

CREATING SHAREHOLDER VALUE Sustainable revenue and operating profit growth are critical to our success. see Internal Group Management System, p. 056 Creating value for our shareholders through significant free cash flow generation drives our overall decision-making process. For each of our brands, we pursue the most value-enhancing avenues for growth, with particular emphasis on continuously improving profitability. In addition, rigorously managing working capital and optimizing financial leverage remain key priorities for us. As always, we are committed to increasing returns to shareholders with above-industry-average share price performance and dividends.

ADIDAS STRATEGY adidas has a clear mission – "to be the leading sports brand in the world". To accomplish this mission, the brand comprises two divisions that reflect two distinct market segments: Sport Performance and Sport Style. Product and marketing initiatives at adidas primarily focus on five global priorities, which are expected to generate over 80 % of the brand's top-line growth until 2010: running, football, basketball, training and Originals. The adidas brand attitude "Impossible is Nothing" drives all brand communication initiatives and helps strengthen the brand's bond with consumers. With a well-defined and segmented distribution approach and a premium-price strategy, adidas clearly positions itself as a top-notch brand in all markets.

NEW BRAND STRUCTURE ESTABLISHED In 2007, the adidas brand continued to gain momentum – both financially see adidas Business Performance, p. 096 and operationally. adidas further evolved its organizational structure, moving from three to two divisions. With Bernd Wahler in Sport Performance and Hermann Deininger in Sport Style, adidas appointed two Chief Marketing Officers who have full ownership of their respective divisions. During the year, adidas not only established the two-divisional structure on a global level but also rolled it out in the regions of North America and Europe. Further, the brand appointed Patrik Nilsson as new President of adidas North America to further strengthen its market position in the region.

EUROPEAN DISTRIBUTION FURTHER STRENGTHENED In Europe, adidas continued to refine its distribution with various initiatives. For example, the brand extended a strategic partnership with its key account Intersport International Corporation. Within the scope of this cooperation, adidas offers customized product ranges in Intersport stores in categories such as football and running in 32 markets worldwide. Additionally, adidas and Intersport will continue to work closely on joint marketing and event-related initiatives. adidas also successfully implemented a segmented distribution strategy in the UK see Risk and Opportunity Report, p. 104 and continued its strong retail expansion in Russia.

PARTNERSHIP NETWORK FURTHER EXTENDED adidas further expanded its portfolio of promotional partnerships in 2007. The brand entered into a Tier One partnership with the London Organising Committee of the Olympic and Paralympic Games (LOCOG), to become the Official Sportswear Partner of the London Olympics in 2012. Brand adidas also extended partnerships with the German, Spanish and Hellenic football federations. In addition, the brand signed multi-year agreements with race car driver Dale Earnhardt Jr., Texas A & M University and the University of Michigan. In the Sport Style division, adidas agreed on a multi-year product collaboration with a leading denim producer, Diesel, starting in February 2008.

MARKETING CAMPAIGNS LAUNCHED SUCCESSFULLY With respect to brand communication, adidas successfully launched the newest installment of its "Impossible is Nothing" campaign – the largest global brand campaign ever implemented – in over 50 countries. Late in the year, adidas also kicked off its Olympics and global football campaigns for 2008.

INNOVATION LEADERSHIP THROUGH PERSONALIZATION
adidas' innovation philosophy encompasses every facet of the brand's business – from product design and development to brand marketing, promotion partnerships and distribution. In this area, personalization represents a key focus. Personalized product concepts at adidas include:

- Interactive product concepts such as miCoach – a new individual training system to be launched in March / April 2008, which can sense, understand and adapt to the consumer's needs.

- Customized solutions such as the mi adidas platform or the TUNiT football boot concept, which offer consumers the opportunity to specify certain product features.

- A broad selection of well-defined product families such as adiSTAR, adiZero and Supernova and technologies such as Clima, TECHFIT™, ForMotion™ and BOUNCE™, offering consumers extensive choice, according to their individually defined needs and requirements.

In marketing and distribution, personalization includes providing tailor-made offerings – be it online or in stores. Personalization will be the brand's lead innovation concept and a driving force of the adidas business going forward. It will guide all efforts in product design and development, (digital) marketing and distribution.

SPORT PERFORMANCE: EQUIPPING ATHLETES TO ACHIEVE THEIR OWN IMPOSSIBLES No brand has a more distinguished history or stronger connection with sport than adidas. Everything at adidas reflects the spirit of its founder Adi Dassler. That means adidas intends to support and equip all athletes in the best possible way to help them achieve their optimal performance. Therefore, adidas Sport Performance remains the brand's primary focus both in terms of product and brand initiatives. The division will continue to generate at least 70 % of adidas brand revenues going forward. Although the adidas Sport Performance division offers products in almost every sports category, the key priorities are:

- Running
- Football
- Basketball
- Training

In all these areas, adidas strives to be the leading global brand in terms of sales. 80 % of revenue growth in the Sport Performance division between now and 2010 is expected to come from these four categories. Additionally, adidas plans to further extend its global market leadership position in the tennis category going forward.

adidas aims to consistently present the brand attitude "Impossible is Nothing" in targeted and relevant consumer communication. The "Impossible is Nothing" brand campaign encourages consumers to achieve their own personal "impossible" goals – no matter what they might be – and underlines that adidas will help them in their pursuit of these goals.

SPORT PERFORMANCE – RUNNING: BUILDING CREDIBILITY WITH HIGH-PERFORMANCE ATHLETES Running continues to be adidas' highest category priority and will be critical to the brand's success moving forward. Because of the category's global importance, the brand is committed to support running with a substantial portion of overall marketing spend – now in both event and non-event years. adidas holds the number two position in terms of sales in the category globally.

The brand's philosophy is to inspire and enable runners on all levels. adidas focuses on building credibility with the high-performance athlete first because for the brand this credibility is the foundation for eventually tapping into the broader opportunity in the running category, the casual runner. As runners tend to seek consistency and proven technologies, the adidas product range is built on several well-established product families that address specific consumer needs (e. g. adiSTAR, Supernova, Response, adiZero, BOUNCE™). By segmenting and tailoring distribution, supporting retail partners and utilizing partnerships with selected global marathon events (e. g. the Boston, London and Berlin Marathons), the brand expects to leverage its product offering globally and further strengthen its position in the running market.

SPORT PERFORMANCE – FOOTBALL: INCREASING THE BRAND'S LEADERSHIP POSITION Being the most popular sport worldwide, football is clearly one of adidas' key strategic priorities. For over 50 years, adidas has led all major developments in football boot technology and balls. adidas is the world's leading football brand in terms of sales. Building on its success around the 2006 FIFA World Cup™, the brand strives to increase its leadership position by continuously creating the industry's top products and fully leveraging its outstanding portfolio of promotion partners.

Promotion partners include leading football associations (e. g. FIFA, UEFA), national federations (e. g. Germany, France, Spain, Romania, Greece, Argentina, Mexico, Japan), leagues (e. g. Major League Soccer in the USA), clubs (e. g. Real Madrid, A. C. Milan, Chelsea FC, Liverpool FC, FC Bayern Munich, River Plate) and individual players (e. g. Kaká, Lionel Messi, David Beckham, Michael Ballack). In 2007, adidas' momentum in the category continued and the brand further strengthened its global market position.

In 2008, most product and marketing efforts will revolve around the European Football Championship (UEFA EURO 2008™), which represents a key platform for the brand in Europe. The event also has a significant global relevance, evoking strong interest among football fans worldwide. Based on new product and marketing concepts plus a proven strength in translating those into commercial success, adidas expects to extend its leadership in the category going forward.

SPORT PERFORMANCE – BASKETBALL: LEVERAGING THE NBA PARTNERSHIP adidas is the number two brand in terms of basketball category sales worldwide with a strong presence outside of North America. Increasing its footprint in basketball therefore represents another key component of the adidas brand strategy. In particular, basketball is a key category to drive growth in North America. adidas intends to strengthen its position in the category by emphasizing the brand's unique positioning – with a clear focus on individual and team performance.

In this context, the brand's long-term partnership with the NBA is a critical asset. This agreement includes exclusive licensing rights to all NBA on-court and warm-up apparel as well as NBA-branded footwear for all teams. It also ensures adidas' visibility at all 2,460 NBA games and allows the brand to effectively promote and harness its outstanding roster of individual players such as Kevin Garnett, Dwight Howard, Tim Duncan, Chauncey Billups, Tracy McGrady and Gilbert Arenas. see adidas Products and Campaigns, p. 129 Over 20 % of all NBA players today wear adidas footwear.

Due to the NBA's increasing visibility and popularity around the globe, the partnership represents an important vehicle to drive the adidas basketball business in Asia and Europe. The portion of adidas basketball sales generated outside of North America is growing rapidly. As a result, the brand's overall basketball business is expected to be split evenly between North America and international markets by 2010.

SPORT PERFORMANCE – TRAINING: EXPANDING THE MEN'S AND WOMEN'S APPAREL BUSINESSES Training is the industry's largest apparel category. At adidas, training is the single biggest sports category for both men and women – and one of the adidas brand's key strengths. Moreover, adidas is the global leader in training apparel and strives to extend this leadership position going forward.

In the men's segment, adidas' cross-category performance-driven compression apparel concept TECHFIT™ see adidas Products and Campaigns, p. 129 represents a key image and commercial driver. The brand expects to expand the TECHFIT™ business in 2008 on the back of strong communication and sports marketing support. In addition, adidas will work closely with key retailers and support them with a quick replenishment and "never-out-of-stock" program.

adidas has identified women's training as one of its most important growth opportunities. see Risk and Opportunity Report, p. 104 Therefore, adidas intends to further grow the business with extended product offerings in the high-end adilibria, the dance-inspired Fuse and the gym-focused Clima 365™ collections. In addition, to support these product concepts, adidas will run a global communication campaign centered around yoga. The brand will also continue to carefully extend the product offering and distribution of its acclaimed adidas by Stella McCartney range.

SPORT STYLE: CAPITALIZING ON BRAND AUTHENTICITY AND HERITAGE The market for streetwear and lifestyle fashion represents a unique opportunity for sporting goods companies as it is more fragmented and larger in size than the market for products used in sports activity. In addition, profitability in the sports lifestyle market is typically higher as a result of lower R & D expenses. Further, the sports lifestyle market is growing faster than the market for actual sports products.

adidas is a brand with an authentic sports lifestyle offering based on its unique sport heritage. This distinction offers adidas a clear advantage when competing with the numerous fashion brands which are attempting to enter this market. To best tap the potential of the sports lifestyle market, adidas created a dedicated Sport Style division primarily focused on its Originals and fashion (e. g. Y-3, Porsche Design) businesses. In 2008, adidas plans to further strengthen its lifestyle proposition with the addition of a separate lifestyle fashion program targeting more commercial price points. The Sport Style division is expected to account for up to 30 % of adidas brand sales in the medium to long term.

SPORT STYLE: EXPANDING ADIDAS ORIGINALS The adidas Originals business is the cornerstone of the Sport Style division. Brand communication and attitude of adidas Originals are built on the message "Celebrate Originality". see adidas Products and Campaigns, p. 129 All product and marketing initiatives at adidas Originals focus on authenticity, creativity and individuality. Since its introduction, adidas Originals has been positioned as a niche business with corresponding product, marketing and distribution strategies. Going forward, however, adidas Originals will widen distribution and extend its product offering and communication efforts. In this way, adidas Originals plans to fully capitalize on the strength and brand equity of adidas.

To best meet the needs of a wide consumer base, adidas Originals addresses three consumer segments:

- The *Metropolitan* consumer looks to sport, street and fashion references as a basis for self-expression. In this consumer segment, adidas will build on key trends such as driving-inspired and low-profile footwear (e. g. Sleek for women). Furthermore, adidas will launch its first jeans collection as part of the new product collaboration with Diesel in 2008. Moreover, adidas will extend its product offering with the introduction of new product concepts such as the environmentally-friendly adidas Grün and the women-specific Handbags for Feet collections. see adidas Products and Campaigns, p. 129

- The *Urban* segment presents a bold, urban look that takes references from sport, street and particularly hip hop lifestyle. In this consumer segment, authenticity and heritage are critical. adidas was a pioneer in this segment with its connection to music artists Run DMC in the 1980s. Today, adidas continues to resonate with urban consumers with the iconic Superstar shoe or product ranges related to its partnerships with Missy Elliott and the NBA (i. e. lifestyle basketball products).

- In the *Coastal* segment, adidas targets a young consumer group inspired by action sports. This includes a continued focus on the brand's successful skateboarding-inspired product offering.

To ensure future sales growth in the sports lifestyle market, adidas will offer new concepts and – at the same time – further differentiate and segment distribution at wholesale and in adidas own-retail stores.

SPORT STYLE: BUILDING A FASHION BUSINESS ON THE SUCCESS OF Y-3 Another key element in the Sport Style division is the high-end Y-3 fashion collection developed in collaboration with designer Yohji Yamamoto. Introduced five years ago, the Y-3 business has grown substantially and has become a key image driver for the adidas brand. Through Y-3, adidas has created its own niche in the highly competitive world of fashion. New collections are launched twice a year at the New York fashion week. To drive the Y-3 business worldwide, adidas focuses on controlled space initiatives with high-end retailers as well as own-retail activities. In 2008, adidas expects to grow sales in the fashion category at a double-digit rate.

OPTIMIZING WHOLESALE BUSINESS Success in both Sport Performance and Sport Style requires an effective distribution strategy. The right presentation and availability of consumer-relevant product as well as excellent customer service at the point-of-sale are critical in this context.

adidas generates around 83 % of its revenues through its wholesale business – where adidas sales subsidiaries sell footwear, apparel and hardware/accessories to retail partners. In general, the brand's customers include sporting goods, sport specialty, athletic specialty and family footwear retailers as well as high-end department stores and directional accounts in the Sport Style division. To preserve the premium image of the adidas brand, it generally does not sell its products to value or discount chains.

In a few markets, where adidas does not have its own sales subsidiaries, the brand partners with third-party distributors that sell its products to retail. To have maximum brand control, however, adidas' strategy is to continuously buy back distribution rights and establish own sales organizations as appropriate. see Risk and Opportunity Report, p. 104

In 2008, adidas will also continue to optimize its wholesale proposition by further segmenting its product offering to retailers. After the successful introduction of the new distribution model in the UK, the brand plans to roll out similar models in other major European markets.

EXPANDING CONTROLLED SPACE In line with the Group's distribution strategy, see Group Strategy, p. 044 the adidas brand focuses on the expansion of controlled space:

- By further growing its own-retail business and extending the mono-branded store network particularly in emerging markets,

- By diversifying its own store formats and establishing a multi-dimensional store portfolio comprising Metropolitan stores, concept stores, e-commerce and factory outlets, and

- By accelerating its roll-out of shop-in-shops with key retail partners in mature markets.

In 2007, adidas made significant progress in all these areas. The brand's own-retail sales and store number continued to increase strongly. Own retail now accounts for 17 % of adidas brand revenues. see adidas Business Performance, p. 096 The number of mono-branded stores in emerging markets and the number of shop-in-shops also grew significantly.

In 2008, adidas plans to further extend its controlled space initiatives. Together with its retailer partners, the brand will continue to open shop-in-shop formats in mature markets and new mono-branded stores in emerging markets. In markets with an underdeveloped retail landscape and where market access via partners is not possible, adidas plans to further extend its own-retail business.

As part of the continued growth of its own-store network, the adidas brand will open its largest store in the world in Beijing in spring 2008, which will showcase both Sport Performance and Sport Style products. Going forward, the brand expects to introduce more such Metropolitan stores as appropriate. adidas will also further diversify its store base introducing category-specific concept store formats. Moreover, the brand will pilot its first European online shop in the Netherlands in the first half of 2008.

GROWING AVERAGE SELLING PRICES AND PROFITABILITY adidas offers the vast majority of its footwear, apparel and hardware products at high- and mid-level price points. The brand's goal is to strengthen both its market position and revenues by driving continuous growth in average selling prices and increasing profitability. adidas believes a strong brand image is the best defense against a promotional retail environment (i. e. competition at retail via price wars) and is prepared to give up short-term revenue opportunities as necessary to preserve the long-term market position. see Risk and Opportunity Report, p. 104

REEBOK STRATEGY Reebok's mission is to "always challenge and lead through creativity". The idea of fit and comfort is at the core of all product development. Reebok is a consumer-driven brand with a balanced sales split between sport and lifestyle. Women's and running are the brand's two global category priorities alongside several regional initiatives to drive growth worldwide. Building the branded apparel business and recalibrating its lifestyle offering are other strategic priorities for the brand.

SIGNIFICANT ORGANIZATIONAL AND OPERATIONAL PROGRESS In 2007, the main focus at Reebok was on laying the groundwork for a sustainable revitalization of the Reebok brand going forward. While financial results were mixed, see Reebok Business Performance, p. 099 significant organizational progress was made. During the year, new regional heads were put in charge in North America, Europe and Asia with the appointment of Matt O'Toole (North America), Nigel Griffiths (Europe) and David Mischler (Asia). Michael Rupp was also appointed President and CEO of the Rockport brand effective January 1, 2008.

In North America, Reebok took important steps in improving its distribution mix by cleaning inventories and strengthening relationships with retailers in the sporting goods channel. A strong presence in this distribution channel is critical to strengthen credibility as a sports brand. Reebok also proactively started to limit distribution in the mall-based athletic specialty retail channel by solely accepting at-once orders from one major account. see Risk and Opportunity Report, p. 104 The Sports Licensed Division, an adidas Group unit which focuses on licensed apparel for both adidas and Reebok, acquired the assets of Mitchell & Ness Nostalgia Company, a wholesaler, marketer and distributor of authentic vintage athletic product effective October 31, 2007 (transaction value: low-single-digit million euro amount). The acquisition offers Reebok further sales potential and helps the brand strengthen its position in the sports licensed business.

In addition, Reebok made significant organizational headway outside of North America. The brand's European Headquarters relocated from Bolton (UK) to Amsterdam (Netherlands). This move was initiated to sharpen the brand's focus on the region's traditional and emerging markets and to improve range merchandising. During the year, Reebok also bought back distribution rights in Turkey and Greece, effective April 1, 2007 and January 1, 2008, respectively.

Reebok also made progress with several brand marketing initiatives. With the addition of tennis star Jelena Jankovic and the global sponsorship agreement for the 2008 Avon Walk Around the World for Breast Cancer, see Reebok Products and Campaigns, p. 138 the brand further strengthened its partnership portfolio in the women's business. Regarding brand communication, Reebok ran its largest fully-integrated global running campaign: "Run Easy". This campaign highlighted the camaraderie, joy and fun of running. And in China, the brand launched its "Fuel Yao's Unlimited Power" campaign for the Beijing Olympics featuring basketball star Yao Ming.

BECOMING "THE BRAND THAT FITS ME" As a consumer-driven brand, Reebok commits to offer the "perfect fit" for consumers. On the one hand, this implies designing and developing products with materials, styles and technologies that enhance fit and comfort for consumers. In 2007, for example, Reebok developed 893 fit initiatives to be included in products for the spring/summer collection 2008. Highlight products are footwear and apparel featuring KineticFit technology. see Research and Development, p. 072 On the other hand, it means addressing consumers in a personal, engaging way so that they can better identify with the brand. Reebok's 2008 global brand campaign – "Your Move" – stresses the fact that consumers have a choice and that Reebok is the brand that best understands and meets their needs. see Reebok Products and Campaigns, p. 138

However, the concept of fit is not only a product and marketing philosophy. Instead it should guide all facets of the brand's business. Reebok's intent is to be "the brand that fits me". That means meeting the needs of consumers, promotional partners, retailers and employees. With a "perfect fit" distribution strategy, Reebok intends to offer the right product for the right accounts at the right margins. Moreover, Reebok is committed to building a work environment that matches the need of its employees and to hiring people who fit the brand's values.

ENGAGING CONSUMERS THROUGH CUSTOMIZATION Customization is an increasingly important priority for the Reebok brand. With technologies such as KineticFit and The Pump™, Reebok provides consumers customization elements in its products. Reebok also offers North American consumers the opportunity to design their own shoes through its web-based customization platform "Rbk Custom". The brand's product offerings on the website also include limited editions of highlight products such as shoes created by famous graphic designer John Maeda and the Freestyle. In 2008, Reebok will expand its product offering available via "Rbk Custom" and also extend the platform's reach to European countries. Further, Reebok will offer key directional retailers the possibility to order customized products on quick delivery timelines (i.e. 60 days). Reebok also increasingly interacts with consumers on a personal level, utilizing predominately digital marketing initiatives. Going forward, the brand will take a digital leadership role by extending both its customized product initiatives and digital marketing activities. Reebok will launch a new digital platform in 2008, which will feature some of the latest developments in personalization technology.

BALANCING SPORT AND LIFESTYLE Most brands in the sporting goods industry define themselves as either a sport or a lifestyle player. Reebok has a heritage within the industry based on products that bridge the gap between sport and lifestyle. The brand therefore puts equal emphasis on developing products for sports activities and daily life. With a holistic approach across all categories, Reebok addresses different consumer groups – from the active athlete to the sports fan, from the urban to the suburban consumer. To grow its sport business going forward, Reebok has defined two global category priorities: women's and running. In addition, the brand has also set regional priorities such as American sports (North America) and football (Europe and Latin America). At the same time, Reebok is sharpening its lifestyle focus by broadening and upgrading its product offering.

WOMEN'S: LEVERAGING REEBOK'S HERITAGE Reebok enjoys a distinctive position in the women's market. As the brand that virtually invented the aerobics category in the 1980s, Reebok has an unrivalled heritage in serving the unique needs of female athletes. The brand continues to hold leading global positions in important women's categories such as workout and walking.

Going forward, Reebok intends to further strengthen its profile in the women's market. As fit is particularly important to women, Reebok is introducing new materials and colors as well as women-specific patterns and size schemes in its product lines. With targeted marketing concepts and partnerships with top athletes (e.g. Amélie Mauresmo, Carolina Klüft, Nicole Vaidisova) and celebrities, the brand will show that it fully understands the unique needs of the female consumer. Reebok's partnership with the 2008 Avon Walk Around the World for Breast Cancer illustrates the brand's strong commitment to women and will help build a connection with consumers worldwide. see Reebok Products and Campaigns, p. 138

RUNNING: TARGETING NEW AND RECREATIONAL RUNNERS Running is the sport with the highest participation level and the most diverse consumer base worldwide. Reebok's positioning in the category differs from that of most brands. Instead of focusing first on the competitive athlete, Reebok clearly targets new and recreational runners.

In 2008 and beyond, Reebok's product offering in the running category will focus on fit and comfort. In this context, the Hex Ride Rally running shoe clearly represents the highlight product. see Reebok Products and Campaigns, p. 138 Reebok remains committed to developing comprehensive running ranges and establishing itself as a "head-to-toe" running brand.

To adequately support its product initiatives and to further underline its unique running positioning, Reebok's brand communication will feature running as a priority category. To increase traction in the category, Reebok also engages in grassroot activities around smaller, local running events.

AMERICAN SPORTS: CAPITALIZING ON LEAGUE PARTNERSHIPS Reebok's activities in American sports aim to underline Reebok's positioning as an American-inspired brand. This is an important regional initiative in North America but also a differentiating factor versus competitors in the rest of the world. American football and baseball are critical categories to strengthen the brand's credibility in sport.

Due to its partnership with the NFL, Reebok has a unique position in American football, the most popular sport in the USA. As the official outfitter of the NFL, Reebok provides on-field uniforms as well as off-field apparel products to all 32 NFL teams. This gives Reebok an unrivalled presence at all NFL games during the season. In addition, the partnership enables Reebok to drive its licensed business and has a positive halo effect on the brand's cleated footwear and branded apparel business. By utilizing individual players such as Peyton and Eli Manning and Vince Young as brand ambassadors, Reebok strives to strengthen its connection with consumers.

Reebok is also committed to further building its position in baseball and basketball. In baseball, the brand utilizes its partnerships with Major League Baseball (MLB) and David Ortiz to drive sales in both sport and lifestyle. By utilizing the Pump custom-fit footwear technology and further capitalizing on key partnerships with individual players such as Allen Iverson and Yao Ming, Reebok also intends to grow in the basketball category.

FOOTBALL: COMPETING AS A NICHE PLAYER Football is the most popular sport worldwide and of particular importance in Europe and Latin America. Therefore, Reebok intends to tackle the football market in these regions by becoming a credible niche player in the category. The brand's product offering in football (including footwear, apparel and hardware) revolves around fit and comfort. To support business development and connect with consumers in Europe, Reebok partners with a limited number of standout footballers such as Thierry Henry, Andriy Shevchenko and Iker Casillas. Reebok's brand communication initiatives across Europe not only highlight the athletic abilities of these players but also present facets from their life off the pitch. In this way, Reebok intends to directly address football consumers and to build brand awareness. In Latin America, the brand utilizes sponsorship agreements with popular football clubs such as Chivas, São Paulo FC and Internacional Porto Alegre to resonate with consumers.

BUILDING THE BRANDED APPAREL BUSINESS With respect to apparel, Reebok's current strength clearly is the licensed apparel business. Therefore, building its branded apparel business is a key priority for the brand and is targeted to deliver annual incremental sales of € 100 million by 2009 as part of the Reebok integration into the adidas Group. see Outlook, p. 118

Technological innovation, design and a well-functioning supply chain are critical success factors in the branded apparel category. Expanding its apparel technology platform is a key Reebok priority. This includes greater commercialization of the brand's "Play Dry" concept. The new KineticFit apparel technology will also be launched in 2008. By creating global ranges that include region-specific executions, Reebok aims to evolve into a credible and competitive market player in the branded apparel category. Therefore, Reebok is currently revamping its product design and development processes – adopting adidas best practices where appropriate. It also includes utilizing adidas' sourcing and supply chain infrastructure.

SHARPENING LIFESTYLE PROPOSITION Catering to sports lifestyle consumers continues to be an important pillar of Reebok's strategy. In the past, the brand's lifestyle business was overly reliant on certain products, particularly in the Classics footwear segment. To limit the risk of overdependence on single styles and build a broad-based lifestyle business, Reebok is currently refining and widening its product range.

Going forward, Reebok will continue to partner with entertainers, actors and artists to appeal to a variety of consumers and to stress individuality in the product offering. In 2008, Reebok will introduce several new lifestyle concepts (e. g. the Kool-Aid and Voltron collections) but also new variations of popular existing concepts (e. g. Classics, Freestyle).

REEBOK-CCM HOCKEY: EXTENDING MARKET LEADERSHIP Reebok-CCM Hockey holds the number one position in terms of global sales in the hockey category, combining two leading brands: Rbk Hockey and CCM. Both offer a complete range of hockey equipment and apparel. Rbk Hockey and CCM are positioned with two differentiated "head-to-toe" brand platforms. CCM is placing emphasis on the skates category while Rbk Hockey is focusing on hockey sticks and apparel. Product development and design initiatives at Reebok-CCM Hockey focus on technologically-advanced, performance-enhancing equipment. see Research and Development, p. 072 Going forward, Reebok-CCM Hockey will continue to develop and further improve its industry-leading products such as the Rbk EDGE Uniform System™, the Rbk O-Stick, and the Rbk Pump and CCM V10.0 skates.

Reebok-CCM Hockey is the exclusive jersey licensee of the NHL, the American Hockey League (AHL), the Canadian Hockey League (CHL) as well as several college (NCAA) and national teams. Through its partnership with the NHL, Reebok-CCM Hockey is featured prominently at all games of the most popular hockey league worldwide. In addition, the partnership enables Reebok-CCM Hockey to drive its licensed business. Further, Reebok-CCM Hockey partners with top players including Sidney Crosby, Alexander Ovechkin and Vincent Lecavalier. These partnerships with individual key players underline Reebok-CCM Hockey's leadership position in hockey and also provide a commercial opportunity in the form of licensed apparel sales or signature collections. As a result of its strong product offering and partnership portfolio, Reebok-CCM Hockey expects to further strengthen its leadership position going forward.

ROCKPORT: EXPANDING IN THE CASUAL LIFESTYLE MARKET

Rockport is a leading global, lifestyle footwear brand. It combines modern and stylish design with advanced comfort and performance technologies derived from the athletic footwear industry to provide a unique competitive advantage.

From a category perspective, Rockport has major growth initiatives targeted at the urban/metro, outdoor, technology-oriented and women's segments of the casual lifestyle market. The brand strives to connect with many different consumer groups through a well-defined product segmentation, a disciplined channel-specific distribution strategy and the continued incorporation of industry-leading technologies such as adidas TORSION® into its product. Leveraging the Group's infrastructure (e. g. in emerging markets) is also a core element in Rockport's growth strategy. The brand expects to continue to grow its North American business while achieving increased sales internationally (i. e. outside of North America) going forward. By 2010, more than 50 % of Rockport sales are expected to be generated in Europe, Asia and Latin America.

OPTIMIZING EXISTING DISTRIBUTION The wholesale business accounts for 84 % of total sales in the Reebok segment. Historically, Reebok's distribution base has been rather narrow, comprising only certain channels (i. e. athletic specialty and family footwear) and a small number of customers. This distribution approach created an overdependence on, and an overexposure to, particular retail partners. Subsequently, Reebok's bargaining power and brand image were negatively affected. In line with the Group's approach to diversify distribution, Reebok is now broadening its distribution mix and increasing its presence in other retail formats (e. g. sporting goods and department stores) in order to:

- Improve brand image and regain credibility in sports,
- Better service existing distribution channels, and
- Reduce its customer risk. see Risk and Opportunity Report, p. 104

In addition, Reebok increasingly differentiates its product assortment amongst retailers to best meet the needs of various consumer groups. The core distribution channels for Reebok-CCM Hockey are specialist stores and sporting goods retailers. Rockport products are primarily sold in department stores and the family footwear channel. By segmenting the brand and differentiating the product offering available for retailers, Rockport ensures a broad-based distribution of its products.

GROWTH OPPORTUNITIES THROUGH CONTROLLED SPACE

Reebok increasingly focuses on the roll-out of shop-in-shops with retail partners in mature markets, while expanding its own-store base as well as its mono-branded store network in emerging markets. In the near-term future, factory outlets will remain the most important format within Reebok's own-retail strategy in North America. Reebok-CCM Hockey mainly focuses on working closely with partners such as the NHL to establish jointly managed co-branded stores.

Building on its 2007 momentum (e. g. store openings in Russia and China), Rockport is expanding its own concept store base (particularly in emerging markets) and increasing its efforts in partnering with retailers via shop-in-shops. Further, Reebok and Rockport are significantly extending their e-commerce platforms to make the online channel another important element of their distribution mix. Overall, own retail accounts for 16 % of Reebok segment sales.

IMPROVING BRAND MANAGEMENT AND GAINING MARKET SHARE VIA DISTRIBUTOR BUYOUTS Reebok, Reebok-CCM Hockey and Rockport have each established own sales organizations in major markets around the globe. Nevertheless, all three continue to work with third-party distributors in many markets. To better control brand management and gain market share, Reebok and Rockport continue to buy back distribution rights for the Reebok and Rockport brands or wait until expiration of existing agreements with distribution partners to eventually set up their own sales organizations. The buyback of distribution rights offers additional sales potential and represents the most important area of Reebok revenue synergies. see Outlook, p. 118

INCREASING AVERAGE SELLING PRICES To reinforce its position as a premium sports and lifestyle brand, Reebok's goal is to significantly improve and increase its product offering at high- and mid-price points to drive growth in average selling prices. This approach may slow short-term top-line development by voluntarily foregoing commercial opportunities in the low-price segment. More importantly, however, it enables Reebok to build a platform for sustainable sales and profitability growth and preserves the brand's image.

As a leading manufacturer and marketer of technologically-advanced hockey equipment, Reebok-CCM Hockey primarily targets high-price points. By further strengthening its innovation leadership, Reebok-CCM Hockey intends to preserve its high average selling prices. The Rockport brand predominately competes at high- and mid-price points. To increase competitiveness in these price segments, the brand is committed to continuously incorporating advanced technologies into its products, making technology its main selling proposition.

TAYLORMADE-ADIDAS GOLF STRATEGY

TaylorMade-adidas Golf's mission is to be the leading performance golf company in the world in terms of sales and profitability. It combines two of golf's strongest brands: TaylorMade (focused on clubs and balls) and adidas Golf (focused on footwear and apparel). Both brands are dedicated to continuously developing and commercializing innovative, technologically advanced products. To accomplish its goal, TaylorMade-adidas Golf has set its sights on five strategic priorities: extending its leadership in metalwoods, significantly expanding its golf ball business, maximizing growth at adidas Golf, driving marketing excellence and further strengthening its distribution mix.

CAPITALIZING ON THE STRONG MARKET POSITIONS OF TWO WELL-ESTABLISHED BRANDS TaylorMade-adidas Golf maintains two well-defined golf brands with strong market positions under one roof. TaylorMade is the market leader in terms of sales in the metalwoods category and is among the leading iron brands. In addition, TaylorMade is also steadily evolving into a leading golf ball manufacturer. adidas Golf has delivered outstanding sales growth in both footwear and apparel during the past five years and has clearly become the fastest-growing golf footwear and apparel brand in terms of sales and market share in major golf markets. TaylorMade-adidas Golf is committed to further growing its business in a profitable way and improving its market position by harnessing the R & D strength see Research and Development, p. 072 and brand equity of both TaylorMade and adidas Golf.

INCREASED INNOVATION FOCUS TaylorMade-adidas Golf's core principle is to create the best performance golf products in the marketplace, and that starts with a clear commitment to innovation, technology and Tour leadership. The brand strives to extend its leadership position with a continued focus on innovation.

To remain at the forefront, TaylorMade-adidas Golf is intensifying its R & D efforts. For example, TaylorMade created an independent innovation team that is solely focused on identifying potential new product concepts and designs, primarily in metalwoods and irons, that may subsequently be transformed into product development by the general R & D team. adidas Golf continues to leverage adidas' R & D capabilities, transforming innovative adidas concepts and technologies into golf footwear and apparel products. TaylorMade-adidas Golf strives to introduce at least one major new product innovation or evolution every 12 to 18 months.

EXTENDING LEADERSHIP IN METALWOODS Today, TaylorMade is the clear market leader in metalwoods - particularly in the USA, where the brand's market share of approximately 28 % has created a substantial gap between TaylorMade and its strongest competitor. This success was driven by the brand's ability to continuously introduce and commercialize new and innovative products. Therefore, the brand's primary focus going forward is to maintain its place in the market as the innovation leader and to further expand its metalwoods business outside the USA. By strengthening its promotion partnerships in other regions (e. g. new partnerships with Korean golfer Ye Yang and the China Golf Association in Asia), TaylorMade plans to support its international expansion in the metalwoods category. By 2010, the brand's goal is to achieve a similarly strong market position on a global scale as in the USA.

GROWING GOLF BALL BUSINESS BY FURTHER GAINING TOUR CREDIBILITY Success in golf balls depends on the ability to create high-performance golf balls, bring them to market and build credibility among Tour professionals. Over the last three years, TaylorMade-adidas Golf has restructured its golf ball business to lay the groundwork for a prosperous future in this product category. The brand purchased numerous patents with the acquisition of Maxfli in 2003 and created its own ball division that is fully dedicated to developing high-quality, technologically-advanced performance golf balls.

TaylorMade successfully introduced its TP Red and TP Black golf balls in 2006, which together now comprise the second most-played ball models on the European, Nationwide and Japan Tours. In this way, TaylorMade has established itself as a credible golf ball brand among professionals and highly skilled players. In 2007, the number of marquee players using the TP Red and TP Black golf balls further increased. Among new additions to the portfolio of players were Retief Goosen, Fred Funk, Sean O'Hair, Darren Clarke and Natalie Gulbis. The brand intends to increase sales in the golf ball category by extending the TaylorMade branded offering and further leveraging the successful NOODLE franchise.

Going forward, the golf ball division will be supported with additional personnel and financial resources to drive growth. In addition, TaylorMade plans to further grow the number of players on the Tour using its golf balls, thereby gaining stronger acceptance in the marketplace.

BUILDING ON ADIDAS GOLF'S STRENGTH IN FOOTWEAR AND APPAREL As a result of its steady commitment to developing great-looking, great-feeling and performance-enhancing products, adidas Golf has been the fastest-growing footwear and apparel brand in golf for the last three years.

With the introduction of industry-leading high-performance golf shoes such as the TOUR360, the TOUR360 II and the POWERBAND, adidas Golf has developed into a strong competitor in the global golf footwear market. In 2007, adidas Golf for a short period even became the top-selling footwear brand in Japan. This was the first time ever that a non-domestic brand had taken over market leadership in a product category in Japan, which is the world's second largest golf market. adidas Golf intends to extend its position in golf footwear in the medium term by further leveraging adidas' strength in footwear technologies and by building on its successful TOUR360 and POWERBAND franchises.

In apparel, adidas Golf has positioned itself as the most innovative performance brand in the game by utilizing adidas ClimaCool®, ClimaCool® Motion, Clima Compression and ClimaProof® technologies in adidas Golf apparel products. adidas Golf was the first major brand to bring these types of technology to the golf industry, making it the front-runner in terms of technological innovation in the golf apparel category. Going forward, adidas Golf is committed to growing its apparel business by continuously incorporating leading adidas apparel technologies into golf products. In this way, the brand expects to achieve clear global market leadership in the category in the medium term.

MARKETING EXCELLENCE AS A KEY SUCCESS FACTOR Well-coordinated and consumer-relevant marketing is paramount to achieving sustainable market leadership. For this reason, TaylorMade-adidas Golf has combined product marketing, brand communication and retail marketing in one fully-integrated global marketing team. Executional excellence and a coordinated approach to bringing product to market are key elements of the segment's go-to-market strategy.

TaylorMade-adidas Golf utilizes a variety of strong marketing tools. Following product launches, TaylorMade-adidas Golf provides point-of-sale support, in-store communication and customer flow management support (e. g. assistance in reducing waiting times for consumers) to drive product sell-through. TaylorMade's Tour Trailers are on-site at nearly all PGA Tour and European Tour golf tournaments to give Tour professionals the opportunity to interact with TaylorMade product specialists. Leadership on these Tours strengthens TaylorMade-adidas Golf's credibility among golfers and helps both brands increase traction among consumers. Further, efficient product lifecycle management plays an important role in helping TaylorMade-adidas Golf achieve optimal results in the marketplace. In summary, marketing expertise and excellence are critical tools to help TaylorMade-adidas Golf drive sustainable growth going forward.

FURTHER EXTENDING AND SEGMENTING DISTRIBUTION
TaylorMade-adidas Golf works with retail partners who possess the skills to effectively showcase the performance advantages of TaylorMade and adidas Golf products. Core channels include green grass retailers, off-course golf specialty retailers and sporting goods retail formats with golf-specific departments. By focusing on strategic and key accounts (golf specialty and sporting goods retailers) in the distribution mix, TaylorMade-adidas Golf has positioned TaylorMade metalwoods and irons, and adidas Golf footwear and apparel to be among the top-selling golf products in these retail channels.

TaylorMade-adidas Golf will continue to work closely with its strategic accounts. The company also plans to increase its efforts to extend its brands' presence at smaller retailers and on-course golf shops, where the brands are currently under-represented. This will help TaylorMade-adidas Golf steadily grow its business going forward. To support growth and at the same time avoid overexposure to certain accounts or an over-supply in the market, TaylorMade-adidas Golf pursues a selective distribution strategy based on a clear segmentation of its product offering at retail. The company also utilizes existing adidas infrastructure, particularly own-retail stores, to distribute adidas Golf products and drive growth in emerging markets.

PRICING STRATEGY REFLECTS BRAND POSITIONING
TaylorMade-adidas Golf's pricing policy mirrors the positioning of its two brands in the golf market. As a result, TaylorMade's pricing strategy focuses on dominating the market at premium price points and competing aggressively in the high-volume mid-price segment. adidas Golf supports its market perception as the innovation leader in performance golf footwear and apparel by selling its products primarily at premium price points.

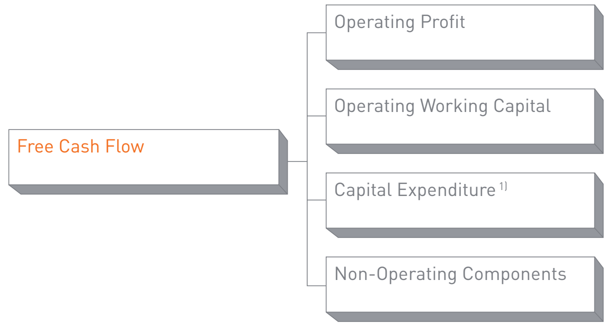
Market share expansion, particularly in golf equipment, is driven mainly by the ability to deliver best-in-class lines of products at multiple price points. Two examples of TaylorMade-adidas Golf's success with this strategy in golf equipment are the Burner® (medium price) and r7® SuperQuad (premium price) drivers: launched in 2007, both became the best-selling driver model in their respective price segment in the US market. The Burner® even was the best-selling driver worldwide in 2007. Another example of a successful implementation of this strategy is adidas Golf's high-priced TOUR360 golf shoe, which became the brand's best-selling golf shoe for two years running.

INTERNAL GROUP MANAGEMENT SYSTEM

The adidas Group's central planning and controlling system is designed to continually increase the value of our Group and brands to maximize shareholder value. By improving our top- and bottom-line performance and optimizing the use of capital employed, we aim to maximize free cash flow generation. This is our principal goal for increasing shareholder value. Management utilizes a variety of decision-making tools to assess our current performance and to align future strategic and investment decisions to best utilize commercial and organizational opportunities.

FREE CASH FLOW AS INTERNAL GROUP MANAGEMENT FOCUS The cornerstone of our Group's Internal Management System is our focus on free cash flow generation, which we believe is the most important driver to sustain and increase shareholder value. Free cash flow is comprised of operating components (operating profit, change in operating working capital and capital expenditure) as well as non-operating components such as financial expenses and taxes. To maximize free cash flow generation across our multi-brand organization, brand management has direct responsibility for improving operating profit as well as optimizing operating working capital and capital expenditure. Non-operating items such as financial expenses and taxes are managed centrally by the Group Treasury and Tax departments. To keep Group and brand management focused on ongoing performance improvement, a portion of the responsible managers' total compensation is variable and linked to a combination of operating profit, operating working capital development, Group earnings before tax, or relative / absolute stock price performance.

FREE CASHFLOW COMPONENTS



1) Excluding goodwill and finance leases.

OPERATING MARGIN AS KEY PERFORMANCE INDICATOR OF OPERATIONAL PROGRESS Operating margin (defined as operating profit as a percentage of net sales) is our Group's most important measure of operational success. It highlights the quality of our top-line and operational efficiency. The primary drivers central to enhancing operating margin are:

- *Sales and gross margin development:* Management focuses on identifying and exploiting opportunities that not only provide for future growth, but also have potential to increase gross margin (defined as gross profit as a percentage of net sales). Major levers for sustaining and enhancing our Group's sales and gross margin include optimizing our product mix, increasing the quality of distribution – with a particular focus on controlled space – as well as supply chain efficiency initiatives, and the minimization of clearance activities.

- *Operating expense control:* Tight control of operating expenses is particularly important as we strive to leverage the Group's sales growth through to the bottom line. Marketing working budget is our largest operating expense. It is one of the most important mechanisms for driving top-line growth. Therefore, we are committed to improving the utilization of our marketing spend. This includes concentrating our communication efforts (including advertising, retail presentation and public relations) on key global brand initiatives and focusing our promotion spend on well-selected partnerships with top events, leagues, clubs and athletes. We also aim to increase operational efficiency and reduce operating overhead expenses as a percentage of sales. Refining business processes, eliminating redundancies and leveraging the scale of our organization are important drivers in this respect.

KEY FINANCIAL METRICS

Gross margin	$= \dfrac{\text{Gross profit}}{\text{Net sales}} \times 100$
Operating margin	$= \dfrac{\text{Operating profit}}{\text{Net sales}} \times 100$
Average operating working capital	$= \dfrac{\text{Sum of operating working capital at quarter-end}}{4}$
Operating working capital in % of net sales	$= \dfrac{\text{Average operating working capital}}{\text{Net sales}} \times 100$
Capital expenditure[1]	= Additions of property, plant and equipment plus intangible assets

1) Excluding goodwill and finance leases.

We strive to maximize revenues and minimize costs by detailed target setting, and we constantly monitor deviations in rolling forecasts on a monthly basis. If necessary, action plans are implemented to optimize the development of the Group's operating performance.

OPTIMIZATION OF NON-OPERATING COMPONENTS Our Group also puts a high priority on the optimization of non-operating components such as financial expenses and taxes, as these items strongly impact the Group's cash outflows and therefore the Group's free cash flow. Financial expenses are managed centrally by our Group Treasury department. see Treasury, p. 091 The Group's current and future tax expenditures are optimized globally by our Group Taxes department.

TIGHT OPERATING WORKING CAPITAL MANAGEMENT Due to a comparatively low level of fixed assets required in our business, operating working capital management is a major focus of our efforts to improve the efficiency of the Group's balance sheet. We have made major strides in this area through tight working capital management focused on continuously improving our Group's inventories, accounts receivable and accounts payable.

Our key metric is operating working capital as a percentage of net sales. Monitoring the development of this key metric facilitates the measurement of our progress in improving the efficiency of our business cycle. We strive to manage our inventory levels to meet market demand and ensure fast replenishment. Inventory ageing is controlled to reduce inventory obsolescence and to optimize clearance activities. As a result, stock turn development is the key performance indicator as it measures the number of times the average inventory is sold during a year, highlighting the amount of capital locked in products in relation to our Group's business. To minimize capital tied up in accounts receivable, we strive to continuously improve collection efforts in order to reduce the Days of Sales Outstanding (DSO) and improve the ageing of accounts receivable. Likewise, we strive to continuously optimize payment terms with our suppliers to best manage our accounts payable.

CAPITAL EXPENDITURE TARGETED TO MAXIMIZE FUTURE RETURNS Improving the effectiveness of the Group's capital expenditure is another lever to maximize the Group's free cash flow. Our capital expenditure is controlled with a top-down, bottom-up approach: In a first step, Group Management defines focus areas and an overall investment budget based on investment requests by brand management. Our operating units then align their initiatives within the scope of assigned priorities and available budget. We evaluate potential return on planned investments utilizing the net present value or internal rate of return method, in relation to the cost of capital. Specific investments are assessed according to the principles of risk-weighted returns. For large investment projects, timelines and deviations versus budget are monitored on a monthly basis throughout the course of the project.

M & A ACTIVITIES FOCUS ON LONG-TERM VALUE CREATION POTENTIAL We expect the majority of our Group's growth to come from organic business. However, as part of our commitment to ensuring sustainable profitable development, we regularly review merger and acquisition options that may provide additional commercial and operational opportunities. Acquisitive growth focus is primarily related to a potential for increasing market penetration, strengthening our Group's positioning within a sports category or addressing new consumer segments. The strategies of any potential acquisition candidate must correspond with the Group's long-term direction. Maximizing return on invested capital above the cost of capital is a core consideration in our decision-making process. Of particular importance is evaluating the potential impact on our Group's free cash flow. We assess current and future projected key financial metrics to evaluate a target's contribution potential. In addition, careful consideration is given to any potential financing implications which may be required to complete a prospective acquisition.

COST OF CAPITAL METRIC USED TO MEASURE INVESTMENT POTENTIAL Creating value for our shareholders by earning a return on invested capital above the cost of that capital is a guiding principle of our Group strategy. We source capital from equity and debt markets. Therefore, we have a responsibility that our return on capital meets the expectations of both equity shareholders and creditors. Our Group calculates the cost of capital utilizing the weighted average cost of capital (WACC) formula. This metric allows us to calculate the minimum required financial returns of planned capital investments. The cost of equity is computed utilizing the risk-free rate, market risk premium and beta. Cost of debt is calculated using the risk-free rate, credit spread and average tax rate.

STRUCTURED PERFORMANCE MEASUREMENT SYSTEM Our Group has developed an extensive performance measurement system, which utilizes a variety of tools to measure the performance of the adidas Group and our brand segments. To evaluate the Group's current sales and profitability development, we monitor our annual budget on a monthly basis, addressing shortfalls and identifying additional opportunities. Further, we monitor operating margin developments at all brands on a monthly basis. To optimize the Group's balance sheet, we control operating working capital movement via a monthly monitoring system. When negative deviations exist between actual and target numbers, we perform a detailed analysis to identify and address the cause. In addition, we benchmark the Group and brand results with those of our major competitors on a quarterly basis. We measure the Group's future top-line development on the basis of our order backlog development. Order backlogs comprise orders received within a period of up to nine months in advance of the actual sale. Our order book represents approximately 70 % of future anticipated revenues. Also increasingly important are other indicators such as our own-retail activities and at-once business, which are not represented in the order book. We provide updates on these developments as part of our quarterly reports. see Outlook, p. 118

MANAGEMENT APPRAISAL OF 2007 PERFORMANCE AND TARGETS FOR 2008 AND 2009 We communicate our Group's financial targets on an annual basis. We also provide updates throughout the year as appropriate. In 2007, we achieved all key financial targets within the focus of our Internal Management System. We outperformed global industry and macroeconomic growth, increased our earnings at a double-digit rate, and made strong debt reduction progress during the year. see Economic and Sector Development, p. 078

By segment, development at adidas and TaylorMade-adidas Golf exceeded our initial sales expectations while the Reebok segment performed marginally below initial expectations. At Reebok, strong sales increases in the emerging markets, particularly in Asia and in Eastern Europe, could not fully compensate lower than anticipated revenues in North America and the UK. The deliberate limitation of sales to mall-based customers in North America contributed to this development. Management took this decision to reduce product discounting at retail and protect brand image.

For 2008 and 2009, we have again committed to ambitious targets which will help us optimize our Group's free cash flow development going forward. Despite lower expected global economic growth in 2008, we believe the current trading environment will not negatively impact these expectations given the high percentage of growth we expect to come from emerging markets and the positive impetus of the major sporting events during the year. We believe our targets are realistic within the scope of the current trading environment, and no material event between the end of 2007 and the publication of this report has altered our view. see Subsequent Events, p. 117

TARGETS VERSUS ACTUAL KEY METRICS

	2006 Actual	2007 Initial Target	**2007 Actual**	2008 Target	2009 Target
Group sales growth (currency-neutral)	53 %	mid-single-digit	**7 %**	high-single-digit	high-single-digit
adidas segment sales growth (currency-neutral)	14 %	mid-single-digit	**12 %**	high-single-digit	
Reebok segment sales growth (currency-neutral)	(6 %) [1]	low-single-digit	**0 %**	low- to mid-single-digit	
TaylorMade-adidas Golf segment sales growth (currency-neutral)	13 % [1]	mid-single-digit [1]	**9 % [1]**	mid-single-digit	
Group gross margin	44.6 %	45 – 47 %	**47.4 %**	47.5 – 48 %	46 – 48 %
adidas segment gross margin	46.2 %	increase	**47.4 %**	increase	
Reebok segment gross margin	35.0 %	increase	**38.7 %**	increase	
TaylorMade-adidas Golf segment gross margin	43.9 %	increase	**44.7 %**	increase	
Group operating expenses (in % of sales)	36.7 %	increase	**39.2 %**	increase	
adidas segment operating expenses (in % of sales)	35.4 %	stable	**35.6 %**	increase	
Reebok segment operating expenses (in % of sales)	32.8 %	increase	**35.8 %**	increase	
TaylorMade-adidas Golf segment operating expenses (in % of sales)	33.5 %	increase	**34.4 %**	increase	
Group operating margin	8.7 %	approx. 9 %	**9.2 %**	at least 9.5 %	approx. 11 %
adidas segment operating margin	11.9 %	increase	**12.9 %**	increase	
Reebok segment operating margin	3.5 %	increase	**4.7 %**	increase	
TaylorMade-adidas Golf segment operating margin	8.5 %	decrease	**8.1 %**	increase	
Net income growth (attributable to shareholders)	26 %	≤ 15 %	**14 %**	at least 15 %	double-digit
Operating working capital (in % of net sales)	25.8 %	< 25 %	**25.2 %**	further reduce	further reduce
Capital expenditure (€ in millions) [2]	277	300 – 400	**289**	300 – 400	300 – 400
Net debt (€ in millions)	2,231	< 2,000	**1,766**	maintain or reduce	

1) On a like-for-like basis.
2) Excluding goodwill and finance leases.

02

MAJOR LOCATIONS AND PROMOTION PARTNERSHIPS

The adidas Group sells products in virtually every country around the world. As at December 31, 2007, the Group had more than 170 subsidiaries worldwide with our headquarters located in Herzogenaurach, Germany. Our Group has also assembled an unparalleled portfolio of promotion partnerships around the world, including sports associations, events, teams and individual athletes. Our Group's most important locations and upcoming sporting events are highlighted on the world map.

MAJOR LOCATIONS

EUROPE

01 adidas AG Headquarters
Herzogenaurach, Germany
02 Reebok European Headquarters
Amsterdam, Netherlands
03 Taylor Made Golf Ltd.
Basingstoke, Great Britain
04 adidas International Trading B.V.
Amsterdam, Netherlands
05 adidas International Marketing B.V.
Amsterdam, Netherlands

NORTH AMERICA

06 adidas North America Inc.
Portland, Oregon, USA
07 Reebok International Ltd. Headquarters
Canton, Massachusetts, USA
08 The Rockport Company Headquarters
Canton, Massachusetts, USA
09 Reebok–CCM Hockey Headquarters
Montreal, Quebec, Canada
10 TaylorMade Golf Co. Inc. Headquarters
Carlsbad, California, USA
11 Sports Licensed Division Headquarters
Canton, Massachusetts, USA

ASIA

12 adidas Asian Headquarters
Hong Kong, China
13 Reebok Asian Headquarters
Hong Kong, China
14 Taylor Made Golf Co. Ltd.
Tokyo, Japan
15 adidas Sourcing Ltd.
Hong Kong, China

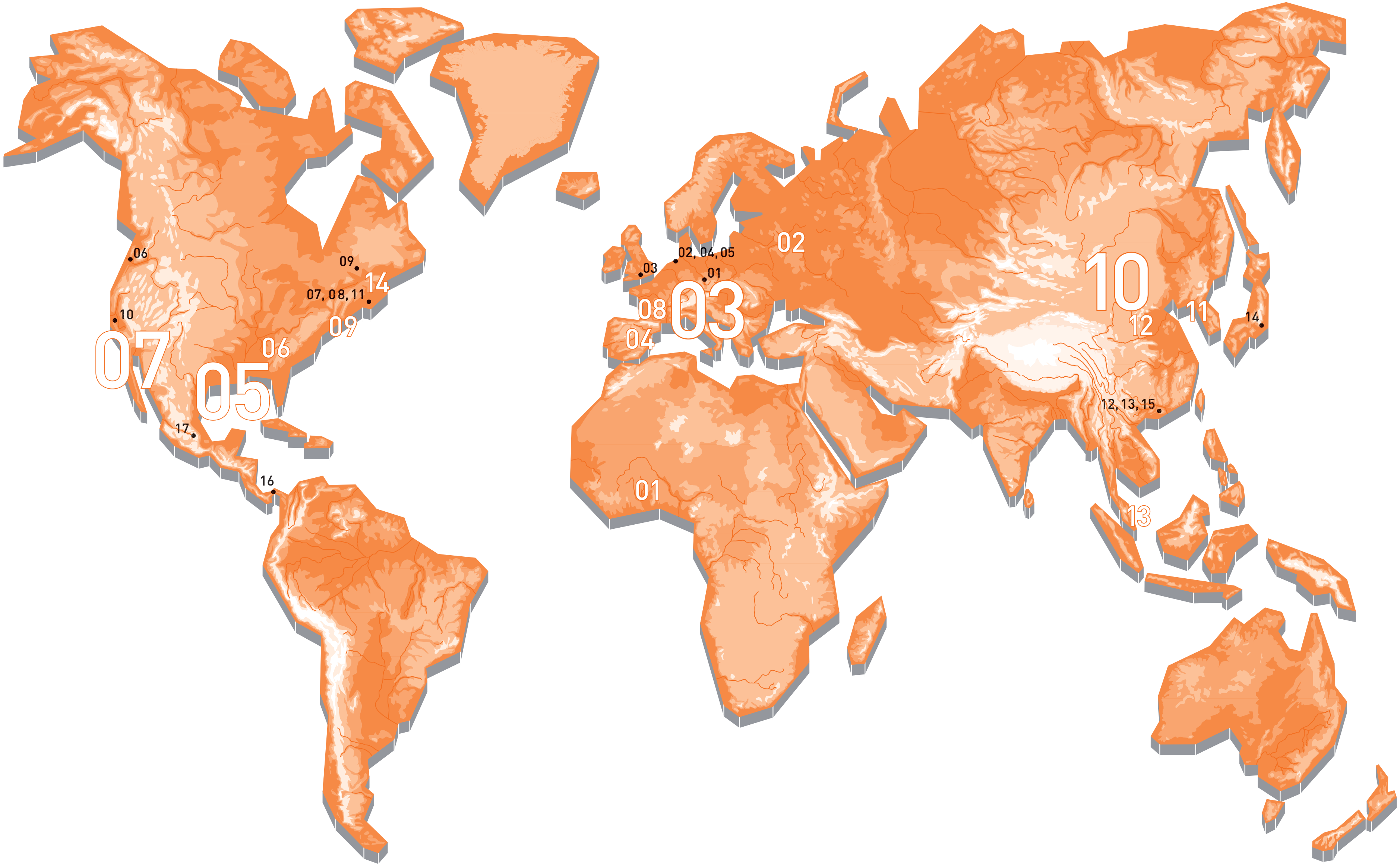
LATIN AMERICA

16 adidas Latin America S.A.
Panama City, Panama
17 Reebok de Mexico S.A. de C.V.
Naucalpan de Juarez, Mexico

For a detailed list of all adidas Group subsidiaries at December 31, 2007, see Shareholdings, p. 194.

PROMOTION PARTNERSHIPS

01 Africa Cup of Nations 2008, Ghana
adidas Official Partner of Confédération Africaine de Football
02 UEFA Champions League™ Final 2008, Moscow, Russia
adidas Official Ball Supplier for UEFA Champions League™ (football)
03 UEFA EURO 2008™, Austria and Switzerland
adidas Official Sponsor (football)
04 IAAF World Indoor Championships in Athletics, Valencia, Spain
adidas and Reebok Official Partners of majority of federations including France, Great Britain and Spain
05 NBA All-Star Game 2008, New Orleans, USA
adidas Official Outfitter of National Basketball Association
06 NHL All-Star Game 2008, Atlanta, USA
Reebok-CCM Hockey Exclusive Licensee of National Hockey League
07 NFL Super Bowl 2008, Phoenix, USA
Reebok Official Outfitter of National Football League
08 French Open 2008, Paris, France
adidas Official Partner of Roland Garros (tennis)
09 MLB All-Star Game, New York, USA
Reebok Official Licensee of MLB fan and lifestyle apparel and MLB Official Authentic Collection Footwear Supplier
10 Olympic Games 2008, Beijing, China
adidas Official Sportswear Partner
11 Seoul International Marathon 2008, Seoul, South Korea
adidas Official Title Sponsor
12 NBA China Games 2008, Guangzhou and Beijing, China
adidas Official Sponsor
13 Singapore Marathon 2008, Singapore, Republic of Singapore
adidas Official Sponsor
14 Boston Marathon 2008, Boston, USA
adidas Official Apparel and Footwear Outfitter



SPORT IS GLOBAL. SPORT IS VARIETY.
SPORT BRINGS THE WORLD TOGETHER. ATHLETES. FANS.
DIFFERENT CULTURES. DIFFERENT GOALS.

-UNITED BY SPORT-

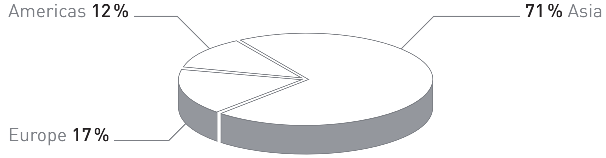
GLOBAL OPERATIONS The adidas Group's Global Operations function coordinates the development, commercialization, manufacturing and distribution of the majority of our products and leads the Group's efforts in supply chain improvement. Our products are almost entirely manufactured by independent suppliers, primarily located in Asia. Global Operations continually strives to increase cost efficiency throughout our supply chain, to ensure consistently high product quality and to further improve our delivery performance. With the integration of Reebok, we have already generated significant cost savings by leveraging our increased buying power, consolidating logistics and warehousing and sharing best practices across our supply chain.

VAST MAJORITY OF PRODUCTION OUTSOURCED To minimize production costs, we outsource over 95% of production to independent third-party manufacturers, primarily located in Asia. These suppliers possess excellent expertise in cost-efficient mass production of footwear, apparel and accessories. We provide them with detailed specifications for production and delivery. However, our Group also operates own production and assembly sites in Germany (1), Sweden (1), Finland (1), the USA (4), Canada (5), China (1) and Japan (1). In order to ensure the high quality consumers expect from our products, we enforce strict control and inspection procedures at our suppliers and in our own factories. In addition, we promote adherence to social and environmental standards throughout our supply chain. see Sustainability, p. 065

OVER 350 INDEPENDENT MANUFACTURING PARTNERS In 2007, Global Operations worked with 377 independent manufacturing partners. This represents a 31% decline from the 2006 number of 547 due to a planned consolidation in the supply base and Reebok's apparel build-up program. This number excludes local sourcing partners of Group subsidiaries, sourcing agents, subcontractors, second tier suppliers and factories of our licensees. Of our independent manufacturing partners, 71% were located in Asia, 17% were located in Europe and 12% in the Americas. 28% of all suppliers were located in China.

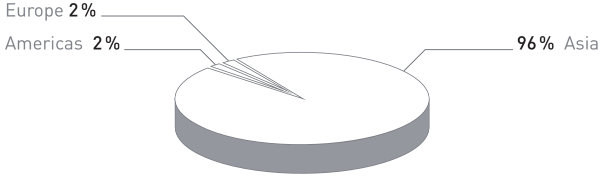
Our Global Operations function manages product development, commercialization and distribution and also supervises sourcing of the adidas, Reebok and adidas Golf brands. Due to different sourcing requirements in their respective fields of business, Rockport, Reebok-CCM Hockey, the Sports Licensed Division and TaylorMade are not serviced through Global Operations but instead utilize own purchasing organizations. In order to quickly seize short-term opportunities in their local market or react to trade regulations, Group subsidiaries may also source from local suppliers outside the realm of Global Operations. Local purchases, however, account only for a minor portion of the Group's total sourcing volume.

SUPPLIERS BY REGION [1]



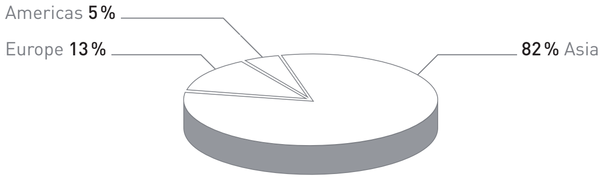
1) Figures include adidas, Reebok and adidas Golf suppliers, but exclude local sourcing partners, sourcing agents, subcontractors, second tier suppliers and licensee factories.

FOOTWEAR PRODUCTION BY REGION [1]



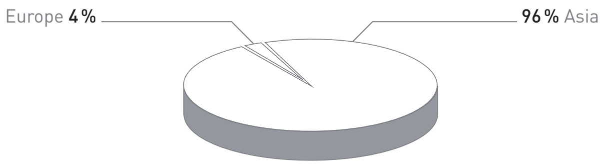
1) Figures only include adidas, Reebok and adidas Golf brands.

APPAREL PRODUCTION BY REGION [1]



1) Figures only include adidas, Reebok and adidas Golf brands.

HARDWARE PRODUCTION BY REGION [1]



1) Figures only include adidas and Reebok brands.

ASIA DOMINATES FOOTWEAR PRODUCTION 96 % of our total 2007 footwear volume for adidas, Reebok and adidas Golf was produced in this region (2006: 97 %). Production in Europe and the Americas combined accounted for 4 % of the sourcing volume (2006: 3 %). China represents our largest source country with approximately 49 % of the total volume, followed by Vietnam with 28 % and Indonesia with 16 %. The only significant change versus the prior year was a 3 percentage point decline in Indonesia due to the closure of three factories in the fourth quarter of 2006, which had manufactured Reebok footwear. In 2007, our footwear suppliers produced approximately 201 million pairs of shoes (2006: approx. 200 million pairs). The year-over-year increase was solely attributable to a higher sourcing volume at adidas while footwear purchases at Reebok declined. Our largest footwear factory produced approximately 11 % of the footwear sourcing volume (2006: 11 %).

Rockport purchased approximately 11 million pairs of footwear in 2007, which represents an increase of 5 % versus the prior year. Products were primarily sourced from factories in China (81 %), Vietnam (11 %) and Indonesia (6 %). The largest factory accounted for 30 % of the total sourcing volume of the Rockport brand.

PORTION OF ASIAN-PRODUCED APPAREL GROWS STRONGLY In 2007, we sourced 82 % of the total apparel volume for adidas, Reebok and adidas Golf from Asia (2006: 76 %). The higher proportion of Asian-sourced apparel was attributable to continued sales growth in Asia, which in turn required higher sourcing volumes from the region. Europe remained the second largest apparel sourcing region, representing 13 % of the volume (2006: 16 %). The Americas accounted for 5 % of the volume (2006: 8 %). China was the largest source country, representing 32 % of the produced volume, followed by Thailand with 13 % and Indonesia with 11 %. In total, our suppliers produced approximately 252 million units of apparel in 2007 (2006: approx. 225 million units). The largest apparel factory produced approximately 12 % of this apparel volume in 2007 (2006: 8 %). In addition, Reebok-CCM Hockey sourced around 2 million units of apparel (primarily hockey jerseys) in 2007. The vast majority of this volume was also produced in Asia, while small portions were sourced from the Americas (particularly Canada) and Europe.

The Sports Licensed Division sourced approximately 21 million units of apparel and 18 million units of headwear (2006: 24 million and 18 million, respectively). The majority of purchased apparel products were sourced as unfinished goods from Central America (67 %) and Asia (21 %), and were subsequently finished in our own screenprinting facilities in the USA. On the other hand, the majority of headwear sourced was finished products manufactured predominately in Asia (79 %) and the USA (20 %).

LION'S SHARE OF HARDWARE PRODUCED IN ASIA In 2007, the bulk (i.e. 96 %) of adidas and Reebok branded hardware products, such as balls and bags, was also produced in Asia (2006: 97 %). China remained our largest source country, accounting for 65 % of the sourced volume, followed by Vietnam with 17 % and Pakistan with 13 %. The remaining 5 % was sourced via other Asian and European countries. The total 2007 hardware sourcing volume was approximately 39 million units (2006: approximately 37 million units) with the largest factory accounting for 28 % of production.

TaylorMade and Reebok-CCM Hockey sourced 92 % and 98 % of their hardware volumes from Asia, respectively. In addition, both brands sourced a small portion of hardware products in the Americas. At TaylorMade, the majority of golf club components were manufactured by suppliers in China and assembled by TaylorMade in the USA, China and Japan.

BEING CLOSEST TO EVERY CONSUMER All efforts of our Global Operations team revolve around the vision to be *closest to every consumer*. This means meeting consumer demand in various distribution channels with the right product (in terms of quality, size, color, style and material) in the right store at the right time. In addition, it means quickly replenishing fast-selling products at retail by sharing real-time customer sell-through data with our suppliers. Being *closest to every consumer* enables the Group to achieve:

- Higher sales by consistently providing those products at retail where consumer demand is high.

- Higher gross and operating margins as well as lower Group inventory levels due to lower product markdowns and faster sell-throughs.

FOCUS ON FIVE INITIATIVES Global Operations is focusing on five key initiatives to optimize processes in our supply chain:

- *Replenishment:* Providing high availability of product to our customers while minimizing our inventory of finished goods.
- *End-to-End Profitability:* Identifying our key cost and profitability drivers and their interrelationships to optimize decision-making.
- *Adaptive Supply Network:* Enhancing the flexibility of both our sourcing and logistics functions to address quick-changing market needs.
- *End-to-End Planning:* Fundamentally challenging and optimizing our Group-wide demand and supply planning processes to create more efficient, transparent and cross-functionally interlinked processes.
- *Accelerated Creation-to-Shelf:* Building capabilities and technology that drive faster and more efficient product creation to enhance the Group's top- and bottom-line growth.

ADVANCEMENTS WITH ALL INITIATIVES In 2007, we made first steps in all five areas. We started utilizing real-time sell-through data on a Stock Keeping Unit (SKU) level to determine replenishment needs at adidas own-retail stores in Europe. This helped us identify additional sales potential and reduce overall markdowns. As part of our End-to-End Profitability initiative, we developed a profitability simulation model that incorporates product creation and delivery costs (i. e. total cost perspective) to support decision-making in sourcing and transportation. With respect to the Adaptive Supply Network initiative, we made significant progress in warehousing and launched several IT projects to improve speed and flexibility in our supply chain. During the year, we also started our End-to-End Planning initiative with new demand and supply planning concepts.

Within the scope of the Accelerated Creation-to-Shelf initiative, we implemented 6- and 13-month concept-to-shelf processes (i. e. all activities from the first product sketch to the final delivery to retailers) to support newly introduced business models at brand adidas. 30 % of the fall / winter 2008 product range was placed on those quicker timelines. In addition, for the first time we used virtual product prototypes to accelerate our product review process and reducing sampling costs.

SUCCESSFUL COMPLETION OF "WORLD CLASS BUYER" PROGRAM In 2007, we were able to realize significant benefits as a result of our "World Class Buyer" program. The objective of this program was to maximize purchasing leverage across the adidas and Reebok brands. During the year, we finalized the implementation of a standardized costing framework for both brands in footwear and made significant progress with the roll-out of a similar framework in apparel. As a result, we generated cost synergies at both brands. see Income Statement, p. 080

FURTHER INTEGRATION BENEFITS IN LOGISTICS In 2007, we achieved significant synergies in freight and transportation costs as a result of the harmonization of our global service provider network. We also made major headway in warehouse integration. In the UK, construction of our new central distribution center for the adidas and Reebok brands in Manchester was completed in December. Operations are planned to commence in the first half of 2008, so we expect to see the first cost savings materialize in 2008. Also, construction work for our two new central US distribution centers in Spartanburg, South Carolina, began in 2007. We expect to start operating our US apparel distribution center in the fourth quarter of 2008 and our US footwear warehouse a year later. These two new facilities will replace five existing adidas and Reebok warehouses.

FIRST SUCCESS IN REEBOK APPAREL BUILD-UP In 2007, we stepped up our efforts to establish an in-house apparel organization for the Reebok brand. On the sourcing side, we phased out Reebok's former sourcing agents. This means that we will source Reebok apparel solely through our own supply base utilizing the established network of the adidas brand. Reebok also developed its first full apparel collection (spring / summer 2008) in the new organizational set-up following adidas best practice processes. In the coming years, we will focus on further improving Reebok's apparel processes to achieve performance levels in line with the adidas brand.

PROGRESSIVE RAMP-UP OF "WORLD CLASS SUPPLY CHAIN" AT BRAND ADIDAS In 2005, we started our "World Class Supply Chain" initiative to optimize adidas' product offering, to best attack market opportunities and to improve profitability. In 2007, we further extended its global footprint by implementing the *brand model* to all markets globally. The *brand model* delivers adidas brand concepts (e. g. adiSTAR, TECHFIT™, Predator®) to all markets globally with first priority in our supply chain, communications support and retail execution. The *evergreen model* provides short lead time and never-out-of-stock capabilities for our most commercial long-lifecycle products (e. g. basic apparel lines) through continuous replenishment.

In 2007, we also launched the *quick response* and *global / regional models*. The *quick response model* allows us to seize additional market opportunities with six-month concept-to-shelf processes. We also put in place a customization business model for "mi adidas", which is being extended to customized football team wear. Under our *global / regional model*, we have established four product creation centers around the globe to ensure that we have the right mix between global consistency and regional specifics to best address consumer needs in the respective markets. Together, these four business models give the adidas brand a competitive advantage to service a diverse set of market needs in a more relevant and specific way.

SUSTAINABILITY The adidas Group must manage wide-ranging commercial and competitive pressures to deliver growth. Simultaneously, we have a responsibility towards our employees and the environment, to ensure that decent working conditions and environmental standards are met throughout our global organization and supply chain. We always strive to manage both our own activities and our supply chain responsibly and to reduce our environmental impact. Moreover, we believe that acting as good corporate citizens will improve our corporate reputation and hence our economic value, helping us to be a sustainable company.

ACTIVE ENGAGEMENT WITH STAKEHOLDERS At the adidas Group, we pursue a policy of open dialog with our numerous stakeholders. We actively and systematically engage with them, involving them in key social and environmental decisions that shape our day-to-day operations. Through our membership in organizations such as the World Business Council for Sustainable Development (WBCSD), the World Federation of the Sporting Goods Industry (WFSGI), the Fair Factories Clearinghouse (FFC) and the Fair Labor Association (FLA), we work closely with top companies from a variety of sectors to develop sustainable business approaches and to debate social and environmental topics on a global level. In addition, we always strive to report in an open and transparent way. Comprehensive information on the Group's social and environmental programs is provided in our 2007 Social and Environmental Report and on our website. www.adidas-Group.com/sustainability

WORKPLACE STANDARDS SET RULES IN SUPPLY CHAIN

Following the acquisition of Reebok, we combined the best of both companies' previous social and environmental programs and created a new Group-wide set of Workplace Standards for our supply chain. These are based on International Labour Organization (ILO) and UN conventions relating to human rights and employment practices, and they follow the WFSGI model code of conduct. Our Workplace Standards contain clear rules of conduct regarding:

- Environmentally sound, safe and healthy working conditions
- Fair wages and benefits
- Freedom of association
- Prohibition of excessive overtime, forced and child labor
- Protection against harassment and discrimination

These Standards help us select manufacturing partners and serve as guiding principles in the early identification and treatment of potential issues of concern at our suppliers' sites. To illustrate how suppliers should implement our Standards, we have created a set of guidelines for use in factory settings, which we update on a regular basis. Currently, we have six guidelines (complemented by specific supplementary materials) covering the following areas:

- Health, Safety and Environment (HSE)
- Employment Standards
- Best Environmental Practice
- Worker Cooperatives
- Enforcement of Workplace Standards
- Sustainable Compliance

The guidelines are also used by our Social and Environmental Affairs (SEA) team to determine suppliers' compliance with our Standards and to advise and train our suppliers in improving their social and environmental performance.

WARNING-LETTER SYSTEM TO ENFORCE STANDARDS In the event of a violation of the adidas Group's Workplace Standards, we immediately undertake all necessary steps to remedy the situation. Our internal monitors work closely with factory management to develop concrete action plans with remediation deadlines.

When we find ongoing and serious instances of non-compliance and a lack of commitment from factory management to address the issues, we issue a first formal warning letter including a notification to factory management that their business relationship with the adidas Group is in jeopardy. A second warning letter is issued when adequate improvements have not been made within agreed timelines. After the second warning, if the supplier has still failed to initiate appropriate action to remedy the situation, a third and final warning letter will be sent. On any given issue, failure to respond appropriately to the third warning letter usually results in a termination of the business relationship.

In the event of continuous non-compliance, we see termination of the business relationship as a last resort. Whenever possible, however, we prefer to stay in partnership and to work from the inside to help encourage factory improvements. In 2007, we terminated our business relationship with four suppliers for compliance reasons.

CAREFUL SUPPLIER SELECTION To improve working conditions throughout our supply chain, our Group SEA team works closely with the Global Operations function on supplier selection. The SEA team assesses all potential new suppliers and orders can only be placed with a new supplier when SEA approval has been granted.

ENCOURAGING SELF-GOVERNANCE THROUGH MANAGEMENT SYSTEM SUPPORT Good management systems help factories improve their day-to-day operations and support the process of internalization and self-governance. Therefore, we support our business partners in establishing management systems with internationally recognized standards such as ISO (International Standardization Organization) 14001 for quality and environmental management and OHSAS (Occupational Health and Safety Assessment Series) 18001. By running a certified management system, our suppliers demonstrate their commitment to continuously enhancing their performance. We help them build or improve human resources systems to maintain proper working conditions, including factory grievance systems to routinely find and fix non-compliance problems. Further, by enforcing employment standards at our suppliers' sites, we empower workers to protect their own rights and take an active role in decision-making. In 2007, our Group's supply base included 22 athletic footwear suppliers' factories worldwide, which were OHSAS 18000 and / or ISO 14001 certified. These suppliers produced around 75 % of our footwear sourcing volume.

TAILORED TRAINING TO ACHIEVE SUSTAINABLE COMPLIANCE To achieve long-term sustainable compliance, we consider training even more important than monitoring and policing factories. Our SEA team offers specific training courses for supervisors and managers to help them apply our Standards. Further, we promote the establishment of sustainable structures that actively involve workers and management of our suppliers as well as local employee associations and non-governmental organizations (NGOs). In this way, acceptable working conditions become a routine part of business activities. In 2007, the SEA team conducted 267 training sessions and workshops for suppliers, licensees, workers and adidas Group employees (2006: 173).

INTERNAL MONITORING THROUGH FACTORY INSPECTIONS
The SEA team assesses compliance with the Workplace Standards by means of factory inspections. We apply innovative monitoring approaches such as deeper and more frequent monitoring than in previous years of fewer suppliers in our core supply chain than in the past. This allows us to rigorously assess compliance risks and to identify the root causes of non-compliance. Our auditors check performance against a customized risk list for each factory that is monitored. The methodology is linked to a factory rating which measures the effectiveness of compliance systems and the work of their administrators. This enables us to precisely determine training needs at our suppliers' factories. The SEA team also acts as a change agent, advising our manufacturing partners how to correct instances of non-compliance and how to prevent future non-compliance. During 2007, we conducted 1,007 factory visits involving management and worker interviews, document review, facility inspections and trainings at different levels in our supply chain (2006: 1,101 visits).

EXTERNAL INDEPENDENT ASSESSMENT UNDERLINES CREDIBILITY OF SEA PROGRAM In addition to internal monitoring, we value independent assessment by third parties to demonstrate the credibility of and provide verified information about our program to stakeholders. In 1999, we joined the FLA, a non-profit multi-stakeholder coalition of private corporations, NGOs and universities. As a member, the adidas Group is subject to external assessment by independent monitors, participation in the FLA third-party complaint system and public reporting. The FLA publishes an annual report that includes a transparent evaluation system for the results of participating companies. Following extensive reviews, the FLA accredited the individual monitoring programs of both adidas (in 2005) and Reebok (in 2004). In 2007, the adidas Group as a combined entity assumed the role as the FLA participating company. The next FLA evaluation and program re-accreditation of the entire adidas Group monitoring program is scheduled for 2008. Since joining the FLA, more than 200 Independent External Monitoring (IEM) audits and verification visits have been conducted at adidas Group suppliers. In 2007, external FLA-accredited independent monitors conducted 12 monitoring audits (2006: 35) and 3 independent external verification visits (2006: 8).

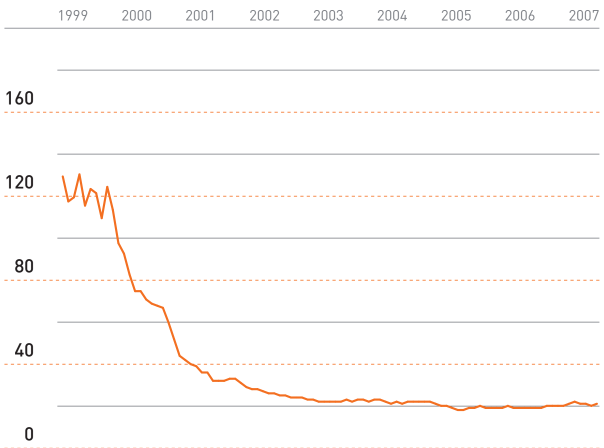
NUMBER OF FACTORY VISITS / AUDITS

	Internal	FLA
2003 [1]	906	13
2004 [1]	954	12
2005 [1]	916	14
2006 [2]	1,101	43
2007 [2]	**1,007**	**15**

1) Including Salomon business segment.
2) Including Reebok business segment.

VOC CONSUMPTION [1]

in grams per pair of shoes produced



1) At year-end.

SYSTEM-BASED APPROACH TO MANAGE ENVIRONMENTAL IMPACTS We have adopted a system-based approach to managing environmental impacts in our own production facilities and throughout our supply chain. Activities focus on helping suppliers establish sound environmental management systems to best reduce their negative environmental impacts.

We develop guidelines and training programs for our suppliers using the environmental performance of our own production sites as examples of best practice. We have mandated the implementation of environmental management systems at our core suppliers to ensure continuous monitoring and improvements. In our product creation process, we focus on improving materials in our products and on tackling pollution in factories. Our goal is to eliminate polluting materials and processes and to increasingly utilize sustainable materials instead. To achieve this goal we have several key initiatives in place such as controlling and monitoring restricted substances and reducing emissions of Volatile Organic Compounds (VOCs).

CONTROL AND MONITORING OF RESTRICTED SUBSTANCES Restricted substances are those that cause harm or are suspected to cause harm to human health or the environment. Our suppliers are required to avoid using restricted substances. We have specified clear standards that follow the strictest local regulations and best practice standards for consumer care and safety in the Group's policy for monitoring and control of hazardous substances. This policy is mandatory for all business partners and is updated regularly based on findings in our ongoing dialog with scientific organizations. Our standards cover the general requirements for eco-labels and green seals (e.g. ÖKO-Tex Standard 100, Tox Proof TUV Rhineland, etc.) for footwear, apparel and hardware products. Both our own quality assurance laboratories and external testing institutes are used to constantly monitor material samples to ensure supplier compliance with these requirements. Materials that do not meet our standards and specifications are rejected.

REDUCING VOC EMISSIONS Volatile Organic Compounds (VOCs), which are typically found in solvents used in our manufacturing process, can cause breathing difficulties and other health problems for production workers. Therefore, we are committed to reducing VOC emissions in our suppliers' footwear factories. Our efforts focus on nearly all new adidas Group footwear factories and reflect the technical synergies of sharing information, data and sources on production questions such as water-based cement systems. At our core footwear suppliers we measure the exposure and the records taken provide evidence that workers are not being exposed to dangerous levels of VOCs. Nonetheless, we remain committed to further reducing emissions. In recent years, we have made significant progress. Our athletic footwear suppliers in Asia and Europe have reduced VOC emissions from 140 grams per pair in 2000 to 20.3 grams per pair in 2007. Our target is an average VOC emission of 20 grams / pair of shoes.

STRONG SUSTAINABILITY TRACK RECORD REFLECTED IN INDEX MEMBERSHIPS We appreciate positive recognition from international institutions and rating agencies, NGOs and socially responsible investment analysts. They evaluate our efforts through in-depth analysis of our social and environmental program, including document review as well as interviews with employees and management. As a result, adidas AG has been included in a variety of high-profile sustainability indexes. see Our Share, p. 036

02

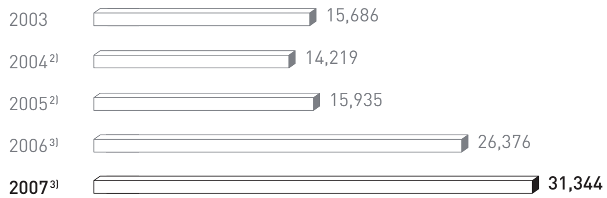
EMPLOYEES At the adidas Group, we know that our people are crucial to our success. Becoming the global leader in the sporting goods industry depends on the performance, potential, enthusiasm and dedication of our employees. We promote a performance culture and therefore link employee compensation to Group and individual achievements. We aim to develop our employees with opportunities for career progression, while striving to promote a culture that celebrates our diversity and promotes global mobility.

EXPANSION OF GLOBAL EMPLOYEE BASE CONTINUES On December 31, 2007, the Group had 31,344 employees, which represents an increase of 19 % versus the previous year's level of 26,376. This development is primarily related to new employees in the adidas segment in emerging markets as well as own-retail activities. Personnel expenses increased 18 % to € 1.279 billion in 2007 from € 1.087 billion in 2006, see Note 25, p. 184 representing 30 % of the Group's total operating expenses (2006: 29 %) and 12 % of Group sales (2006: 11 %).

ADIDAS SEGMENT DRIVES EMPLOYEE GROWTH The development of our employee numbers varied significantly from a brand perspective. The number of employees at the adidas brand increased 25 % to 18,678 at the end of 2007 (2006: 14,906), mainly driven by the brand's strong expansion, especially in own retail and in the emerging markets of Eastern Europe (e. g. Russia), Asia and Latin America. Staff at Reebok declined 11 %, attributable to a shift in the workforce to the Group functions and adidas brand as well as the elimination of duplicative positions. Hence, the Reebok segment comprised 6,751 employees at year-end (2006: 7,545). At TaylorMade-adidas Golf, the number of employees increased by 2 % to 1,393 (2006: 1,368). The number of employees working in our Group functions increased sharply by 77 % to 4,522 (2006: 2,552). The main reason for this development was the expansion of the Sports Licensed Division to a cross-brand corporate license department, including licensed products from brand adidas (e. g. NBA jerseys) and Reebok (e. g. NHL and NFL jerseys). Excluding this effect, employment within our Group functions increased 23 %.

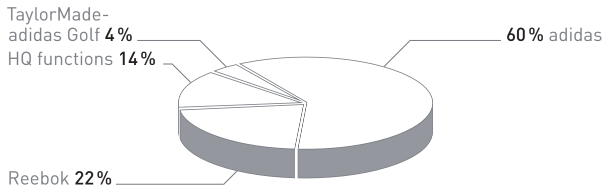
GLOBAL MOBILITY ACTIVELY PROMOTED Our employees work at more than 150 locations around the world. We actively encourage global mobility and offer our employees the opportunity to go on international assignments. At the end of 2007, 47 % of our staff was employed in Europe (2006: 42 %), 31 % in North America (2006: 35 %), 18 % in Asia (2006: 19 %) and 4 % in Latin America (2006: 4 %). To support relocating professionals and their families in new living and working environments, we provide, for example, relevant language and cultural training.

NUMBER OF EMPLOYEES [1]

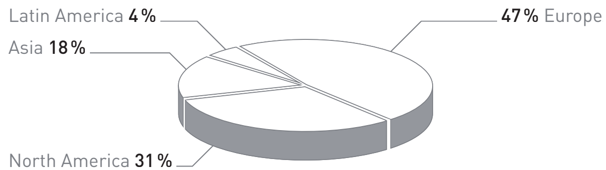


1) At year-end.
2) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Including Reebok business.

EMPLOYEES BY SEGMENT



EMPLOYEES BY REGION



EMPLOYEES BY FUNCTION

in %

	2007	2006
Own retail	41	29
Sales	14	21
Logistics	15	16
Marketing	9	10
Central functions and administration	9	10
Production	6	7
Research and development	3	4
IT	3	3
Total	**31,344**	26,376

DIVERSITY A KEY SUCCESS FACTOR Diversity is one of our Group's strengths and core values. see Inside Cover We believe that the diversity of our workforce helps us to sustain a competitive advantage. Therefore, we are committed to understanding, valuing and incorporating the growing diversity of our global marketplace into the corporate culture of the adidas Group. As part of our training and development program, for example, we offer specific modules on diversity management. This helps us to ensure organizational success and stability. The high degree of diversity is also reflected in our workforce that comprises men and women of various nationalities, cultures, religions and races, who encompass a wide range of experience, skills and mentalities. At our corporate headquarters, for example, we have employees from around 50 countries.

THREE-PILLAR HUMAN RESOURCES STRATEGY Our Human Resources activities focus on the implementation and execution of our Group's Human Resources strategy, which is based on three pillars:

- Creating a working environment that stimulates team spirit, passion, engagement and achievement
- Expanding our performance culture based upon strong leadership
- Being an "Employer of Choice"

As a result, Human Resources closely interacts with our operational teams on a Group, brand, regional and divisional level. In 2007, focus areas included the harmonization of policies and standards across the Group and the further integration of Reebok. Human Resources held, for example, two "collaboration workshops" in Asia and designed specific cross-brand leadership programs to promote respect and support between employees of our different brands. We also established a new Group-wide competency model that defines the required competencies for executive, management and professional employees.

LEARNING ORGANIZATION ENGAGES EMPLOYEES A key concept that drives our Human Resources management is employee engagement. To be a successful company, employee engagement is paramount as we believe that only engaged employees are satisfied and committed. We regularly conduct engagement surveys, to offer our employees the opportunity to give feedback to Group and brand management. Via our global intranet, we offer our employees the opportunity to exchange ideas directly with senior management and raise questions (through our "Ask the Management" application). Furthermore, we regularly hold all-employee meetings at our locations around the world, where our staff have the opportunity to openly share their views with senior management. In this sense, employee engagement helps us broaden the knowledge base across our organization and supports our pursuit of continuous improvement in a timely and cost-efficient way. In 2008, we plan to implement a new online platform for employees to raise suggestions on how to improve internal processes and contribute their ideas for innovative technologies, designs or product concepts. To further promote employee participation, we will run competitions for the top ideas that are implemented, including awards for those employees who come up with the most beneficial suggestions.

KEY EMPLOYEE STATISTICS

		adidas	Reebok	TaylorMade-adidas Golf	Total
Total employees (in %)	Male	52	54	68	**52**
	Female	48	46	32	**48**
Management positions (in %)	Male	67	77	84	**70**
	Female	33	23	16	**30**
Average age of employees (in years)[1]		29.6	28.9	36.6	**30.8**
Annual average length of service (in years)		3.6	3.5	5.0	**4.0**
Annual training hours by employee		16.1	8.1	4.5	**12.4**

1) At year-end.

CONSTANTLY INCREASING ATTRACTIVENESS To become and remain an "Employer of Choice", we strive to consistently enhance our employer branding. Our attractiveness as an employer is clearly shown by several external rankings. We ranked fifth of the 100 most attractive employers for business students according to "The European Student Barometer 2007" – the largest survey conducted among university students across 18 European countries. In China, we were included among the top employers in the Shanghai region in 2007 by CRF (Corporate Research Foundation), which is just one example of our particular attractiveness in emerging markets.

CENTRALIZED RECRUITING APPROACH IMPROVES HIRING PROCESS To benefit from our excellent reputation, we not only need to attract but also to recruit high potentials. In 2006, we established a new strategic recruiting and employer branding competence center for the Group in order to have access to the best suitable talent on a global scale. In 2007, we extended this focus by assembling an executive recruitment team that focusses on identifying and building relationships with executive level candidates. Further, we rolled out a global e-recruiting system that covers more than 20 countries and features job information in the respective local languages. Our centralized approach and the new e-recruiting system are helping us to better take advantage of global candidate pools and increase the efficiency, effectiveness and speed of our recruitment process. Over the next two years, we will extend and optimize our e-recruiting system and launch a new employer branding campaign.

NURTURING EMERGING EMPLOYEES We strive to provide our emerging employees (i. e. apprentices, interns and trainees) with the best possible environment when joining our workforce. To achieve this goal, we have established clearly defined and targeted programs.

- Our apprenticeship programs offer young people who want to join our Group straight out of high school the opportunity to gain relevant business experience in a three-year rotation program. These programs include vocational training in retail, industrial management and IT as well as integrated study programs. At the end of 2007, we employed 45 apprentices in Germany (2006: 46).

- Our global internship program provides students with challenging and interesting four to six months' work experience within the adidas Group. For "best-of-class" interns, we initiated a "Re-Bound" Program to remain in close contact with them after they have finished their original internship and foster potential future employment. At the end of 2007, we employed 189 interns in Germany (2006: 142).

- Our 12- to 18-month functional trainee program (FTP) gives graduates with international backgrounds and excellent educational credentials the opportunity to start their career with the adidas Group. The program comprises six three-month assignments in varying departments. At least one of these assignments takes place abroad. On top of this functional program, we have implemented an international cross-functional and cross-brand business management program (BMP). With this concept we want to attract professionals with MBA degrees and three to five years' work experience to prepare them for future management positions within our Group. At year-end 2007, we employed 23 participants (2006: 22) in our FTP and 7 (2006: 3) in the BMP.

EMPLOYEE DEVELOPMENT BASED ON THREE SUCCESS DRIVERS Just like athletes, our Group's employees need a training plan to build on their strengths, improve their technique and overcome their own challenges on the way to reach their goals. Our Group's employee development program incorporates behavioral, managerial, technical and language training for different target groups. We base our training efforts on three success drivers:

- *Leadership Excellence:* All members of senior and middle management are encouraged to instill a performance culture in our teams by acting as role models.

- *Performance Management:* Through our global PEP (Performance Evaluation and Planning) tool we not only measure our employees' job performance but also set individual business targets and plan training and development activities. We offer targeted support (e. g. basic skill training in team development or business coaching) for both individual and team performance improvement.

- *Talent Management:* With specifically designed talent management tools and processes, we identify employees at all levels who have the potential to become leaders in our organization. In order to prepare them for new and more complex future roles, they participate in targeted development programs for various levels within the organization.

In 2007, we intensified our activities in performance and talent management. We enhanced our Group-wide PEP system, to focus more on performance evaluation and career development. Further, we introduced a new Advanced Management Training program for employees at a department head position or higher. The program's goal is to enable them to continually improve their skills in change management, strategic thinking, team leadership and coaching.

PERFORMANCE AT THE CORE OF REMUNERATION SYSTEM We are committed to rewarding our employees with effective compensation and benefit programs that are competitive in the marketplace. Remuneration throughout the Group comprises fixed and variable monetary compensation, non-monetary rewards, as well as other intangible benefits. The cornerstone of our rewards program is our Global Salary Management System (GSMS). It is used as a basis to set the value of employees' positions and salaries in a clear, market-driven and performance-oriented way. GSMS provides the global framework for managing base compensation in the adidas Group and for making performance-related base salary adjustments. In addition to a fixed base salary, we also offer our employees various variable compensation components:

- *Bonus Program:* Within the adidas Group, certain employees are eligible for a bonus based on their respective job grade level as specified in GSMS. Our Group's bonus program combines individual (measured in the PEP process) and corporate performance (actual financial results measured against Group, brand, division and / or business unit targets).

- *Profit Sharing:* For employees who are not eligible for the bonus program, profit sharing is used as an incentive to reward the achievement of the Group's profit target. In 2007, for example, we again paid a one-time gratification to employees in Germany.

- Additional compensation components for senior management and Executive Board members include Long-Term Incentive Programs (LTIP) and a Management Share Option Plan (MSOP). see Compensation Report, p. 030

Other benefits include our 401-K pension plans in the USA and the adidas pension plan for our employees in Germany. In 2007, 1,396 employees participated in the latter, which represents an increase of 21 % compared to the previous year. Other Group subsidiaries also grant a variety of additional benefits to employees depending on locally defined practices and country-specific norms such as discount allowances that provide our employees with the possibility to purchase discounted products in our own stores. In 2007, we further refined and optimized our Group's rewards programs. We completed the implementation of the Group's compensation system at Reebok and we continued to realize cost synergies (e. g. harmonization of the payroll system), particularly in the USA.

RESEARCH AND DEVELOPMENT

Being a performance leader in our industry, product innovation leadership is critical to the ongoing success of our Group. As a result, research and development (R & D) is a cornerstone for our business going forward. We invest considerable resources into continuously developing and commercializing technological innovations and fresh design ideas, in order to best unite our brands' values with the unique needs of our consumers. The research and development process is driven by internal teams of designers, product developers as well as in-house experts from the fields of biomechanics, materials technology, product and process engineering, design and similar disciplines.

AMBITIOUS R & D TARGETS Research and development is crucial for our Group's success as we continuously strive to meet and exceed the expectations of our consumers and customers with respect to technology and design. Numerous awards for our innovative products are proof of our technology leadership within our industry. These awards are important for our Group as they demonstrate our innovation leadership in footwear and apparel to consumers. Our Group's commitment to bringing at least one new revolutionary technology or ground-breaking evolution to the market each year highlights that research and development remains a cornerstone for our Group going forward. see Group Strategy, p. 044

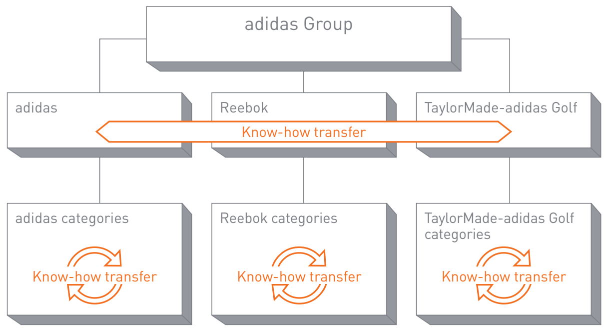
EFFICIENT R & D STRUCTURE Research and development within the adidas Group is organized in a decentralized structure, i. e. each brand separately runs its own research, design and development activities, with major locations in several countries. To maximize efficiency, our brand teams collaborate closely, sharing fundamental and biomechanical research as well as existing technologies. In 2007, we incorporated a last from a version of the adidas Predator® football boot into Reebok's new Sprintfit product. This transfer of basic football know-how highlights the type of technology sharing we strive to promote within the Group. Another example of intra-Group know-how transfer is the incorporation of adidas TORSION® technology throughout a current collection of Rockport footwear. Within our brands, R & D teams generally have a dual focus dedicated to different product categories and to new technology platforms. Cross-category technology sharing, such as the transfer of the adidas ForMotion™ technology from running to basketball at the adidas brand, the KFS technology from running to football or the Movable Weight Technology™ from metalwoods to irons at TaylorMade, helps to further optimize and commercialize our R & D efforts in an efficient way. The adidas Group also purchases a limited amount of R & D expertise from well-established research partners, in particular fundamental research.

MAJOR TECHNOLOGY-RELATED AWARDS

Won by the adidas Group in 2007

Award	Magazine	Product	Segment
Best Motion Stabilizing Shoe	Running Network US	adiSTAR Control 4 running shoe	adidas
Best Updated Shoe	Runner's World US	Supernova Cushion running shoe	adidas
Best Updated Shoe	Runner's World UK	adiSTAR Cushion 6 running shoe	adidas
Best Cushioning Shoe	Running Network US	Premier Road Cushion KFS	Reebok
Best Debut Shoe Trail Category	Runner's World US	Premier Minocqua TR	Reebok
Best Apparel Company	Golf Week	adidas Golf apparel	TaylorMade-adidas Golf

ADIDAS GROUP R & D STRUCTURE



INDUSTRY-LEADING R & D AT TAYLORMADE-ADIDAS GOLF

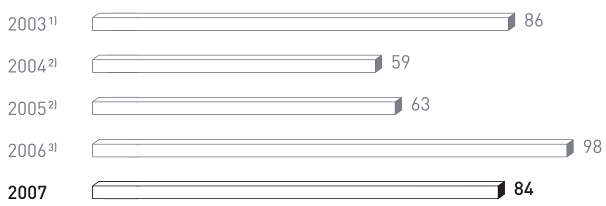
TaylorMade-adidas Golf's R & D team is focused on continually designing and developing industry-leading products. Before products are brought to market, the R & D team conducts extensive testing including frequent and thorough input from Tour professionals such as Sergio Garcia, Justin Rose or Natalie Gulbis. In addition to the segment's own R & D activities, and utilizing ait's know-how in adidas Golf footwear and apparel, TaylorMade-adidas Golf works together with external partners such as the Universities of Calgary, Canada, and Portland, USA. TaylorMade purchases external hardware expertise amounting to 7 % of the total R & D expenditure at the brand. In 2007, this included a study of all stages of a golf ball's trajectory, from impact to finish, and an ongoing analysis of the golf swing using motion analysis technology (MATT).

ACTIVE TRADEMARK AND PATENT PROTECTION POLICY

To capitalize on the Group's R & D achievements, we seek to gain trademark and patent protection for our key footwear, apparel and hardware products, technologies and innovations in all major markets. We hold registered trademark rights or have applied for trademark protection for the Group's brands and other proprietary names in most countries around the world. However, because our Group holds numerous patents we are not dependent upon any single patent or licensed technology. As part of our business policy, we rigorously defend the Group's trademarks and patents by monitoring and prosecuting infringements of our trademark and patent rights around the world. In addition, we rigorously defend our brands' innovations against counterfeiting and imitation.

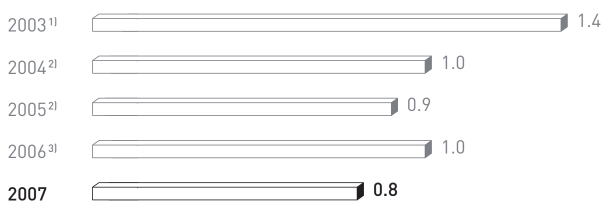
see Risk and Opportunity Report, p. 104

R & D EXPENSES
€ in millions



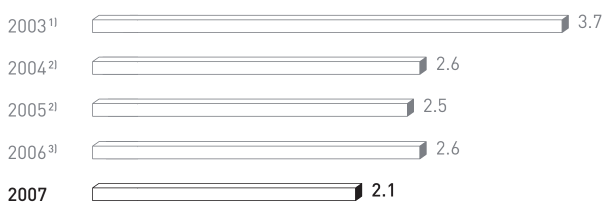
1) Including Salomon business segment, which was more research intensive due to its significant hard goods exposure.
2) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

R & D EXPENSES
in % of net sales



1) Including Salomon business segment, which was more research intensive due to its significant hard goods exposure.
2) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

R & D EXPENSES
in % of operating expenses



1) Including Salomon business segment, which was more research intensive due to its significant hard goods exposure.
2) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

EFFICIENCY IMPROVEMENTS REDUCE R & D EXPENSES

R & D costs at the adidas Group are recognized as expense in the period in which they are incurred and are not capitalized as a result of the short product lifecycles in the sporting goods industry. Efficiency improvements due to the collaboration of the adidas and Reebok product development teams led to a decrease of adidas Group R & D expenses by 14 % to € 84 million in 2007 (2006: € 98 million). In 2007, R & D expenses represented 2.1 % of total operating expenses versus 2.6 % in the prior year. R & D expenses as a percentage of sales decreased slightly to 0.8 % from 1.0 % in 2006. see Note 24, p.184 Other related expenses for product development and market research, for example, were incurred as part of the Group's other operating overheads.

HIGHLY SKILLED TECHNICAL PERSONNEL For all our brands, the success of our R & D efforts depends on bringing together a diverse and highly skilled workforce. Personnel expenses represent by far the largest portion of R & D expenses, accounting for 65 % of total R & D expenditure. At December 31, 2007, 976 people were employed in the Group's R & D activities compared to 1,040 employees in 2006 (– 6 %). This represents 3% of total Group employees (2006: 4 %). The decrease in employees was mainly driven by the elimination of duplicative R & D efforts as part of the Reebok integration into the adidas Group. The R & D departments for each brand comprise experienced teams from different areas of expertise including mechanical engineering, materials engineering, industrial design, biomechanics, finite element analysis, advanced CAD design and product development. As a result, our teams include engineers as well as experts in product development, design research and other areas.

MAJOR R & D LOCATIONS AND ACTIVITIES

	Main Activities	Location
adidas	Global Development Center (ait)	Herzogenaurach, Germany
	Global Development Center (ait)	Portland / Oregon, USA
	Global Testing Center (ait)	Scheinfeld, Germany
	Asian Design and Development Center	Shanghai, China
	Asian Product Creation Center	Tokyo, Japan
Reebok	Global Development and Testing Center	Canton / Massachusetts, USA
Reebok-CCM Hockey	Development and Testing Center	Montreal / Quebec, Canada
	Development and Testing Center	Saint-Jean-sur-Richelieu / Quebec, Canada
Rockport	Global Development and Testing Center	Canton / Massachusetts, USA
TaylorMade-adidas Golf	Global Development and Testing Center	Carlsbad/California, USA

360° R & D APPROACH AT ADIDAS R & D activities at brand adidas focus on the development of innovative footwear, apparel and hardware technologies. To solidify adidas' position as a leader in technology and innovation, the adidas Innovation Team (ait) is responsible for the ongoing development of new technologies and concepts in all key product categories. The Team is divided into groups that focus on individual product categories such as basketball, football or cross-category project areas such as Intelligent Products or Energy Management Systems (cushioning technologies).

R & D projects follow a holistic 360° approach that involves collaboration with various professional and amateur athletes in different sports categories each year such as Zinédine Zidane, Michael Ballack, Elena Isinbayeva, Allyson Felix and Jeremy Wariner. In addition, adidas works with clubs such as A. C. Milan and Bayern Munich to test and optimize products according to their needs and ideas. This approach of creating market-ready products clearly is a competitive advantage in the sporting goods industry.

In 2007, adidas collaborated with well-established global research partners such as the Sports Technology Research Group of the Universities of Loughborough and Sheffield, England, and the University of Calgary, Canada. Projects include, for example, long-term studies related to the characteristics of footballs, motion analysis in running and basketball and intelligent product solutions. In addition, adidas consults medical expert teams including doctors and physical therapists to analyze and measure the health-related impact of new innovations before commercialization. However, the amount of purchases for external R & D expertise was not a significant factor within the total adidas R & D expenses.

REEBOK R & D FOCUSED ON FIT IN 2007 Within the Reebok segment, each division runs separate R & D teams due to their heterogeneous product offerings.

- At brand Reebok, the Reebok Advanced Concepts (RAC) and Reebok Equipment teams create footwear, apparel and equipment with the primary focus on developing product that provides "a perfect fit" for the consumer based on function, aesthetics and value. In 2007, Reebok implemented 893 "fit" initiatives into product for the spring / summer 2008 collection.

- The R & D team at Reebok-CCM Hockey is dedicated to continuously creating state-of-the-art hockey equipment for both professional and recreational players.

- Rockport's R & D function is a vertically integrated organization that covers all aspects of strategy, research, design, engineering and testing, while incorporating the Group's advanced proprietary athletic footwear technologies into casual and dress shoes.

In all Reebok divisions, R & D includes a development / engineering team as well as a design and commercialization team, a human performance laboratory and a prototype sampling group with the product marketing teams in each strategic business unit. Major projects involve extensive fit, wear and materials testing to qualify and assess the durability and functionality of Reebok products. R & D expertise from well-known external parties such as the Central Michigan University or the Massachusetts Institute of Technology (MIT) is also used for specific projects. However, the amount of purchases for external R & D expertise was not a significant factor within Reebok's R & D expenses in 2007.

CONTINUOUS FLOW OF PRODUCT INNOVATION IN 2007

Developing industry-leading technologies is only one aspect of being an innovation leader. Even more important is the successful commercialization of those technological innovations. The majority of adidas Group sales in 2007 were generated with products newly introduced in the course of the year and our launch schedule for 2008 highlights a full pipeline of innovative products. see Outlook, p. 118

SUCCESSFUL PRODUCT LAUNCHES ACROSS ALL MAJOR ADIDAS CATEGORIES Brand adidas' success in 2007 was largely based on launching evolutions of existing technologies in all major categories. Products launched in 2007 accounted for 77 % of brand sales and only 6 % of total sales were generated with products introduced three or more years ago. Examples of adidas running advancements included new versions of the core adiSTAR and Supernova families featuring ForMotion™ technology as well as the next generations of the Response and BOUNCE™ running shoes. The importance of these four product families is significant as over five million products were sold from these four product families together. The positive development in the training category also benefited from the launch of adidas' most innovative functional line of performance apparel to date, adidas TECHFIT™.

SIGNIFICANT PRODUCT INNOVATION AT REEBOK IN 2007

Increasing the number of product innovations Reebok develops and commercializes each year is critical to our efforts to improve Reebok's performance orientation. At brand Reebok, 61 % of ordered footwear products were launched in 2007. Only 10 % of ordered footwear products were related to products introduced three or more years ago. Running was a key focus with the launch of several new products in 2007 such as the Trinity KFS II, PUMP Paris Trainer and HATANA running shoes. These were all part of Reebok's Premier Running Series of premium running products where the brand sold around one million pairs of footwear in 2007.

At Reebok-CCM Hockey, products launched in 2007 accounted for 58 % of sales. Only 12 % of sales were generated with products introduced at least three years ago. In apparel, Reebok-CCM Hockey launched the Rbk EDGE Uniform System™ in hockey, which was designed in collaboration with NHL teams and players. This was the first new NHL league jersey in 20 years, featuring technologically advanced materials and fabrics that are more breathable, more resistant to water absorption and offer greater range of movement. As a result, all NHL teams now wear this jersey, and we sold over 700,000 units of this product in 2007. Due to the different business model for the Rockport brand with a larger focus on non-athletic styles, the impact from new styles is significantly lower. As a result, products launched in 2007 accounted for 50 % of sales. Less than 20 % of total sales were generated with products introduced more than three years ago.

INNOVATION CONTINUES AS KEY SUCCESS FACTOR FOR TAYLORMADE-ADIDAS GOLF In the TaylorMade-adidas Golf segment, current products (i. e. products launched in the last 18 months, which is the typical product lifecycle in golf) represented 75 % of total hardware sales. Products that had been brought to market three or more years ago accounted for only 1 %. Major innovations were the r7® SuperQuad drivers and the Burner® family of metalwoods, which now represent around 45 % of TaylorMade's total metalwood offering. adidas Golf successfully launched a new performance shoe, the POWERBAND, which incorporates three sophisticated adidas Golf technologies, and the TOUR360 II, a new version of the successful TOUR360. These innovative products accounted for around 40 % of adidas Golf footwear sales in 2007. The Clima concept was further extended to shorts and pants in adidas Golf apparel as well as in several launches in the women's category and is now included in around 90 % of adidas Golf apparel products.

MAJOR 2007 PRODUCT LAUNCHES

Products	Segment
adiSTAR ForMotion™ Control and Cushion running shoes	adidas
MEGABOUNCE running shoe	adidas
adidas TECHFIT™ POWERWEB running and training apparel	adidas
Stella McCartney "Gym / Yoga" apparel collection	adidas
adilibria and Fuse women's training apparel collections	adidas
Team Signature basketball shoe collection	adidas
Predator® PowerSwerve football boot	adidas
adiPure football boot	adidas
UEFA EURO 2008™ national team jerseys – home kit	adidas
UEFA EURO 2008™ match ball	adidas
Trinity KFS II running shoe	Reebok
PUMP Paris Trainer running shoe	Reebok
HATANA women's running shoe	Reebok
Scarlett "Hearts" Rbk footwear and apparel collection	Reebok
Freestyle footwear and apparel collection	Reebok
NFL Zero Degrees apparel collection	Reebok
Rbk EDGE Uniform System™ hockey apparel	Reebok-CCM Hockey
Footwear collection featuring adidas TORSION® system	Rockport
r7® SuperQuad driver	TaylorMade-adidas Golf
Burner® driver	TaylorMade-adidas Golf
POWERBAND adidas Golf shoe	TaylorMade-adidas Golf
TOUR360 II adidas Golf shoe	TaylorMade-adidas Golf


DISCIPLINE & CLARITY
UNTIRING IN YOUR FOCUS. UNAMBIGUOUS IN YOUR APPROACH. ALWAYS AIMING FOR HIGHER GOALS.
DEMONSTRATED SUCCESSFULLY BY 21-TIME WORLD POLE VAULT RECORD HOLDER YELENA ISINBAYEVA.
-UNITED BY COMMITMENT-

GROUP MANAGEMENT REPORT – OUR FINANCIAL YEAR

GROUP BUSINESS PERFORMANCE In 2007, the adidas Group again delivered strong financial performance. Group sales and profitability developed in line with Management's initial expectations. Currency-neutral sales increased 7%. Strong sales growth in the adidas segment had the biggest impact on this development. In euro terms, adidas Group revenues grew 2% to € 10.299 billion in 2007 from € 10.084 billion in 2006. The Group's gross margin increased 2.8 percentage points to 47.4% of sales in 2007 (2006: 44.6%) as a result of improvements in all segments. The Group's gross profit increased 9% to reach € 4.882 billion in 2007 versus € 4.495 billion in 2006. The Group's operating margin grew 0.5 percentage points to 9.2% from 8.7% in 2006, due to the higher gross margin which more than offset higher operating expenses as a percentage of sales. The Group's operating profit increased 8% to € 949 million in 2007 versus € 881 million in 2006. The Group's net income attributable to shareholders grew 14% to € 551 million from € 483 million in 2006. Diluted earnings per share increased 14% to € 2.57 in 2007 versus € 2.25 in 2006.

ECONOMIC AND SECTOR DEVELOPMENT

GLOBAL ECONOMIC EXPANSION SLOWS The global economy expanded by 3.6% in 2007. This represents a modest slowdown versus the prior year (2006: 3.8%). Following strong increases in the first six months of the year, turbulence on international capital and credit markets resulting from the subprime crisis in the USA dampened economic expansion as the year progressed.

In Europe, full year GDP grew 2.9% (2006: 3.1%). Growth was primarily a result of the region's emerging markets which, with around 6% GDP expansion, again outperformed Western European economies. The latter mainly showed lower GDP growth compared to the prior year. Following a peak in May 2007, consumer confidence in the EU declined steadily over the remainder of the year.

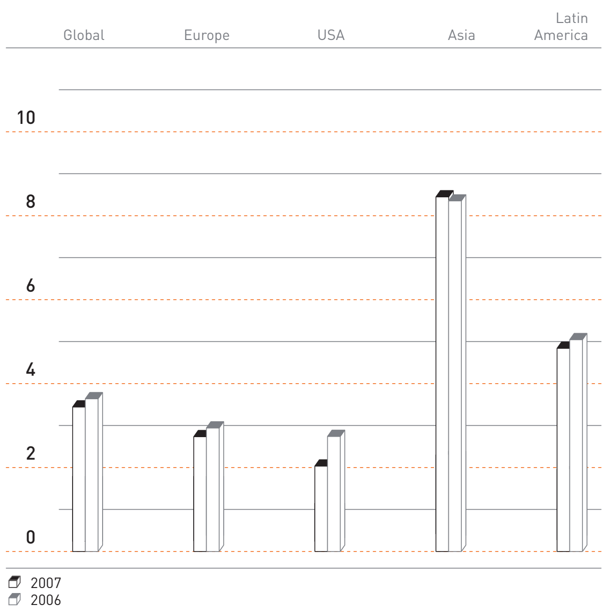
In the USA, economic growth slowed to a level of 2.2% in 2007 (2006: 2.9%). This was largely a result of spillover effects from the subprime crisis. US consumer confidence declined consistently from mid-summer to November 2007, reaching its lowest level since late 2005. The main drivers of this decline were rising oil prices, less available credit as a result of the subprime issue, and a weak dollar.

In Asia, most of the region's economies continued on a strong upswing. Asia's GDP grew 8.6% in 2007 (2006: 8.5%). GDP growth in China was 11.5%, while Japan's economy expanded by only 1.9%. The region's other emerging markets grew at double-digit rates as a result of flourishing export activity. Consumer confidence in Asia increased, with the exception of Japan.

Latin American economies continued to be positively influenced by the global surge in commodity prices and increased export activity. As a result, GDP growth in the region was 5.0% in 2007 (2006: 5.2%). Consumer confidence in the region decreased slightly as a result of an increasing number of consumers struggling with high credit costs.

REGIONAL GDP DEVELOPMENT [1]

in %



Source: Allianz.

1) Real, percentage change versus prior year; 2007 figures are estimated.

QUARTERLY CONSUMER CONFIDENCE DEVELOPMENT
by region

	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007
USA[1]	110.0	108.2	105.3	99.5	90.6
Euro Zone[2]	(6)	(4)	(2)	(6)	(9)
Japan[3]	47.3	46.7	44.3	43.9	38.9

1) Source: Conference Board.
2) Source: European Commission.
3) Source: Economic and Social Research Institute, Government of Japan.

EXCHANGE RATE DEVELOPMENT[1]
€ 1 equals

	Average rate 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Average rate 2007
USD	1.2562	1.3318	1.3505	1.4179	1.4721	**1.3709**
GBP	0.6820	0.6798	0.6740	0.6968	0.7334	**0.6845**
JPY	146.08	157.32	166.63	163.55	164.93	**161.19**

1) Spot rates at quarter-end.

MIXED DEVELOPMENT OF GLOBAL SPORTING GOODS INDUSTRY
In 2007, the global sporting goods industry had a mixed regional development. The European sporting goods industry was stable, while the US market remained highly competitive. Asia and Latin America contributed significantly to our industry's growth.

EUROPEAN SPORTING GOODS INDUSTRY STABLE In Europe, revenues in the largest sporting goods markets were basically unchanged compared to the prior year. Slightly weaker sales in Western Europe were offset by stronger sales in the region's emerging markets. Lower sales in Western Europe primarily resulted from the non-recurrence of positive effects related to the 2006 FIFA World Cup™ and a continuously difficult retail landscape in the UK. Footwear sales remained stable in 2007 compared to the previous year. Apparel sales, however, decreased at a low-single-digit rate, largely driven by the non-recurrence of the 2006 FIFA World Cup™ jersey and replica volumes.

From a country perspective, growth in Spain and France was offset by promotional market conditions in other countries. The UK market in particular saw continued contraction, with volumes declining. Nevertheless, average prices started to recover over the course of the year. Average selling prices for footwear and apparel in the other countries also stabilized.

On a category basis, the European market continues to be positively influenced by growth in the outdoor and lifestyle categories. Running was negatively impacted by the ongoing trend towards sport fusion styles, and the football category declined due to the non-recurrence of positive effects related to the 2006 FIFA World Cup™. Channel development was mixed. General sporting goods stores were the major growth channel on the footwear side, while the volume channel was the only growth channel on the apparel side.

US SPORTING GOODS INDUSTRY HIGHLY COMPETITIVE
The sporting goods industry in North America continued to be dominated by the shift towards new sport fusion styles. These styles gained strongly on the back of significant losses in the classics and basketball categories. The footwear market grew at a mid-single-digit rate in 2007. Sales in the apparel market were largely unchanged versus the prior year. Average selling prices increased marginally across the industry. Sport fusion and vulcanized footwear styles increased markedly. The region's retail environment continued to be very challenging, driven by price competition in the athletic specialty channel. Retail growth was strongest in the sporting goods and family footwear channels.

ASIAN SPORTING GOODS MARKET FLOURISHES In Asia, the sporting goods sector grew at a high-single-digit rate in 2007. Stagnation in Japan was more than compensated by strong growth in the region's emerging markets, in particular China. In these markets, footwear sales grew at a double-digit rate with running, basketball and training being the main contributors. Apparel sales also increased at a double-digit rate, mainly due to growth in the training category. Average selling prices were stable throughout the region.

LATIN AMERICAN SPORTING GOODS MARKET INCREASES
In Latin America, the sporting goods industry developed in line with the overall economy and grew at a mid-single-digit rate compared to the prior year. Both apparel and footwear sales increased modestly in 2007 compared to the previous year, reflecting higher consumer spending in the region. Average selling prices increased in Argentina and Venezuela due to high inflation rates and were stable in the region's other countries.

ADIDAS GROUP OUTPACES INDUSTRY AND OVERALL ECONOMIC GROWTH In 2007, adidas Group revenues grew faster than both the economy and the sporting goods industry in all regions, with the exception of North America. From a macroeconomic perspective, the two most important indicators of how conducive a region's economic development is to our business are GDP growth and consumer confidence. Performance in the sporting goods industry, however, is often more influenced by product category trends, development of key retail partners as well as pricing and volume trends in the sector.

NO CHANGES IN ACCOUNTING POLICY The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). In line with IFRS, several new or amended standards and interpretations were applied for the first time in 2007. see Note 1, p. 157 Nevertheless, there were no changes in the Group's consolidation and accounting principles. Therefore, changes in accounting policy and changes in management discretion in the application of accounting standards had no impact on Group business performance in the reporting period.

TWELVE MONTHS OF REEBOK RESULTS CONSOLIDATED

Several factors influenced the comparison of 2007 reported results for the Group and our segments with the prior year. Only eleven months of Reebok's results were consolidated in 2006 due to the acquisition date (February 1, 2006). In 2007, twelve months of the segment's results were consolidated. This had a positive impact on the comparison of Reebok segment sales to the prior year. The segment's operating margin, however, was negatively affected, as the month of January is traditionally characterized by higher-than-average clearance activities. In addition, Reebok's operating profit was negatively impacted by purchase price allocation charges, however to a significantly lesser extent compared to the prior year. In 2007, the negative effect on Reebok's operating profit amounted to € 12 million (2006: € 89 million). Sales and operating margin at TaylorMade-adidas Golf were negatively affected by the divestiture of the Greg Norman Collection (GNC) wholesale business, which was completed on November 21, 2006.

SYNERGIES SUPPORT OPERATIONAL PERFORMANCE The operational performance of the adidas and Reebok segments was positively impacted by the realization of revenue and cost synergies resulting from the integration of the Reebok business into the adidas Group.

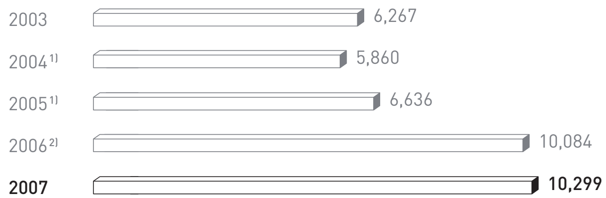
Revenue synergies mainly occurred in the Reebok segment. Sales increased incrementally in several countries for which Reebok had purchased the distribution rights in order to better control brand management and gain market share. Revenues grew particularly strongly in Russia and China, where Reebok took full control of distribution effective January 1, 2007. Revenue synergies also had a small positive impact on sales development in the adidas segment. This was a result of higher revenues from the licensed business, in particular from our partnership with the NBA.

Cost synergies resulting from the combination of adidas and Reebok sourcing activities had a positive impact on the cost of sales of both segments, in particular for adidas due to the higher volume of products sourced compared to Reebok. Due to the timing of sourcing improvements, cost synergies were weighted towards the second half of the year. On a full year basis, the positive impact on the Group's gross margin was largely offset by integration costs which negatively impacted the Group's operating expenses. These costs were recorded in the HQ/Consolidation segment and to a lesser extent at adidas and Reebok. In line with our initial expectations, we realized revenue synergies of around € 100 million. Net cost synergies exceeded initial expectations and amounted to around € 20 million in the full year 2007.

ADIDAS GROUP CURRENCY-NEUTRAL SALES GROW 7 %

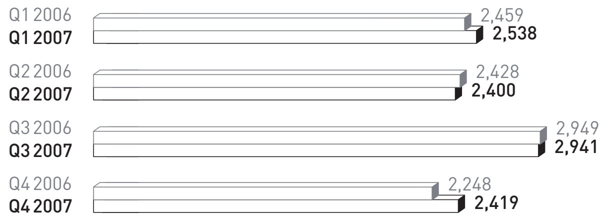
In 2007, Group revenues increased 7 % on a currency-neutral basis, mainly as a result of sales growth in the adidas segment. This development was in line with initial Management expectations of mid-single-digit growth. Currency movements negatively impacted Group sales in euro terms. Group revenues grew 2 % in euro terms to € 10.299 billion in 2007 from € 10.084 billion in 2006. On a like-for-like basis, including Reebok's revenues for the full twelve-month periods of both years and excluding the effect from the divestiture of the GNC wholesale business, Group sales also increased 7 %.

NET SALES
€ in millions



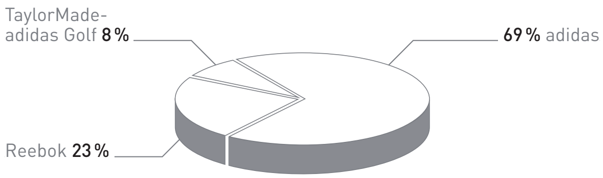
1) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
2) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

NET SALES BY QUARTER [1]
€ in millions



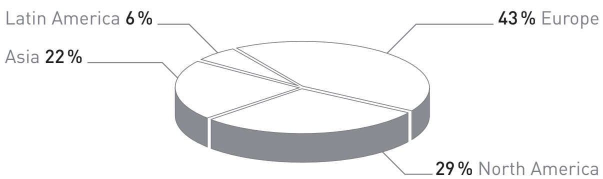
1) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

2007 NET SALES BY SEGMENT[1]



1) HQ/Consolidation accounts for less than 1 % of sales.

2007 NET SALES BY REGION[1]



1) Excluding HQ/Consolidation.

NET SALES BY REGION

€ in millions

	Europe	North America	Asia	Latin America	Total[1]
2003	3,365	1,562	1,116	179	**6,267**
2004[2]	3,068	1,332	1,192	224	**5,860**
2005[2]	3,166	1,561	1,523	319	**6,636**
2006[3]	4,162	3,234	2,020	499	**10,084**
2007	**4,369**	**2,929**	**2,254**	**657**	**10,299**

1) Including HQ/Consolidation.
2) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

ADIDAS SEGMENT DRIVES TOP-LINE GROWTH The adidas segment set the pace for the Group's organic sales growth in 2007. Currency-neutral adidas segment revenues increased 12 % during the period.

Currency-neutral sales in the Reebok segment were stable as a result of the consolidation of twelve months of Reebok's revenues in 2007 versus only eleven months in the prior year. On a like-for-like basis, Reebok segment sales declined by 5 % in 2007. This like-for-like comparison of Reebok segment revenues reflects sales for the full twelve-month periods of both years. It also includes GNC retail sales which were transferred from the TaylorMade-adidas Golf segment to the Reebok segment, effective January 1, 2007. However, it excludes sales related to the NBA and Liverpool licensed businesses. These were transferred to brand adidas in the first half of 2006.

At TaylorMade-adidas Golf, currency-neutral revenues increased 1 %, negatively impacted by the divestiture of the GNC wholesale business. On a like-for-like basis, TaylorMade-adidas Golf sales increased 9 %.

In the HQ/Consolidation segment, we record revenues not attributable to the adidas, Reebok or TaylorMade-adidas Golf segments. In 2007, the HQ/Consolidation segment primarily comprised sales of Salomon products as part of our cooperation agreement with Amer Sports Corporation. The agreement was entered into to support the transfer of Salomon's business activities to Amer Sports Corporation. Compared to the prior year, sales decreased by 60 % on a currency-neutral basis. This development was mainly due to the expiration of the Salomon footwear sourcing cooperation agreement.

Currency translation effects negatively impacted sales in all segments in euro terms. adidas sales increased 7 % to € 7.113 billion in 2007 from € 6.626 billion in 2006. Sales at Reebok decreased 6 % to € 2.333 billion versus € 2.473 billion in the prior year. TaylorMade-adidas Golf sales declined 6 % to € 804 million in 2007 from € 856 million in 2006. HQ/Consolidation sales decreased 62 % to € 48 million from € 129 million in the prior year.

2007 NET SALES GROWTH (CURRENCY-NEUTRAL)[1]

by segment and region in %

	Europe	North America	Asia	Latin America	Total
adidas	8	5	17	39	**12**
Reebok[2]	(1)	(5)	24	32	**0**
TaylorMade-adidas Golf[3]	5	(9)	20	32	**1**
Total	**7**	**(2)**	**18**	**38**	**7**

1) Versus the prior year.
2) Reebok 2006 results only included eleven months of the twelve-month period.
3) TaylorMade-adidas Golf results included Greg Norman apparel business from February 1, 2006 to November 30, 2006.

2007 NET SALES GROWTH (IN €)[1]

by segment and region in %

	Europe	North America	Asia	Latin America	Total
adidas	7	(3)	11	34	**7**
Reebok[2]	(3)	(13)	18	21	**(6)**
TaylorMade-adidas Golf[3]	3	(16)	11	20	**(6)**
Total	**5**	**(9)**	**12**	**32**	**2**

1) Versus the prior year.
2) Reebok 2006 results only included eleven months of the twelve-month period.
3) TaylorMade-adidas Golf results included Greg Norman apparel business from February 1, 2006 to November 30, 2006.

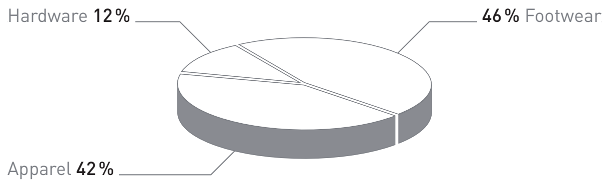
SALES INCREASE IN NEARLY ALL REGIONS adidas Group sales grew in all regions except North America in 2007. Group sales in Europe grew 7 % on a currency-neutral basis as a result of strong growth in the region's emerging markets. In North America, Group sales declined 2 % on a currency-neutral basis due to lower Reebok sales in the USA. Sales for the adidas Group in Asia increased 18 % on a currency-neutral basis, driven by growth in China. In Latin America, sales grew 38 % on a currency-neutral basis, with increases coming from all of the region's major markets.

Currency translation effects negatively impacted sales in euro terms in all regions. In euro terms, sales in Europe increased 5 % to € 4.369 billion in 2007 from € 4.162 billion in 2006. Sales in North America decreased 9 % to € 2.929 billion in 2007 from € 3.234 billion in the prior year. Revenues in Asia grew 12 % to € 2.254 billion in 2007 from € 2.020 billion in 2006. Sales in Latin America grew 32 % to € 657 million in 2007 from € 499 million in the prior year.

GROUP APPAREL SALES GROW STRONGLY From a product category perspective, Group sales growth in the year was largely driven by the apparel category. Currency-neutral footwear sales grew solidly and increased 5 % during the period. Strong increases in the adidas and TaylorMade-adidas Golf segments were partly offset by declines in the Reebok segment. Apparel sales grew 11 % on a currency-neutral basis. Increases in the adidas and Reebok segments were partly offset by a decrease at TaylorMade-adidas Golf. In this segment, increases in adidas Golf apparel sales were more than offset by negative impacts from the divestiture of the GNC wholesale business. Currency-neutral hardware sales were stable compared to the prior year. Increases at TaylorMade-adidas Golf were offset by declines in the adidas and Reebok segments.

Currency translation effects negatively impacted sales in all product categories in euro terms. As a result, footwear sales in euros were virtually unchanged at € 4.751 billion in 2007 (2006: € 4.733 billion). Apparel sales in euro terms grew 6 % to € 4.365 billion in 2007 from € 4.105 billion in the prior year. Hardware sales in euros decreased 5 % to € 1.182 billion in 2007 from € 1.246 billion in 2006.

2007 NET SALES BY PRODUCT CATEGORY



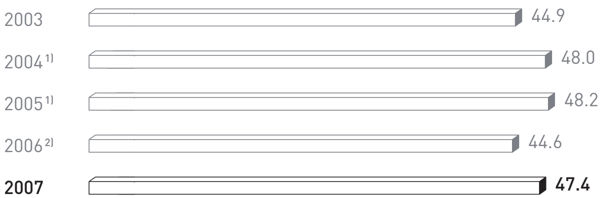
NET SALES BY PRODUCT CATEGORY
€ in millions

	Footwear	Apparel	Hardware	Total
2003	2,767	2,222	1,278	**6,267**
2004 [1]	2,620	2,462	778	**5,860**
2005 [1]	2,978	2,798	860	**6,636**
2006 [2]	4,733	4,105	1,246	**10,084**
2007	**4,751**	**4,365**	**1,182**	**10,299**

1) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
2) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

COST OF SALES DECLINES 3 % Cost of sales is defined as the amount we pay to third parties for expenses associated with producing and delivering our products. Own-production expenses at adidas and Reebok as well as assembling expenses at TaylorMade-adidas Golf are also included in the Group's cost of sales. However, these expenses represent only a very small portion of total cost of sales. In 2007, cost of sales was € 5.417 billion, representing a decrease of 3 % from € 5.589 billion in 2006, despite higher sourcing volumes compared to the prior year. This improvement is the result of cost synergies from the combination of adidas and Reebok sourcing activities. The optimization of sourcing processes and efficiency gains within our supply chain more than offset increasing labor and raw material costs.

GROSS MARGIN
in %



1) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
2) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

GROSS PROFIT
€ in millions

1) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
2) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

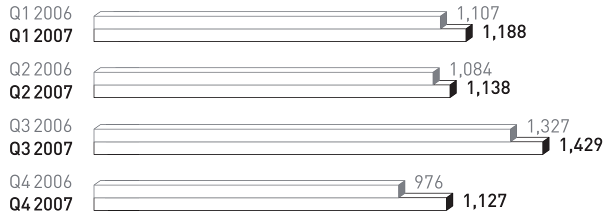
GROSS MARGIN INCREASES BY 2.8 PERCENTAGE POINTS

The gross margin of the adidas Group increased by 2.8 percentage points to 47.4 % in 2007 (2006: 44.6 %). This development exceeded Management's initial expectation of a gross margin between 45 and 47 %. The non-recurrence of negative impacts from purchase price allocation in the Reebok segment, which in 2006 amounted to € 76 million, positively impacted gross margin development. Cost synergies resulting from the combination of adidas and Reebok sourcing activities as well as underlying improvements in all segments also contributed to this development. As a result, gross profit for the adidas Group rose 9 % in 2007 to reach € 4.882 billion versus € 4.495 billion in the prior year.

ROYALTY AND COMMISSION INCOME GROWS STRONGLY

Royalty and commission income for the adidas Group increased 20 % on a currency-neutral basis. Increased adidas and TaylorMade-adidas Golf sales through external licensees and higher average royalty rates at all brands were the main drivers of this increase. The consolidation of the month of January in the Reebok segment in 2007 also positively impacted this development. In euro terms, royalty and commission income increased by 14 % to € 102 million in 2007 from € 90 million in the prior year.

GROSS PROFIT BY QUARTER [1]
€ in millions



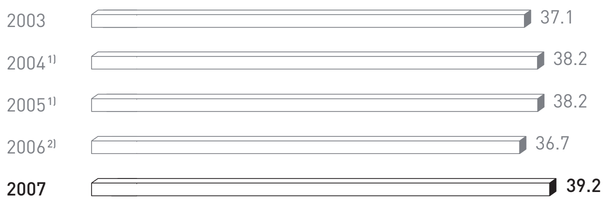
1) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

03

OPERATING EXPENSES
€ in millions

1) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
2) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

OPERATING EXPENSES
in % of net sales



1) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
2) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

HIGHER EXPENSES AT REEBOK DRIVE OPERATING EXPENSE INCREASE Operating expenses include marketing working budget and operating overhead costs as well as depreciation and amortization. Operating expenses as a percentage of sales increased by 2.5 percentage points to 39.2 % in 2007 from 36.7 % in 2006. This increase primarily reflects one-time costs related to the integration of Reebok into the adidas Group as well as higher expenses in the Reebok segment for advertising, product development and initiatives to grow the brand in emerging markets. In absolute terms, operating expenses for the adidas Group increased by 9 % to € 4.035 billion in 2007 from € 3.704 billion in the prior year.

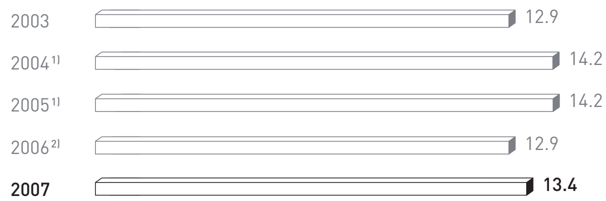
MARKETING WORKING BUDGET INCREASES AS A PERCENTAGE OF SALES Almost half of our Group's marketing working budget is variable to increase the flexibility of our Group. The variable portion primarily includes expenses for advertising, retail presentation and public relations, whereas the fixed portion consists mainly of expenses for promotion partnerships. Marketing working budget as a percentage of sales increased 0.5 percentage points to 13.4 % in 2007 (2006: 12.9 %). adidas marketing working budget as a percentage of sales remained stable. Reebok's marketing working budget as a percentage of sales increased to support the revitalization of the brand. However, Reebok's marketing working budget continues to be below the Group average. Marketing expenditure as a percentage of sales at TaylorMade-adidas Golf grew compared to the prior year as a result of the divestiture of the GNC wholesale business, which had lower marketing expenditures as a percentage of sales.

OPERATING EXPENSES BY FUNCTION
€ in millions

	2007	2006[1]
Marketing working budget	1,378	1,301
Marketing overhead	322	291
Sales force	1,037	904
Logistics	529	491
Research and development	84	98
Central finance and administration	685	619
Total	**4,035**	3,704

1) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

MARKETING WORKING BUDGET
in % of net sales



1) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
2) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

OPERATING OVERHEADS INCREASE AS A PERCENTAGE OF SALES Group operating overheads include overhead costs related to marketing, sales, logistics, research and development as well as central finance and administration functions. Operating overhead expenses as a percentage of sales increased 2.2 percentage points to 26.0 % in 2007 from 23.8 % in the prior year. This was primarily a result of higher own-retail expenditures, which increased in line with the expansion of the Group's own-retail activities. Central finance and administration expenses also grew overproportionately due to integration expenses in the Group's Headquarter functions. However, research and development expenditure decreased as a result of the combination of certain adidas and Reebok research capabilities. see Research and Development, p. 072

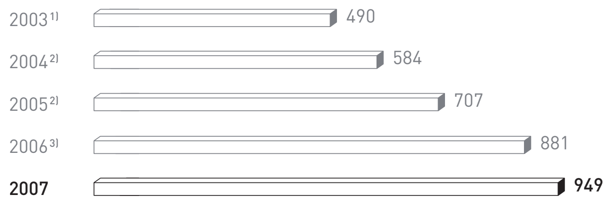
EBITDA UP 8 % The Group's earnings before interest, taxes, depreciation and amortization of tangible and intangible assets (EBITDA) increased 8 % to € 1.165 billion in 2007 (2006: € 1.078 billion). Depreciation and amortization expense for tangible and intangible assets with limited useful lives grew 1 % to € 211 million in 2007 (2006: € 209 million). In accordance with International Financial Reporting Standards, intangible assets with unlimited useful lives (goodwill and trademarks) are tested annually and additionally when there are indications of potential impairment. No impairment of intangible assets was incurred in 2007 and 2006.

OPERATING MARGIN REACHES 9.2 % The operating margin of the adidas Group increased 0.5 percentage points to 9.2 % in 2007 (2006: 8.7 %). This development was in line with initial Management expectations of an operating margin around 9 %. The operating margin increase is a result of the Group's gross margin improvement, which more than offset higher operating expenses as a percentage of sales. As a result, Group operating profit increased 8 % in 2007 to reach € 949 million versus € 881 million in 2006.

EBITDA
€ in millions

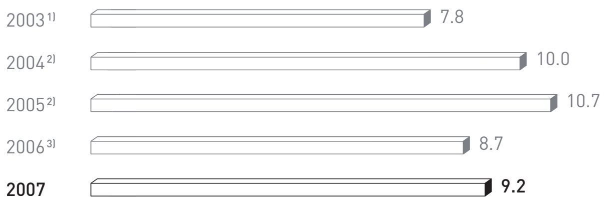
1) Adjusted to reflect the application of IAS 32.
2) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

OPERATING PROFIT
€ in millions



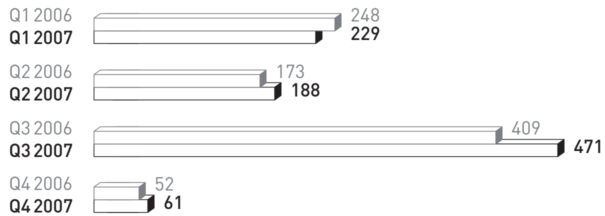
1) Excluding royalty and commission income as well as goodwill amortization.
2) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

OPERATING MARGIN
in %



1) Excluding royalty and commission income as well as goodwill amortization.
2) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

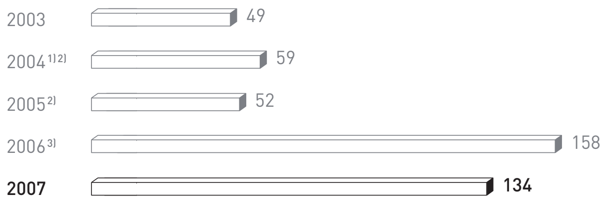
OPERATING PROFIT BY QUARTER [1]
€ in millions



1) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

03

NET FINANCIAL EXPENSES
€ in millions



1) Adjusted to reflect the application of IAS 32.
2) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

STRONG DECREASE OF NET FINANCIAL EXPENSES Net financial expenses decreased 15 % to € 134 million in 2007 from € 158 million in the prior year as a result of lower financial expenses following the strong reduction of net borrowings.

see Treasury, p. 091

FINANCIAL INCOME DECLINES BY 9 % Financial income decreased by 9 % to € 36 million in 2007 (2006: € 39 million). In the prior year, financial income was higher due to a significant cash position after the capital increase and the proceeds related to the divestiture of the Salomon business segment at the beginning of 2006. Both transactions were completed in the fourth quarter of 2005.

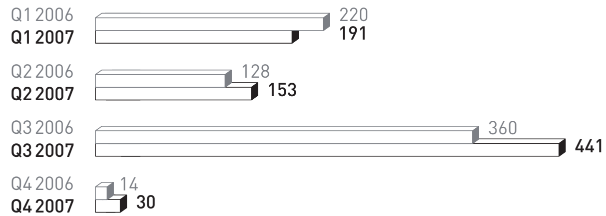
FINANCIAL EXPENSES DECREASE BY 14 % Financial expenses decreased 14 % to € 170 million in 2007 (2006: € 197 million), mainly as a result of significantly lower gross borrowings versus the prior year.

INCOME BEFORE TAXES INCREASES BY 13 % As a result of the Group's operating margin increase and lower net financial expenses, income before taxes (IBT) as a percentage of sales increased by 0.7 percentage points to 7.9 % in 2007 from 7.2 % in 2006. IBT for the adidas Group increased 13 % to € 815 million in 2007 from € 723 million in 2006.

INCOME BEFORE TAXES
€ in millions

1) Adjusted to reflect the application of IAS 32.
2) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

INCOME BEFORE TAXES BY QUARTER [1]
€ in millions

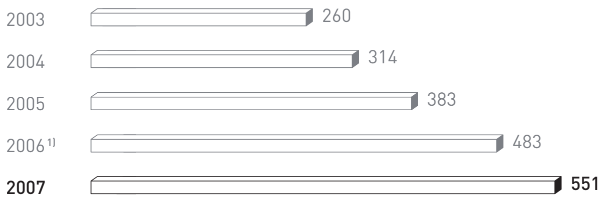


1) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

NET INCOME ATTRIBUTABLE TO SHAREHOLDERS GROWS 14 % The Group's net income attributable to shareholders increased 14 % to € 551 million in 2007 from € 483 million in 2006. This development was in line with initial Management expectations that targeted an increase at a rate approaching 15 %. The Group's higher operating profit, lower net financial expenses and lower minority interests each contributed to this development. The Group's tax rate increased by 0.4 percentage points to 31.8 % in 2007 (2006: 31.4 %). The non-recurrence of a one-time tax benefit, which had a positive impact in the prior year, was partly compensated for by favorable tax rate changes in several countries. see Note 27, p. 185

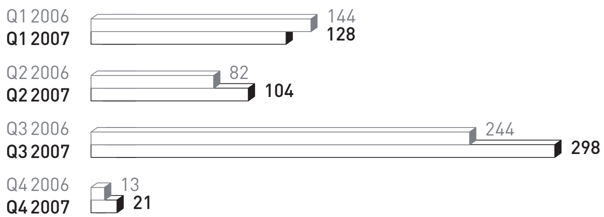
MINORITY INTERESTS DECLINE BY 71 % The Group's minority interests decreased 71 % to € 4 million in 2007 from € 13 million in 2006. The strong decline in minority interests compared to the prior year was primarily due to the buyout of the adidas joint venture partner in Korea. Effective September 1, 2006, the Group purchased the remaining 49 % of shares.

NET INCOME ATTRIBUTABLE TO SHAREHOLDERS
€ in millions



1) Including Reebok business segment from February 1, 2006 onwards.
Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

NET INCOME ATTRIBUTABLE TO SHAREHOLDERS BY QUARTER 1)
€ in millions



1) Including Reebok business segment from February 1, 2006 onwards.
Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

BASIC AND DILUTED EARNINGS PER SHARE BOTH INCREASE 14% In line with the increase of the Group's net income attributable to shareholders, basic earnings per share increased 14 % to € 2.71 in 2007 versus € 2.37 in 2006. The Group's total number of shares outstanding increased by 92,100 shares to 203,628,960 at the end of 2007 from 203,536,860 at the end of 2006 as a result of shares from stock options exercised as part of Tranches II, III, IV and V of the Management Share Option Plan (MSOP) of adidas AG. Consequently, the weighted average number of shares used in the calculation of basic earnings per share was 203,594,975 (2006 average: 203,386,104). Diluted earnings per share in 2007 also increased 14 % to € 2.57 from € 2.25 in the prior year. The weighted average number of shares used in the calculation of diluted earnings per share was 219,467,177 (2006 average: 219,399,522). The number of diluted shares outstanding at year-end 2007 was 219,485,875 (2006: 219,485,875). The dilutive effect largely results from approximately sixteen million additional potential shares that could be created in relation to our outstanding convertible bond, for which conversion criteria were first met at the end of the fourth quarter of 2004.

NO CHANGES IN ACCOUNTING POLICY The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). In line with IFRS, several new or amended standards and interpretations were applied for the first time in 2007. see Note 1, p. 157 In 2007, there were no changes in the Group's consolidation and accounting principles. Therefore, changes in accounting policy and changes in management discretion in the application of accounting standards had no impact on the structure of the Group's balance sheet in the reporting period.

BALANCE SHEET STRUCTURE[1)]

in % of total assets

Assets	2007	2006
Cash and cash equivalents	3.5	3.7
Accounts receivable	17.5	16.9
Inventories	19.6	19.2
Fixed assets	44.8	47.6
Other assets	14.6	12.6
Total assets (€ in millions)	**8,325**	8,379

1) For absolute figures see Consolidated Balance Sheet, p. 152.

BALANCE SHEET STRUCTURE[1)]

in % of total liabilities and equity

Liabilities and equity	2007	2006
Accounts payable	10.2	9.0
Long-term borrowings	25.8	30.8
Other liabilities	27.6	26.4
Total equity	36.4	33.8
Total liabilities and equity (€ in millions)	**8,325**	8,379

1) For absolute figures see Consolidated Balance Sheet, p. 152.

TOTAL ASSETS DECREASE 1 % At the end of 2007, total assets decreased 1 % to € 8.325 billion versus € 8.379 billion in the prior year, mainly due to currency effects which had a negative impact on the Group's US dollar-denominated assets.

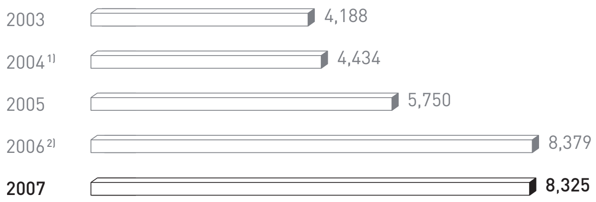
INVENTORIES UP 1 % Group inventories increased 1 % to € 1.629 billion at the end of 2007 versus € 1.607 billion in 2006. On a currency-neutral basis, inventories grew 7 %. The increase was driven by higher inventory levels in emerging markets, reflecting the Group's high sales growth expectations for these countries in particular.

RECEIVABLES INCREASE 3 % At the end of 2007, Group receivables increased 3 % to € 1.459 billion (2006: € 1.415 billion). On a currency-neutral basis, receivables grew 8 %. This is well below sales growth in the fourth quarter of 2007 and reflects strict discipline in the Group's trade terms management and concerted collection efforts in all segments.

OTHER CURRENT ASSETS UP 28 % Other current assets increased 28 % to € 529 million at the end of 2007 from € 413 million in 2006. This development was mainly due to higher prepayments for promotion contracts and higher fair values of financial instruments.

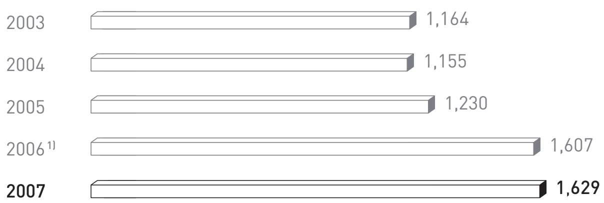
FIXED ASSETS DECREASE 7 % Fixed assets decreased by 7 % to € 3.726 billion at the end of 2007 versus € 3.988 billion in 2006. This was mainly due to € 286 million of negative currency translation effects on fixed assets held in currencies other than the euro. In addition, the transfer of € 17 million of fixed assets to assets held-for-sale impacted this development. Additions of € 295 million were partly offset by depreciation and amortization of € 215 million as well as disposals in an amount of € 37 million.

TOTAL ASSETS
€ in millions



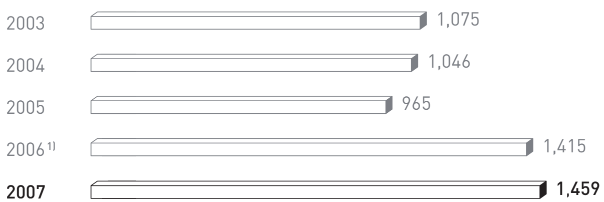
1) Restated due to application of amendment to IAS 19.
2) Including Reebok business segment from February 1, 2006 onwards.

INVENTORIES
€ in millions



1) Including Reebok business segment from February 1, 2006 onwards.

RECEIVABLES
€ in millions



1) Including Reebok business segment from February 1, 2006 onwards.

ASSETS HELD-FOR-SALE INCREASE 35 % Assets held-for-sale mainly relate to the planned sale of land and buildings in Herzogenaurach, Germany. In addition, two warehouses in the UK and the Maxfli trademark were reclassified as assets held-for-sale at the end of 2007. The Maxfli trademark was sold in February 2008. see Subsequent Events, p. 117 As a result of these additions, assets held-for-sale increased 35 % to € 80 million (2006: € 59 million).

OTHER NON-CURRENT ASSETS INCREASE 8 % Other non-current assets increased by 8 % to € 147 million at the end of 2007 from € 134 million in 2006, mainly driven by higher fair values of financial instruments.

ACCOUNTS PAYABLE UP 13 % Accounts payable increased 13 % to € 849 million at the end of 2007 versus € 752 million in 2006. On a currency-neutral basis, accounts payable were up 22 %. The increase is primarily due to increased product deliveries from suppliers in the last quarter of the year, reflecting the Group's sales growth expectations.

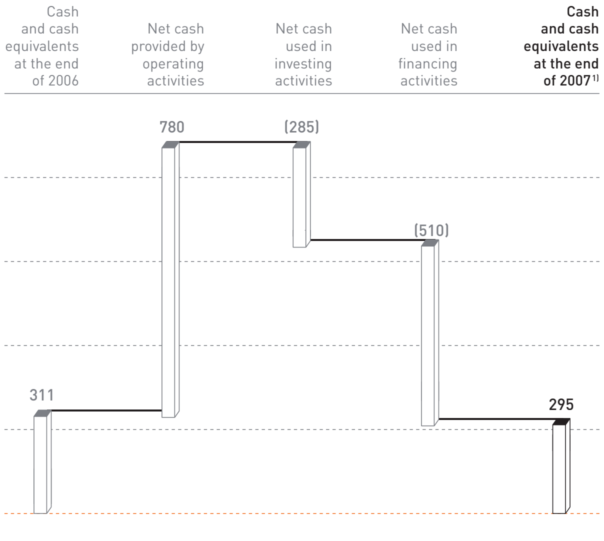
OTHER CURRENT LIABILITIES GROW 15 % Other current liabilities increased 15 % to € 266 million at the end of 2007 from € 232 million in 2006, primarily as a result of increased current forward contracts.

OTHER NON-CURRENT LIABILITIES INCREASE 65 % Other non-current liabilities increased 65 % to € 69 million at the end of 2007 from € 43 million in 2006, primarily as a result of increased non-current forward contracts.

SHAREHOLDERS' EQUITY
€ in millions

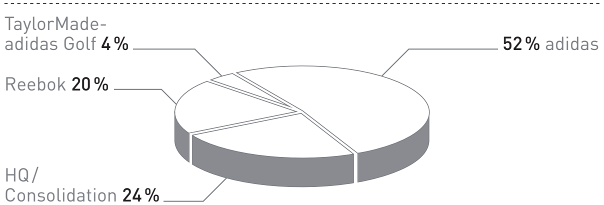
1) Restated due to application of amendment to IAS 19.
2) Including Reebok business segment from February 1, 2006 onwards.

CHANGE IN CASH AND CASH EQUIVALENTS
€ in millions



1) Includes a negative exchange rate effect of € 1 million.

2007 CAPITAL EXPENDITURE BY SEGMENT



EQUITY BASE FURTHER STRENGTHENED The Group's equity base was further strengthened compared to the prior year. Shareholders' equity rose 7 % to € 3.023 billion at the end of 2007 versus € 2.828 billion in 2006. The net income generated during the period more than offset negative currency translation effects.

EXPENSES RELATED TO OFF-BALANCE SHEET ITEMS Our most important off-balance sheet assets are operating leases, which are related to retail stores, offices, warehouses and equipment. The Group has entered into various operating leases as opposed to property acquisitions to reduce exposure to property value fluctuations. Rent expenses increased 21 % to € 337 million in 2007 from € 278 million in the prior year, mainly due to the continued expansion of adidas own-retail activities.

CASH FLOW DEVELOPMENT REFLECTS OPERATIONAL STRENGTH In 2007, cash inflow from operating activities was € 780 million. It was primarily used to finance working capital needs in accordance with the seasonality of our business. Cash outflow for investing activities was € 285 million and was mainly related to spending for property, plant and equipment such as investment in the furnishing and fitting of adidas and Reebok own-retail stores. In addition, investments also related to the Reebok integration. Major integration projects included the construction of the shared adidas and Reebok warehousing and distribution center in the UK. Cash outflow for financing activities totaled € 510 million and was related to the payment of dividends as well as the reduction of long-term borrowings. Operating activities provided less cash than used in investing and financing activities. As a result of this development and a negative exchange rate effect of € 1 million, cash and cash equivalents decreased by € 16 million to € 295 million at the end of 2007 (2006: € 311 million).

CAPITAL EXPENDITURES FOCUS ON OWN-RETAIL ACTIVITIES Capital expenditure is the total cash expenditure for the purchase of tangible and intangible assets and the construction of tangible assets. Group capital expenditures increased 4 % to € 289 million in 2007 (2006: € 277 million). The adidas segment accounted for 52 % of Group capital expenditures (2006: 49 %). Expenditures in the Reebok segment accounted for 20 % of total expenditures (2006: 26 %). The majority of adidas and Reebok expenditures focused on the expansion of own-retail activities. TaylorMade-adidas Golf capital expenditures accounted for 4 % of total expenditures (2006: 5 %). The remaining 24 % of total capital expenditures was recorded in the HQ / Consolidation segment (2006: 20 %) and was mainly related to integration initiatives such as the construction of the shared warehouse facility in the UK and the Group-wide harmonization of IT systems.

TREASURY

GROUP FINANCING POLICY The major goal of our financing policy is to minimize the Group's financial expenses while ensuring sufficient liquidity reserves at all times to meet the Group's payment commitments. The operating activities of our Group segments and the resulting cash inflows represent the Group's main source of liquidity. Liquidity is planned on a multi-year financial and liquidity plan on a rolling monthly basis. This comprises all consolidated Group companies. Our in-house bank concept takes advantage of the surplus funds of individual Group companies to cover the financial requirements of others, reducing external financing requirements and optimizing our net interest expenses. By settling inter-company transactions via inter-company financial accounts, we are able to reduce external bank account transactions and thus bank charges. Currency management as well as ongoing interest rate optimization are additional goals of our Group Treasury department.

TREASURY SYSTEM AND RESPONSIBILITIES Our Group's Treasury Policy governs all treasury-related issues, including banking policy and approval of bank relationships, global financing arrangements and liquidity / asset management, currency and interest risk management as well as the management of inter-company cash flows. Responsibilities are arranged in a three-tiered approach:

- The Treasury Committee consists of members of the Executive Board and other senior executives who decide on the Group's Treasury Policy and provide strategic guidance for managing treasury-related topics. The Treasury Committee approves all major changes to our Treasury Policy.

- The Group Treasury department is responsible for specific centralized treasury transactions and for global implementation of our Group's Treasury Policy.

- On a subsidiary level, local managing directors and financial controllers are responsible for managing treasury matters in the respective subsidiaries. Brand and regional controlling ensures that the transactions of the individual business units are in compliance with the Group's Treasury Policy.

CENTRALIZED TREASURY FUNCTION In accordance with our Group's Treasury Policy, more than 90 % of our worldwide credit lines are managed by the Group Treasury department. Portions of those lines are allocated to the Group's subsidiaries and backed by parental guarantees. As a result of this centralized liquidity management, the Group is well positioned to allocate resources efficiently throughout the organization. The Group's debt is generally unsecured and includes standard financial covenants, which are reviewed on a quarterly basis. We maintain good relations with numerous partner banks, thereby avoiding a strong dependency on any single institution. Banking partners of the Group and our subsidiaries are required to have at least a BBB+ long-term investment grade rating by Standard & Poor's or an equivalent rating by another leading rating agency. Only in exceptional cases are Group companies and subsidiaries authorized to work with banks with a lower rating. see Risk and Opportunity Report, p. 104 To optimize the Group's cash position and ensure optimal allocation of liquid financial resources, subsidiaries are required to transfer excess cash to the Group's headquarters.

LONG-TERM FINANCIAL FLEXIBILITY ENSURED The adidas Group's long-term flexibility is ensured by unutilized financial instruments in an amount of € 4.1 billion at the end of 2007 (2006: € 4.4 billion). These instruments include a € 2.0 billion multi-year syndicated loan (2006: € 2.0 billion) as well as bilateral credit lines at different banks in an amount of € 2.1 billion (2006: € 2.4 billion). The reduction of unutilized credit lines in 2007 reflects the decreased need for financial flexibility as a result of the Group's strong progress in gross borrowings reduction in 2007. We monitor the ongoing need for available credit lines based on the current level of debt as well as future financing requirements.

TOTAL CREDIT FACILITIES
€ in millions

	2007	2006
Short-term credit lines	2,314	2,776
Medium-term committed credit lines	2,000	2,000
Private placements	1,564	1,784
Convertible bond	384	375
Total	**6,262**	6,935

REMAINING TIME TO MATURITY OF AVAILABLE FACILITIES
€ in millions

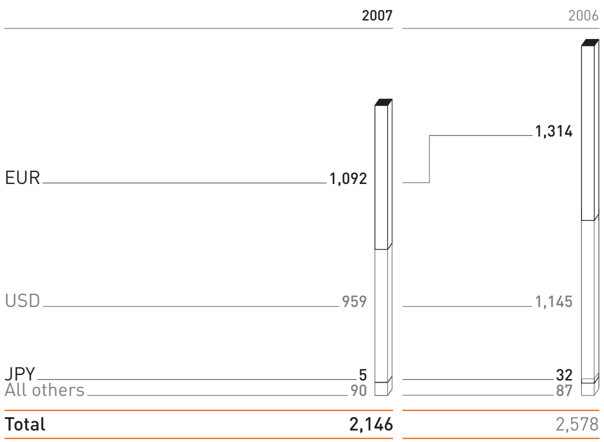
	2007	2006
< 1 year	2,500	2,879
1 to 3 years	967	985
3 to 5 years	2,376	2,480
> 5 years	419	591
Total	**6,262**	6,935

03

STANDARD FINANCIAL COVENANTS Under our committed credit facilities we have entered into various covenants. These covenants include limits on our disposal of fixed assets and the amount of debt secured by liens we may incur. In addition, our financial arrangements contain equity ratio covenants, minimum equity covenants as well as net loss covenants. If we fail to meet any covenant and are unable to obtain a waiver from a majority of partner banks, borrowings would become due and payable immediately. As at December 31, 2007, we were in full compliance with all of our covenants. Going forward, we are highly confident that we will continue to be compliant with these covenants as we expect sustainable strong cash flows for the foreseeable future. see Outlook, p. 118 We currently believe that cash generated by operations, together with access to external sources of funds, will be sufficient to meet our operating and capital needs in the foreseeable future.

GROSS BORROWINGS SIGNIFICANTLY REDUCED Gross borrowings decreased by 17 % to € 2.146 billion at the end of 2007 from € 2.578 billion in the prior year. Bank borrowings decreased 28 % to € 198 million from € 275 million in the prior year. Our private placements in the USA, in Europe and in Asia decreased 12 % to € 1.564 billion in 2007 (2006: € 1.784 billion). The current value of the convertible bond increased 2 % to € 384 million in 2007 from € 375 million in the prior year, reflecting the accrued interest on the debt component in accordance with IFRS requirements. No commercial paper was outstanding at the end of 2007 (2006: € 144 million).

CURRENCY SPLIT OF GROSS BORROWINGS
€ in millions



ISSUED BONDS AT A GLANCE
€ in millions

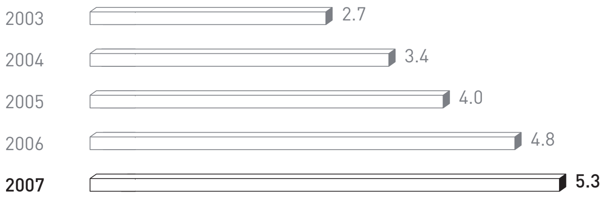
Issued Bonds	Volume	Coupon	Maturity
Asian Private Placement	USD 218	variable	2009
Asian Private Placement	JPY 3,000	fixed	2009
Asian Private Placement	EUR 26	variable	2010
Asian Private Placement	AUD 16	variable	2010
German Private Placement	EUR 150	fixed/variable	2010
French Private Placement	EUR 150	variable	2011 – 2012
US Private Placement	USD 175	fixed	2015
US Private Placement	USD 1,000	fixed	2009 – 2016
Convertible Bond	EUR 400	2.50 %	2018
Other Private Placements	EUR 399	fixed/variable	2008 – 2012

CURRENCY MIX BROADLY UNCHANGED The majority of our Group's gross borrowings are denominated in euros and US dollars. In an effort to minimize the level of short-term variable interest rate borrowings, 2007 debt reduction was targeted at euro-denominated instruments, which are mainly variable-rate financing arrangements. In addition, our US dollar-denominated financing declined in absolute terms mainly as a result of the US dollar depreciation versus the euro. Consequently, the currency split of our gross borrowings at the end of 2007 was broadly unchanged versus the prior year. Gross borrowings denominated in euros accounted for 51 % of total gross borrowings (2006: 51 %). The share of gross borrowings held in US dollars increased slightly to 45 % (2006: 44 %).

INTEREST RATE INCREASES The weighted average interest rate on the Group's gross borrowings rose 0.5 percentage points to 5.3 % in 2007 (2006: 4.8%), mainly as a result of higher interest rates in the Euro Zone. As a result, our debt reduction in 2007 focused primarily on decreasing the Group's variable financing arrangements to better protect against future interest rates increases. see Risk and Opportunity Report, p. 104 Long-term fixed-rate financing amounted to around 70 % of the Group's total financing at the end of 2007 (2006: around 65 %). Variable financing amounted to around 30 % of total financing at the end of the year (2006: around 35 %).

INTEREST RATE DEVELOPMENT[1]

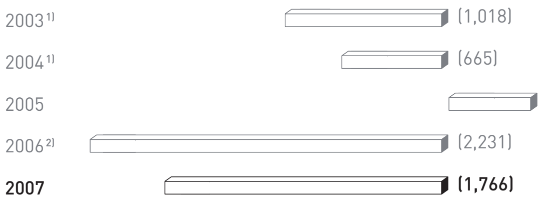
in %



1) Weighted average interest rate of gross borrowings.

NET CASH / (NET BORROWINGS)

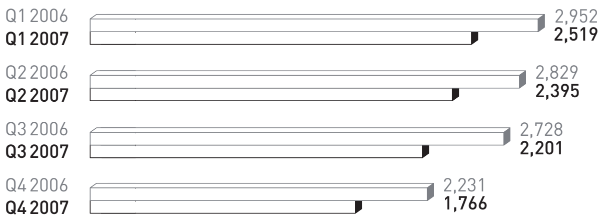
€ in millions



1) Restated due to application of amendment to IAS 39.
2) Including Reebok business segment from February 1, 2006 onwards.

NET BORROWINGS BY QUARTER[1]

€ in millions



1) At end of period.

NET DEBT POSITION REDUCED BY NEARLY € 500 MILLION Net borrowings at December 31, 2007 amounted to € 1.766 billion, which represents a reduction of € 465 million, or 21%, versus € 2.231 billion in the prior year. This improvement was significantly better than our original target of below € 2 billion as communicated at the beginning of 2007. see Internal Group Management System, p. 056 The Group's strong profitability improvement and continued tight working capital management were the primary drivers of this decline. In addition, positive currency effects contributed € 98 million to the net borrowings improvement. Consequently, the Group's financial leverage also improved significantly to 58.4 % at the end of 2007 versus 78.9 % in the prior year. On a net debt basis, the utilization of the available credit facilities for the Group at the end of 2007 was 28 % versus 32 % in the prior year.

CURRENCY MANAGEMENT FURTHER OPTIMIZED Due to the Group's global activity, currency management is a key focus of the Group's central Treasury department. Hedging US dollars is the central pillar of our program. This is a direct result of our Asian-dominated sourcing, which is largely denominated in US dollars. see Global Operations, p. 062 In 2007, the central Treasury department managed a net deficit of around US $ 1.5 billion against the euro. This represents a decrease of approximately US $ 200 million from around US $ 1.7 billion in the prior year, mainly as a result of the non-recurrence of a one-time effect related to the Reebok acquisition in 2006. As outlined in our Group's Treasury Policy, we have established a rolling 12 to 18 months hedging system, under which a large amount of the anticipated seasonal hedging volume is secured six months prior to the start of a season. As a result, we have already completed around 70 % of our anticipated hedging needs for 2008 at higher rates than those of 2007 and we have already started to hedge our exposure for 2009. The use or combination of different hedging instruments, such as currency options, swaps and forward contracts, protects us against unfavorable currency movements, while retaining the potential to benefit from future favorable exchange rate developments.

see Risk and Opportunity Report, p. 104

FINANCIAL LEVERAGE

in %

1) Restated due to application of IAS 32/IAS 39 and amendment to IAS 19.
2) Including Reebok business segment from February 1, 2006 onwards.

FINANCING STRUCTURE[1]

€ in millions

	2007	2006
Total cash and short-term financial assets	**381**	**347**
Bank borrowings	198	275
Commercial paper	0	144
Private placements	1,564	1,784
Convertible bond	384	375
Gross total borrowings	**2,146**	**2,578**
Net cash / (Net borrowings)[1]	**(1,766)**	**(2,231)**

1) Rounding differences may arise in totals.

03

COMPOSITION OF THE NOMINAL CAPITAL AND SHAREHOLDERS' CHARTERED RIGHTS The nominal capital of adidas AG amounts to € 203,628,960 (as at December 31, 2007) and is divided into 203,628,960 no-par-value bearer shares ("shares"). see Note 21, p. 173 Each share is entitled to one vote at the Annual General Meeting. We are not aware of any restrictions relating to the exercise of voting rights or transfer of our shares. Additionally, no shareholder has any special rights conferring powers of control. We have a free float of 100 %. We are not aware of any direct or indirect shareholdings in the capital of adidas AG exceeding 10 % of the nominal capital. The remaining notifications with regard to shareholdings transmitted to us in accordance with § 21 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) in 2007 were below 5.1 % in each case. see Our Share, p. 036

AMENDMENTS TO THE ARTICLES OF ASSOCIATION As a rule, amendments to our Articles of Association require a resolution passed by the Annual General Meeting. Contrary to § 179 section 2 of the German Stock Corporation Act (Aktiengesetz – AktG), such resolutions can be passed with a simple majority and, if a capital majority is required, with a simple capital majority unless otherwise provided for by our Articles of Association or mandatory legal regulations. For amendments relating solely to the wording of our Articles of Association, our Supervisory Board is authorized to make modifications without a resolution being passed by the Annual General Meeting. This authorization includes amendments to the formulation of § 4 of our Articles of Association (Stock Capital), e. g. after a partial or complete implementation of a capital increase in accordance with the corresponding utilization of the authorized or contingent capital.

AUTHORIZATION OF THE EXECUTIVE BOARD TO ISSUE SHARES In accordance with our Articles of Association, the Executive Board is authorized, subject to Supervisory Board approval, to issue new shares to increase the nominal capital within the existing authorized capital amounts. As at December 31, 2007, three authorized capital amounts with different utilization possibilities exist, totaling € 90,312,500. Thus the Executive Board is authorized to increase the nominal capital:

- Until June 19, 2010, by issuing new shares against contributions in cash once or several times by up to € 64,062,500;
- Until June 19, 2008, by issuing new shares against contributions in cash or in kind once or several times by up to € 6,250,000;
- Until May 28, 2011, by issuing new shares against contributions in cash once or several times by up to € 20,000,000.

Shareholders' subscription rights can be excluded in certain cases, subject to Supervisory Board approval. see Note 21, p. 173

Further, the Executive Board has contingent capital at its disposal for the issuance of shares to holders of bonds issued in October 2003. This was resolved upon by the Annual General Meeting held on May 8, 2003. However, issuance of these shares is only permissible to the extent that the bond holders exercise their conversion rights. In the event that conversion rights are exercised, the total number of shares to be issued to this group of persons amounts to 15,684,315 (as at December 31, 2007).

In addition, the Executive Board is authorized, until May 7, 2008, subject to Supervisory Board approval, to issue additional bonds with warrants or convertible bonds. These grant subscription rights or conversion rights for a maximum of 20,313,723 shares, which may also be serviced from the Contingent Capital 2003. see Note 21, p. 173

Based on the resolution of the Annual General Meeting held on May 11, 2006, and subject to Supervisory Board approval, the Executive Board is further authorized to issue bonds with warrants or convertible bonds until May 10, 2011, with shareholders' subscription rights excluded. The number of shares to be issued to holders of bonds with warrants or convertible bonds for the exercise of conversion or subscription rights amounts to a total of 20,000,000 and is serviced from the Contingent Capital 2006. see Note 21, p. 173

Further, based on a resolution passed by the Annual General Meeting on May 20, 1999, the Executive Board has contingent capital at its disposal for the issuance of shares to holders of stock options which were issued to the beneficiaries within the Management Share Option Plan (MSOP) in the years 1999 to 2003. MSOP beneficiaries are members of the Executive Board of adidas AG as well as managing directors / senior vice presidents of its affiliated companies and other executives of the adidas Group. Shares are issued to MSOP beneficiaries if they exercise their stock options in accordance with the option conditions and subject to the attainment of the specified performance objectives. see Note 32, p. 189 The total number of shares that can be issued by the Executive Board to this group of persons in the event that all stock options are exercised, and taking into account all forfeited stock options, amounts to 134,200 no-par-value shares (33,550 stock options) as at December 31, 2007.

AUTHORIZATION OF THE EXECUTIVE BOARD TO REPURCHASE SHARES By resolution of the Annual General Meeting held on May 10, 2007, the Executive Board is authorized to repurchase treasury shares of up to 10 % of the nominal capital of adidas AG until November 9, 2008, for any permissible purpose, subject to statutory restrictions. The repurchased shares together with any treasury shares which may already be in possession of adidas AG may not exceed 10 % of the nominal capital at any time. The shares in particular may:

- Subject to Supervisory Board approval, be cancelled or sold via the stock exchange or via public offer to all shareholders for cash or sold at a price not significantly below the stock market price of shares with the same features;
- Subject to Supervisory Board approval, be sold for the acquisition of companies, parts of companies or participations in companies, as well as industrial property rights or licenses related to such rights;
- Be used to meet subscription rights or conversion rights or conversion obligations arising from bonds with warrants and / or convertible bonds issued by adidas AG;
- Be used to meet the obligations arising from the MSOP vis-à-vis the beneficiaries.

As at December 31, 2007, adidas AG did not possess any treasury shares.

EXECUTIVE BOARD APPOINTMENT AND DISMISSAL Currently, the adidas AG Executive Board consists of four members. see Executive Board, p. 018 In accordance with our Articles of Association, the number of members of the Executive Board, their appointment and dismissal is the responsibility of the Supervisory Board. It appoints the members of the Executive Board for terms of up to five years. Such appointments may be renewed and the terms of office may be extended, provided that no term exceeds five years (§§ 84 et seq. AktG) in conjunction with § 31 of the German Co-Determination Act 1976 (Mitbestimmungsgesetz 1976 – MitbestG 1976)). Pursuant to our Articles of Association, the Supervisory Board has appointed a member of the Executive Board as Chairman of the Executive Board. If the Executive Board failed to have the required number of members, a court of law would make the necessary appointment in accordance with § 85 AktG in urgent cases. Revocation of an Executive Board appointment is possible in accordance with § 84 AktG for good cause, for instance gross negligence of duties.

COMPENSATION REPORTING The basic structure of the compensation system as well as the total compensation of the Executive and Supervisory Boards, including individualized presentation, is described in the Compensation Report. This Report is deemed to constitute part of the Group Management Report. see Compensation Report, p. 030

CHANGE OF CONTROL adidas AG has not entered into any material agreements with third parties on condition of a change of control following a takeover offer. Certain changes of control clauses, however, do exist between various subsidiaries and third parties. Currently, no compensation agreements exist between adidas AG and members of the Executive Board or employees relating to the event of a change of control.

NO DONATIONS TO POLITICAL PARTIES In accordance with our Code of Conduct, donations to political parties and their affiliates are not permitted by or in the name of our Group.

ADIDAS BUSINESS PERFORMANCE

In 2007, sales growth in the adidas segment exceeded Management's initial expectations, while profitability developed in line with expectations. Currency-neutral sales in the adidas segment increased 12%. In euro terms, sales grew 7% to € 7.113 billion in 2007 from € 6.626 billion in 2006. Gross margin increased 1.2 percentage points to 47.4% (2006: 46.2%), mainly driven by the realization of cost synergies related to the Reebok acquisition and own-retail expansion. Gross profit grew 10% to € 3.370 billion in 2007 from € 3.059 billion in 2006. As a result of the positive gross margin development, which more than offset a slight increase in operating expenses as a percentage of sales, operating margin increased 1.0 percentage points to 12.9% (2006: 11.9%). Operating profit increased 17% to € 920 million in 2007 versus € 788 million in 2006.

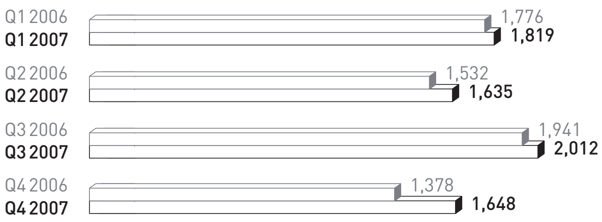
ADIDAS AT A GLANCE

€ in millions

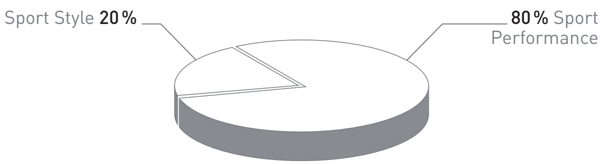
	2007	2006	Change
Net sales	7,113	6,626	7%
Gross profit	3,370	3,059	10%
Gross margin	47.4%	46.2%	1.2pp
Operating profit	920	788	17%
Operating margin	12.9%	11.9%	1.0pp

ADIDAS NET SALES BY QUARTER

€ in millions



ADIDAS 2007 NET SALES BY DIVISION



TRANSFER OF LICENSED BUSINESSES HAS ONLY MINOR IMPACT ON OPERATIONAL PERFORMANCE The transfer of the NBA and Liverpool licensed businesses from Reebok to brand adidas in the first half of 2006 had only a minor effect on sales growth in the adidas segment. Sales related to these businesses accounted for around one percentage point of total sales growth in the adidas segment.

CURRENCY-NEUTRAL SEGMENT SALES GROW 12% Revenues for the adidas segment grew 12% on a currency-neutral basis. This development clearly exceeded Management's initial expectation of a mid-single-digit sales increase. Both apparel and footwear revenues increased strongly. Hardware sales, however, declined. Currency translation effects negatively impacted segment revenues in euro terms. Sales grew 7% to € 7.113 billion in 2007 from € 6.626 billion in 2006.

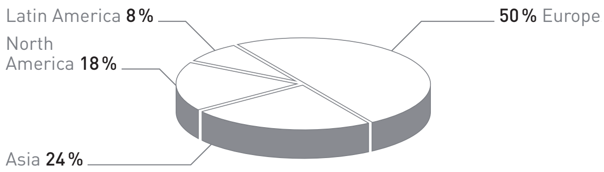
ADIDAS DIVISIONS REALIGNED During 2007, adidas realigned its business into two divisions. see adidas Strategy, p. 046 The Sport Performance division accounted for 80% of adidas sales (2006: 78%). The Sport Style division, which merged our Sport Heritage and Sport Style activities to sharpen brand image and improve consumer targeting in sports lifestyle, comprised 20% of segment sales (2006: 22%).

SPORT PERFORMANCE UP 14% ON A CURRENCY-NEUTRAL BASIS Sales in the Sport Performance division increased 14% on a currency-neutral basis in 2007. The key categories identified by brand management as medium-term growth drivers see adidas Strategy, p. 046 contributed the majority of this increase, with particularly strong growth in the running and training categories. In euro terms, Sport Performance sales improved 10% in 2007 to € 5.608 billion from € 5.100 billion in the prior year.

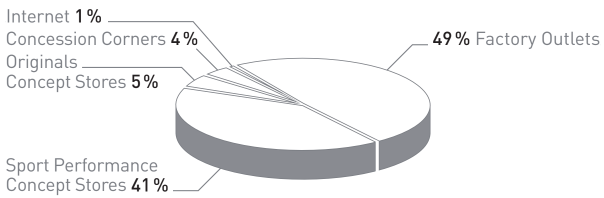
SPORT STYLE INCREASES 3 % ON A CURRENCY-NEUTRAL BASIS Sales in the Sport Style division increased 3 % on a currency-neutral basis in 2007. Sales in Originals increased moderately compared to the prior year. While revenues in the Metropolitan category declined, sales in the Urban and Coastal categories increased. Y-3 and the launch of Porsche Design also contributed to divisional growth. In euro terms, Sport Style sales declined 1 % to € 1.455 billion in 2007 (2006: € 1.470 billion).

CURRENCY-NEUTRAL ADIDAS SALES GROW IN ALL REGIONS In 2007, adidas sales increased in all regions on a currency-neutral basis. Revenues in Europe grew 8 %. Strong performance in the region's emerging markets, in particular Russia, was the primary driver of this development. Currency-neutral adidas sales in North America increased 5 %. Revenues grew in both the USA and Canada. adidas sales in Asia improved 17 % on a currency-neutral basis, due to double-digit increases in all major markets except Japan. Sales growth in China was particularly strong. In Latin America, sales grew 39 %, again making it the fastest-growing region within the adidas segment. All markets in this region grew at double-digit rates. Currency translation effects negatively impacted sales in euro terms in all regions. Sales in Europe grew 7 % in euro terms to € 3.526 billion in 2007 from € 3.302 billion in 2006. Revenues in North America decreased 3 % to € 1.275 billion in 2007 from € 1.321 billion in 2006. Sales in Asia increased 11 % to € 1.703 billion in 2007 from € 1.538 billion in 2006, and revenues in Latin America improved 34 % to € 568 million in 2007 versus € 425 million in the prior year.

ADIDAS 2007 NET SALES BY REGION



ADIDAS 2007 OWN-RETAIL SALES BY CHANNEL



ADIDAS OWN-RETAIL STORES

	2007	2006
Sport Performance Concept Stores	459	356
Originals Concept Stores	83	58
Factory Outlets	317	256
Concession Corners	142	203
Internet	2	2
Total	1,003	875

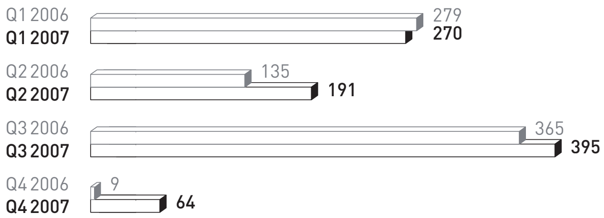
CURRENCY-NEUTRAL OWN-RETAIL SALES UP 28 % In 2007, own-retail sales increased 28 % on a currency-neutral basis. In euro terms, revenues grew 22 % to € 1.229 billion from € 1.009 billion in 2006. This increase was driven by new store openings and mid-single-digit increases in comparable store sales. adidas own-retail activities made up 17 % of brand sales in 2007, up from 15 % in the prior year. The store base at the end of 2007 comprised 542 concept stores, 317 factory outlets and 142 concession corners. During the year, adidas opened 128 concept stores and 61 factory outlets. The majority of new stores were opened in emerging markets with under-developed retail infrastructure. The number of concession corners was 61 below the prior year, mainly due to the transfer of concession corners in the Philippines to a distributor. Major openings in 2007 included Sport Performance Concept Stores in Beijing, Buenos Aires and Istanbul as well as Originals Concept Stores in Shanghai, Montreal and Liverpool.

GROSS MARGIN IMPROVES TO 47.4 % The adidas gross margin increased by 1.2 percentage points to 47.4 % in 2007 from 46.2 % in 2006. This development was in line with Management's initial expectation of a gross margin improvement. The increase was primarily driven by cost synergies resulting from the combination of adidas and Reebok sourcing activities, which positively impacted the segment's cost of sales. Improvements due to increased own-retail activities also contributed to this development. As a result, adidas gross profit grew 10 % to € 3.370 billion in 2007 versus € 3.059 billion in 2006.

ROYALTY AND COMMISSION INCOME UP 8 % In 2007, adidas royalty and commission income grew by 8 % to € 80 million from € 74 million in 2006. This increase was a result of higher external licensee sales. Higher average royalty rates also supported growth. In addition, increased intra-Group royalties received from the TaylorMade-adidas Golf segment due to strong adidas Golf sales contributed to this development. adidas royalty and commission income relates, for example, to royalty income for cosmetics, watches and glasses.

ADIDAS GROSS MARGIN BY QUARTER
in %

ADIDAS OPERATING PROFIT BY QUARTER
€ in millions



OPERATING EXPENSES AS A PERCENTAGE OF SALES GROW MODESTLY adidas operating expenses as a percentage of sales grew 0.2 percentage points to 35.6 % in 2007 (2006: 35.4 %). Higher operating overhead costs related to the continued expansion of adidas own-retail activities and one-time costs associated with the realization of cost synergies from the Reebok acquisition contributed to this increase. In euro terms, operating expenses grew 8 % to € 2.530 billion in 2007 from € 2.345 billion in 2006.

OPERATING MARGIN INCREASES TO 12.9 % In 2007, the adidas operating margin increased 1.0 percentage points to 12.9 % (2006: 11.9 %). This development was in line with initial Management expectations of an operating margin improvement. The increase was the result of positive gross margin development in the segment, which more than offset slightly higher operating expenses as a percentage of sales. Operating profit for the adidas segment increased 17 % to € 920 million versus € 788 million during the same period in the prior year.

REEBOK BUSINESS PERFORMANCE

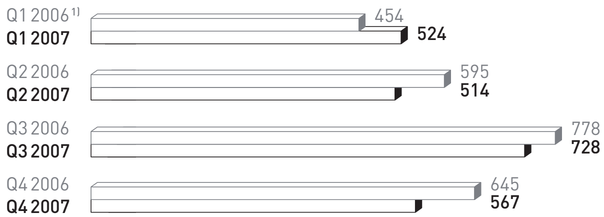
In 2007, Reebok made important progress in revitalizing the brand. While sales were below Management's expectations, profitability developed in line with Management's expectations. Currency-neutral sales for the Reebok segment were stable. In euro terms, this development represents a decrease of 6% to € 2.333 billion in 2007 from € 2.473 billion in 2006. On a like-for-like basis, sales declined 5%. The gross margin of the Reebok segment grew by 3.7 percentage points to 38.7% in 2007 from 35.0% in 2006. This increase was driven by the non-recurrence of negative purchase price allocation impacts and cost synergies from the combination of the adidas and Reebok sourcing activities, which possitively impacted the segment's cost of sales. In euro terms, Reebok's gross profit grew 4% to € 902 million in 2007 versus € 865 million in 2006. Reebok's operating margin increased by 1.2 percentage points to 4.7% in 2007 from 3.5% in the prior year, as a result of the positive gross margin development, which was partly offset by higher operating expenses as a percentage of sales. As a result, Reebok's operating profit increased by 27% to € 109 million in 2007 versus € 86 million in the prior year.

REEBOK AT A GLANCE
€ in millions

	2007	2006[1]	Change
Net sales	**2,333**	2,473	(6%)
Gross profit	**902**	865	4%
Gross margin	**38.7%**	35.0%	3.7pp
Operating profit	**109**	86	27%
Operating margin	**4.7%**	3.5%	1.2pp

1) Only includes eleven months of the twelve-month period.

REEBOK NET SALES BY QUARTER
€ in millions



1) Only includes two months of the three-month period.

TWELVE MONTHS OF REEBOK RESULTS CONSOLIDATED IN 2007

Several factors impact the comparison of Reebok's financial results to the prior year. In 2006, only eleven months were consolidated due to the acquisition date (February 1, 2006). In 2007, twelve months of Reebok's results were consolidated. This had a positive impact on the comparison of Reebok segment sales to the prior year. The segment's gross and operating margins, however, were negatively affected, as the month of January is traditionally characterized by higher-than-average clearance activities. The first-time inclusion of the Greg Norman Collection (GNC)-related sales which were generated through Reebok's own-retail outlets also positively affected the segment's revenue development. These operations were excluded from the divestiture of the GNC business and transferred from the TaylorMade-adidas Golf to the Reebok segment, effective January 1, 2007. However, the transfer of the NBA and Liverpool licensed businesses to brand adidas in the first half of 2006 had a negative effect on the segment's sales development. Purchase price allocation charges also negatively impacted Reebok's results, however to a significantly lesser extent compared to the prior year.

SEGMENT SALES STABLE ON A CURRENCY-NEUTRAL BASIS

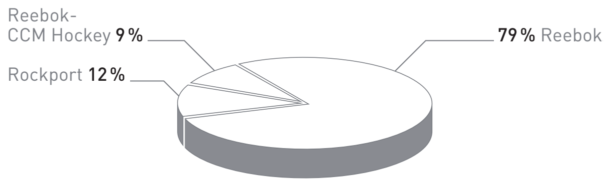
In 2007, sales for the Reebok segment were stable on a currency-neutral basis. This development was below Management's initial expectation of a low-single-digit sales increase. It was a result of the weakening market situation in Reebok's most important market, the USA, during 2007. While apparel revenues grew, footwear and hardware sales decreased. The first-time inclusion of January, which was not consolidated in 2006 due to the timing of the acquisition, had a positive impact on revenues. Incremental sales increases in several countries for which Reebok had purchased the distribution rights, in particular Russia and China, also contributed to this development. Distribution buybacks were made to better control brand management and gain market share. see Reebok Strategy, p. 050

Currency translation effects negatively impacted segment revenues in euro terms. Sales decreased 6 % to € 2.333 billion in 2007 from € 2.473 billion in 2006. On a like-for-like basis, sales declined by 5 %. This comparison reflects sales for the full year periods of both 2006 and 2007. It also includes GNC retail sales which were transferred from TaylorMade-adidas Golf to the Reebok segment, effective January 1, 2007. However, it excludes revenues related to the NBA and Liverpool licensed businesses which were transferred to brand adidas in the first half of 2006.

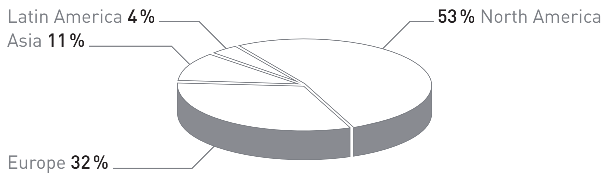
CURRENCY-NEUTRAL SALES OF BRAND REEBOK DOWN 2 %
Brand Reebok sales decreased 2 % on a currency-neutral basis. Declines in lifestyle and in most major sports categories except running led to this development. The transfer of the NBA and Liverpool licensed businesses to brand adidas also negatively impacted sales. In euro terms, sales decreased 7 % to € 1.831 billion (2006: € 1.979 billion). On a like-for-like basis, sales decreased 7 %. This comparison reflects sales for the full year periods of both 2006 and 2007 and includes GNC retail sales. However, it excludes sales related to the NBA and Liverpool licensed businesses which were transferred to brand adidas in the first half of 2006.

CURRENCY-NEUTRAL SALES OF REEBOK-CCM HOCKEY UP 9 %
Sales of Reebok-CCM Hockey increased 9 % on a currency-neutral basis in 2007. In addition to higher sales in apparel and sticks, revenue growth was supported by the first-time inclusion of January. This month was not consolidated in 2006. In euro terms, sales grew 4 % to reach € 210 million in 2007 versus € 202 million in the prior year. On a like-for-like basis, comparing sales for the full year periods of both 2006 and 2007, sales increased 3 %.

REEBOK 2007 NET SALES BY DIVISION



REEBOK 2007 NET SALES BY REGION



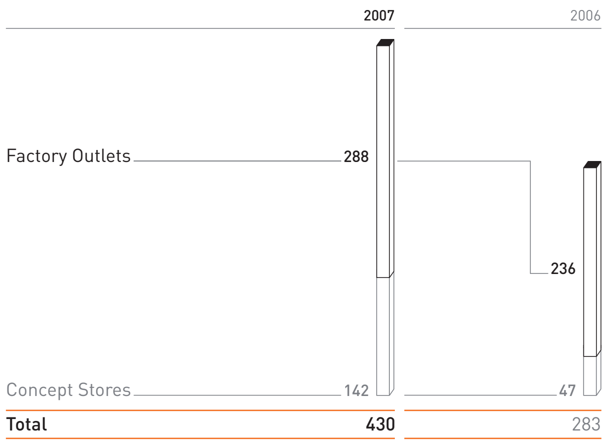
ROCKPORT SALES GROW 7 % ON A CURRENCY-NEUTRAL BASIS Rockport sales increased 7 % on a currency-neutral basis in 2007, driven by several new product launches including the Rockport with adidas TORSION® collection. The inclusion of January, which was not consolidated in 2006, also supported this development. In euro terms, Rockport revenues were almost stable at € 291 million in 2007 (2006: € 293 million). On a like-for-like basis, comparing sales for the full year periods of both 2006 and 2007, sales increased 1 %.

STRONG SEGMENT SALES GROWTH IN EMERGING MARKETS
In 2007, currency-neutral Reebok segment sales increased at a double-digit rate in both Asia and Latin America, but decreased in Europe and North America. In Europe, currency-neutral sales declined 1 %. Revenues in North America were down 5 %. In Asia and in Latin America, currency-neutral sales increased 24 % and 32 %, respectively. Reebok's sales development was supported by the inclusion of January, which was not consolidated in 2006. In euro terms, segment sales in Europe decreased 3 % to € 748 million in 2007 from € 768 million in 2006. In North America, revenues decreased 13 % to € 1.231 billion in 2007 from € 1.408 billion in 2006. Sales in Asia grew 18 % to € 269 million in 2007 (2006: € 229 million), and in Latin America revenues increased 21 % to € 84 million in 2007 (2006: € 69 million). On a like-for-like basis, Reebok segment sales declined by 5 %. In Europe, like-for-like sales declined mainly due to a decrease in the UK which could only be partly offset by improvements in the region's emerging markets. In North America, like-for-like sales were down as a result of declines in both the USA and Canada. In Asia, like-for-like sales increased due to strong growth in China and India. In Latin America, like-for-like sales were up as a result of strong sales growth, particularly in Mexico and Chile.

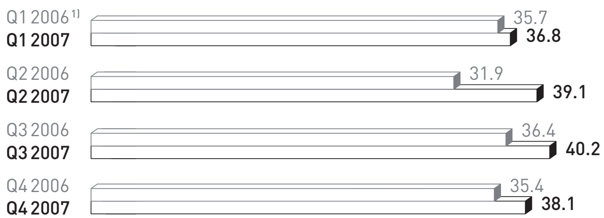
CURRENCY-NEUTRAL OWN-RETAIL SALES GROW 31 %
In 2007, Reebok own-retail sales grew 31 % on a currency-neutral basis. In euro terms, revenues increased 22 % to € 371 million from € 304 million in 2006. The first-time inclusion of January, which was not consolidated in 2006 due to the timing of the acquisition, had a positive impact on revenue growth. On a like-for-like basis, comparing sales for the full year periods of both 2006 and 2007, Reebok own-retail sales increased 23 %. Reebok own-retail activities made up 16 % of Reebok segment sales in 2007, up from 12 % in the prior year. The share of own-retail activities as a percentage of brand sales at Rockport was significantly above the segment average. The store base at the end of 2007 comprised 142 concept stores and 288 factory outlets. During the year, Reebok opened 95 concept stores and 52 factory outlets. Major openings in 2007 included concept stores in Hong Kong and Moscow.

REEBOK SEGMENT GROSS MARGIN SUPPORTED BY REALIZATION OF COST SYNERGIES The gross margin of the Reebok segment increased 3.7 percentage points to 38.7 % in 2007 from 35.0 % in 2006. This development was in line with Management's initial expectation of a gross margin increase. The improvement was driven by the non-recurrence of negative impacts from purchase price allocation. In 2006, these charges amounted to € 76 million. In addition, cost synergies in the segment's cost of sales resulting from the combination of adidas and Reebok sourcing activities had a positive effect. A shift in the segment's sales mix towards regions with higher margins was partly offset by negative effects from selective clearance initiatives in North America. In euro terms, Reebok gross profit grew 4 % to € 902 million in 2007 versus € 865 million in 2006.

REEBOK OWN-RETAIL STORES

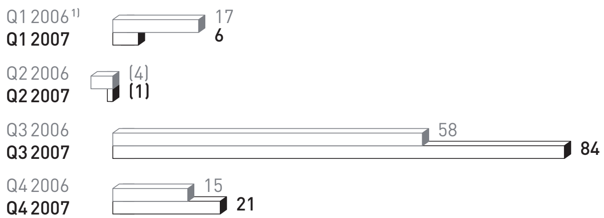


REEBOK GROSS MARGIN BY QUARTER
in %



1) Only includes two months of the three-month period.

REEBOK OPERATING PROFIT BY QUARTER
€ in millions



1) Only includes two months of the three-month period.

ROYALTY AND COMMISSION INCOME INCREASES In 2007, Reebok royalty and commission income grew 24 % to € 42 million from € 34 million in the prior year. This improvement was mainly due to the first-time inclusion of January revenues. Higher royalty rates also contributed to the increase. Reebok's royalty and commission income primarily relates to royalty income for fitness equipment.

OPERATING EXPENSES INCREASE Operating expenses as a percentage of sales increased by 3.0 percentage points to 35.8 % in 2007 versus 32.8 % in 2006. Additional expenses amounting to around € 50 million for marketing, product development and initiatives to grow the brand in emerging markets drove this increase. These expenses mainly impacted the first half of the year. The majority was spent for the brand's largest advertising campaign of the year, "Run Easy". see Reebok Strategy, p. 050 One-time costs for the Reebok integration into the adidas Group also negatively affected operating overhead development. The negative effect from purchase price allocation on operating expenses was € 12 million in 2007 (2006: € 13 million). Reebok's operating expenses grew 3 % to € 835 million in 2007 from € 812 million in the prior year.

OPERATING MARGIN UP 1.2 PERCENTAGE POINTS In 2007, the operating margin of the Reebok segment increased by 1.2 percentage points to 4.7 % from 3.5 % in the prior year. This development was in line with Management's initial expectations. Gross margin improvement more than offset the higher operating expenses as a percentage of sales. As a result, Reebok's operating profit increased 27 % to € 109 million in 2007 versus € 86 million in the prior year.

TAYLORMADE-ADIDAS GOLF BUSINESS PERFORMANCE

In 2007, sales growth in the TaylorMade-adidas Golf segment exceeded Management's initial expectations. Profitability developed in line with expectations. TaylorMade-adidas Golf revenues increased 1 % on a currency-neutral basis despite the divestiture of the Greg Norman Collection (GNC) wholesale business in November 2006. In euro terms, segment sales declined 6 % to € 804 million in 2007 from € 856 million in 2006. On a like-for-like basis, however, sales increased 9 %. The segment's gross margin grew 0.8 percentage points to 44.7 % (2006: 43.9 %) as a result of higher margins in metalwoods and irons. In euro terms, gross profit declined 4 % to € 360 million in 2007 from € 376 million in the prior year. The segment's operating margin decreased 0.4 percentage points to 8.1 % (2006: 8.5 %). This was due to higher operating expenses as a percentage of sales, which more than offset the positive gross margin development. As a result, operating profit decreased 10 % to € 65 million from € 73 million in 2006.

TAYLORMADE-ADIDAS GOLF AT A GLANCE

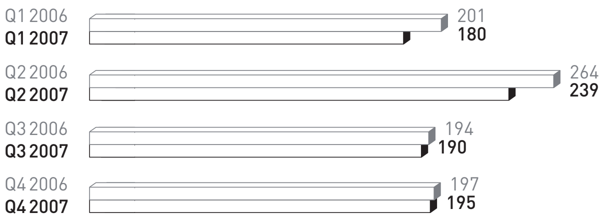
€ in millions

	2007	2006[1]	Change
Net sales	804	856	(6 %)
Gross profit	360	376	(4 %)
Gross margin	44.7 %	43.9 %	0.8 pp
Operating profit	65	73	(10 %)
Operating margin	8.1 %	8.5 %	(0.4 pp)

1) Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

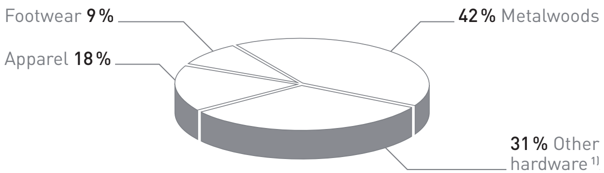
TAYLORMADE-ADIDAS GOLF NET SALES BY QUARTER[1]

€ in millions



1) Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

TAYLORMADE-ADIDAS GOLF 2007 NET SALES BY PRODUCT



1) Includes irons, putters, golf balls, golf bags, gloves and other accessories.

GNC DIVESTITURE AFFECTS REPORTED RESULTS Compared to the prior year, 2007 results of the TaylorMade-adidas Golf segment do not include results of the GNC apparel business. This is due to the divestiture of the GNC wholesale business, which was completed on November 21, 2006. In addition, results of the GNC-related retail outlet operations, which were excluded from the transaction, are now reported in the Reebok business segment. These operations relate to the distribution of GNC products via Reebok own-retail stores. The divestiture had a negative impact on the segment's sales development. In total, the GNC apparel business contributed € 63 million of sales to the TaylorMade-adidas Golf segment in 2006.

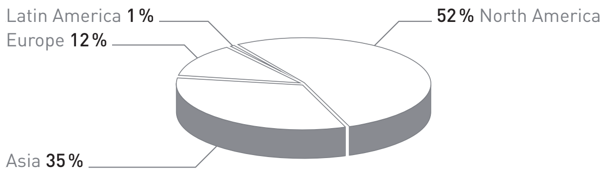
CURRENCY-NEUTRAL SALES INCREASE 1 % Currency-neutral sales at TaylorMade-adidas Golf in 2007 increased 1 % despite the divestiture of the GNC wholesale business. On a comparable basis, excluding prior year GNC sales, revenues increased 9 %. This development was above Management's initial expectation of mid-single-digit growth. Underlying adidas Golf apparel and footwear revenues grew significantly. Hardware sales, in particular in the metalwoods category, also increased. see TaylorMade-adidas Golf Strategy, p. 054 Currency translation effects negatively impacted segment revenues in euro terms. Segment sales decreased 6 % to € 804 million in 2007 from € 856 million in 2006.

CURRENCY-NEUTRAL REVENUES GROW IN NEARLY ALL REGIONS TaylorMade-adidas Golf currency-neutral sales grew in all regions except North America in 2007. Sales in Europe increased 5% on a currency-neutral basis, driven by strong growth in the UK. In North America, sales declined 9% on a currency-neutral basis. While revenues in Canada increased, declines in the USA resulting from the divestiture of the GNC wholesale business could not be offset by underlying sales increases. TaylorMade-adidas Golf sales in Asia increased 20% on a currency-neutral basis, driven by strong double-digit growth in Japan and South Korea. In Latin America, currency-neutral sales grew 32%. Revenue increases were driven by strong growth in Argentina and Mexico.

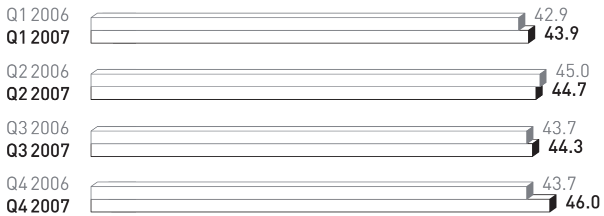
Currency translation effects negatively impacted segment revenues in euro terms. In euro terms, sales in Europe increased 3% to € 95 million in 2007 from € 92 million in 2006. Revenues in North America decreased 16% to € 422 million in 2007 from € 505 million in 2006. In Asia, sales grew 11% to € 282 million in 2007 (2006: € 254 million), and in Latin America revenues increased 20% to € 6 million in 2007 (2006: € 5 million). On a like-for-like basis, excluding the impact from the GNC divestiture, sales increased by double-digit rates in Asia and Latin America. In Europe, like-for-like revenues grew at a high-single-digit rate. Like-for-like sales in North America increased at a low-single-digit rate.

GROSS MARGIN INCREASES TO 44.7% TaylorMade-adidas Golf gross margin increased 0.8 percentage points to 44.7% in 2007 (2006: 43.9%). This development was in line with Management's initial expectation of a gross margin improvement. The increase was due to higher margins in the metalwoods and irons categories. The GNC divestiture also had a positive impact on the segment's gross margin development. Gross profit, however, decreased by 4% to € 360 million in 2007 versus € 376 million in 2006.

TAYLORMADE-ADIDAS GOLF 2007 NET SALES BY REGION

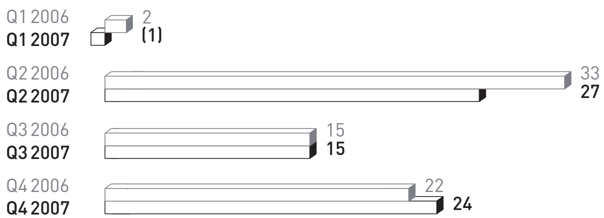


TAYLORMADE-ADIDAS GOLF GROSS MARGIN BY QUARTER 1)
in %



1) Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

TAYLORMADE-ADIDAS GOLF OPERATING PROFIT BY QUARTER 1)
€ in millions



1) Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

ADIDAS GOLF SALES GROWTH DRIVES ROYALTY AND COMMISSION EXPENSE INCREASE Royalty and commission expenses at TaylorMade-adidas Golf increased 10% to € 18 million in 2007 (2006: € 16 million). This development was driven by significantly higher adidas Golf sales, which generated higher intra-Group royalties paid to the adidas segment.

OPERATING EXPENSES AS A PERCENTAGE OF SALES INCREASE Operating expenses as a percentage of sales at TaylorMade-adidas Golf increased 0.9 percentage points to 34.4% in 2007 from 33.5% in 2006. A main reason for this increase was the divestiture of the GNC wholesale business, which had lower marketing expenditures as a percentage of sales. Operating overhead expenses as a percentage of sales were almost stable compared to the prior year. In absolute terms, operating expenses decreased 3% to € 277 million in 2007 from € 287 million in 2006.

OPERATING PROFIT DECLINES The TaylorMade-adidas Golf operating margin decreased 0.4 percentage points to 8.1% in 2007 from 8.5% in 2006. This development was in line with Management's initial expectation. The higher gross margin was unable to offset higher operating expenses as a percentage of sales. Operating profit for TaylorMade-adidas Golf declined 10% to € 65 million in 2007 versus € 73 million in 2006.

RISK AND OPPORTUNITY REPORT

The adidas Group continuously explores and develops opportunities to sustain and maximize earnings and also to drive long-term increases in shareholder value. In doing so, we acknowledge that it is necessary to take certain risks to maximize business opportunities. Our risk and opportunity management principles provide the framework for our Group to conduct business in a well-controlled environment.

RISK AND OPPORTUNITY MANAGEMENT PRINCIPLES The adidas Group is regularly confronted with risks and opportunities which have the potential to negatively or positively impact the Group's asset value, earnings, cash flow strength, or intangible values such as brand image. We have summarized the most important of these risks and opportunities in this report in three main categories: External and Industry, Strategic and Operational, and Financial.

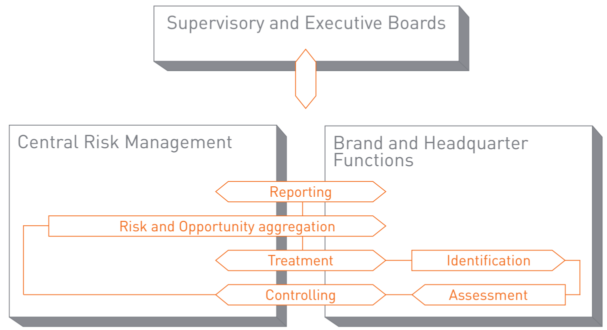
We define risk as the potential occurrence of external or internal events that may negatively impact our ability to achieve short-term goals or long-term strategies. Risks also include lost or poorly utilized opportunities.

Opportunities are broadly defined as internal and external strategic and operational developments that have the potential to positively impact the Group if properly exploited.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM To facilitate effective management, we have implemented an integrated management system which focuses on the identification, assessment, treatment, controlling and reporting of risks and opportunities. The key objective of this system is to protect and further grow shareholder value through an opportunity-focused, but risk-aware decision-making framework.

We believe that risk and opportunity management is optimized when risks, risk-compensating measures and opportunities are identified and assessed where they arise, in conjunction with a concerted approach to controlling, aggregating and reporting. Therefore, risk and opportunity management is a Group-wide activity, which utilizes critical day-to-day management insight from local and regional business units. Support and strategic direction is provided by brand and global functions. Centralized risk management is responsible for the alignment of various corporate functions in the risk and opportunity management process and coordinates the involvement of the Executive and Supervisory Boards as necessary. Centralized risk management is also responsible for providing line management with relevant tools and know-how to aggregate and control risks and opportunities utilizing a consistent methodology.

ADIDAS GROUP RISK AND OPPORTUNITY MANAGEMENT SYSTEM



Of significant importance is our Group's Risk Management Manual, which is available to all Group employees online. The manual outlines the principles, processes, tools, risk areas and key responsibilities within our Group. It also defines reporting requirements and communication timelines. Our Group supplements this top-down, bottom-up approach to risk and opportunity management by employing our Global Internal Audit department to independently assess and appraise operational and internal controls throughout the Group.

The main components of our risk and opportunity management process are:

- *Risk and opportunity identification:* The adidas Group continuously monitors the macroeconomic environment, developments in the sporting goods industry, as well as internal processes to identify risks and opportunities as early as possible. Local and regional business units have primary responsibility for the identification and management of risk and opportunities. Central risk management has defined a catalog of potential risks and opportunities for our Group to assist in the identification process. In addition to the potential financial impacts from changes in the overall macroeconomic, political and social landscape, each business unit actively monitors brand, distribution channel and price point developments in our core sport, leisure lifestyle and sport fusion markets. A key element of the identification process is primary qualitative and quantitative research such as trend scouting, consumer surveys and feedback from our business partners and controlled space network. These efforts are supported by global market research and competitor analysis. Here, secondary material such as NPD Sports Tracking Europe or SportsScanInfo market research data is analyzed and global relationships with independent trend and media agencies such as QRC, ICON Added Value and Trendwatching.com are maintained. Through this process we seek to identify the markets, categories, consumer target groups and product styles which show most potential for future growth at a local, regional and global level. Equally, our analysis focuses on those areas that are at risk of saturation, increased competition or changing consumer tastes.

- *Risk and opportunity assessment:* Identified risks and opportunities are assessed with respect to (1) occurrence probability, and (2) the potential contribution loss or profit, with contribution being defined as operating profit before intra-Group royalties. The occurrence probability of individual risks and opportunities is evaluated on a scale of 0 to 100 % likelihood. In this report, we summarize these findings by utilizing "high", "medium" or "low" classifications to represent an aggregate likelihood for various risk and opportunity categories. As risks and opportunities have different characteristics, we have defined separate methodologies for assessing the potential financial impact. With respect to risks, the extent of potential loss is measured on a case-by-case basis as the contribution deviation from the most recent forecast under the assumption that the risk fully materializes. This calculation also reflects the effects from risk-compensating measures. In assessing the potential contribution from opportunities, each opportunity is appraised with respect to viability, commerciality, potential risks and the expected profit contribution. This approach is applied to both longer-term strategic prospects but also shorter-term tactical and opportunistic initiatives at both the Group and, more extensively, the brand level.

- *Risk and opportunity treatment:* Risks and opportunities are treated in accordance with the Group's risk and opportunity management principles and the Risk Management Manual. Line management in cooperation with central risk management and, in exceptional cases, the Executive Board and / or Supervisory Board, decides which individual risks we accept or avoid and those opportunities to pursue or forgo. As part of this process, we also decide on which risk-compensating or transfer measures will be implemented. Similarly, to maximize opportunities, it may be necessary to reduce or limit distribution to protect prices and margins or prolong product lifecycles. In some cases, we also seek to transfer the responsibility or execution for certain risks and opportunities to third parties (e. g. insurance, outsourcing, distribution agreements or brand sub-licensing).

- *Risk and opportunity monitoring and controlling:* A primary objective of our integrated risk and opportunity management system is to increase the transparency of Group risks and opportunities. In addition, we also seek to measure the success of our risk-compensating initiatives. The Group centrally monitors each of these efforts on a frequent basis. In particular, central risk management regularly examines the results of actions taken by operational management to accept, avoid, reduce or transfer risks over time. With respect to opportunities, we regularly monitor the objectives and key performance indicators established during the initial identification and evaluation process. This not only facilitates the validation of opportunities but also allows us to adapt and refine our products, communication and distribution strategy to ongoing developments in our rapidly changing marketplace. In particular, we collaborate with our manufacturing partners and retail customers to evaluate the impact of our growth and efficiency initiatives. Feedback is relayed in a timely manner to product, marketing and controlling functions.

- *Risk and opportunity aggregation and reporting:* Central risk management aggregates Group-wide risks and reports them to the Executive Board on a regular basis. Individual risks are aggregated based on the sum of all assessed risks (sum of occurrence likelihood × potential net loss), taking correlations between individual risks into account. Risks with a likely impact of at least € 1 million on the forecasted full-year contribution are reported to central risk management on a monthly basis. In addition, risks with a likely financial impact of € 5 million or more are required to be reported immediately upon identification to central risk management. Opportunities are aggregated separately as part of the strategic business planning, budgeting and forecasting processes. The realization of risks and opportunities can have a critical impact on our ability to achieve our strategic objectives. Therefore, Management is updated in regular business reviews, but also through ad hoc discussions as appropriate.

CORPORATE RISKS OVERVIEW

	Probability of occurrence	Potential financial impact
External and Industry Risks		
Macroeconomic risks	medium	medium
Consumer demand risks	medium	medium
Industry consolidation risks	medium	medium
Political and regulatory risks	low	medium
Legal risks	low	medium
Risks from product counterfeiting	high	low
Social and environmental risks	low	low
Natural risks	low	low
Strategic and Operational Risks		
Portfolio integration risks	low	high
Risks from loss of brand image	medium	medium
Own-retail risks	medium	medium
Risks from rising input costs	medium	medium
Supplier default risks	low	low
Product quality risks	low	low
Customer risks	medium	low
Risk from loss of key partnerships	medium	low
Product design and development risks	low	high
Personnel risks	low	medium
Risks from non-compliance	low	medium
IT risks	low	high
Financial Risks		
Credit risks	low	low
Financing and liquidity risks	low	high
Currency risks	low	low
Interest rate risks	low	low

EXTERNAL AND INDUSTRY RISKS

MACROECONOMIC RISKS Growth of the sporting goods industry is influenced by consumer confidence and consumer spending. Abrupt economic downturns, in particular in regions where the Group is highly represented, therefore pose a significant short-term risk to sales development. To mitigate this risk, the Group strives to balance sales across key global regions and also between developed and emerging markets. In addition, a core element of our performance positioning is the utilization of an extensive global event and partnership portfolio where demand is more predictable and less sensitive to macroeconomic influence.

In 2008, the Group expects global and, in particular, North American economic growth to slow. see Outlook, p. 118 Similarly, the risk of macroeconomic shocks has increased versus 2007. However, economic expansion in emerging markets, including China, Russia and India, is expected to continue. These markets have overtaken North America and the European Union as the largest contributors to Group revenue growth. Nevertheless, we now assess the likelihood that adverse macroeconomic events could impact our business as medium. The materialization of such events could have a medium negative financial impact on our Group.

CONSUMER DEMAND RISKS Failure to anticipate and respond to changes in consumer demand is one of the most serious threats to our industry. Consumer demand changes can be sudden and unexpected. Because industry product procurement cycles average 12 to 18 months, the Group faces a risk of short-term revenue loss in cases where it is unable to respond quickly to such changes. Even more critical, however, is the risk of continuously overlooking a new consumer trend or failing to acknowledge its potential magnitude over a sustained period of time.

To mitigate this risk, continually identifying and responding to consumer demand shifts as early as possible is a key responsibility of our brands. In this respect, we utilize extensive primary and secondary research tools as outlined in our risk and opportunity identification process.

As a leader in our industry, our core brand strategies continue to be focused on influencing rather than reacting to the changing consumer environment. We invest significant resources in research and development to innovate and bring fresh new technologies and designs to market. see Research and Development, p. 072 In addition, we also seek to create consumer demand for our brands and brand initiatives through extensive marketing, product and brand communication programs. And, we continue to focus on supply chain improvements to speed up concept-to-shelf timelines. see Global Operations, p. 062 In 2007, we implemented new consumer segmentation strategies at both brand adidas and Reebok and combined Group resources for market research and competitor research. In addition, we increased and focused our marketing working budget spend at Reebok, in line with the future positioning of the brand. We plan further initiatives in this respect in 2008.

Given the broad spectrum of our Group's product offering, retailer feedback, visibility provided through our order backlogs and other early indicators, see Internal Group Management System, p. 056 we view the overall risk from consumer demand shifts as unchanged versus the prior year. Changes in consumer demand continue to have a medium likelihood of occurrence and could have a potential medium impact on our Group.

INDUSTRY CONSOLIDATION RISKS The adidas Group is exposed to risks from market consolidation and strategic alliances amongst competitors and/or retailers. This can result in a reduction of our bargaining power, or harmful competitive behavior such as price wars. Abnormal product discounting and reduced shelf space availability from retailers is the most common outcome of these risks. Sustained promotional pressure in one of the Group's key markets could threaten the Group's sales and profitability development.

To moderate this risk, we are committed to maintaining a regionally balanced sales mix and continually adapting the Group's distribution strategy. In 2007, we employed this strategy by instigating a new adidas distribution policy in the UK. In this market, several years of retail consolidation had led to inadequate product presentation among retailers. As a result, we now offer our top product range to retailers who satisfy more stringent trade policy requirements concerning, for example, the display of product and training of staff. Although this strategy had a short-term negative impact on sales, it significantly improved the brand's attractiveness to consumers at point-of-sale and led to a strong sales improvement in the fourth quarter of 2007.

Despite a more challenging merger and acquisition environment due to credit market difficulties, we continue to expect further consolidation activity among our competitors and retail partners. This is a result of the strong balance sheets and solid free cash flows within our industry. Therefore, we continue to see risks from market consolidation as having a medium likelihood and a medium potential impact on both Group sales and profitability.

POLITICAL AND REGULATORY RISKS Political and regulatory risk includes potential losses from expropriation, nationalization, civil unrest, terrorism and significant changes to trade policies. In particular, the adidas Group faces risks arising from sudden increases of import restrictions, import tariffs and duties that could compromise the free flow of goods within the Group and from suppliers. To limit these risks, we utilize a regionally diversified supplier base which allows us to shift production to other countries at an early stage if necessary.
see Global Operations, p. 062

In 2008, we do not foresee major changes to current trade policies that would have a major adverse effect on our Group. The Memorandum of Understanding between the EU and China which enforced quotas on certain apparel categories expired at the end of 2007. We regard the likelihood of a reintroduction of quotas as low because both parties have agreed on other control mechanisms to manage export growth into the EU. The current apparel quota system between the USA and China remains in place throughout 2008. In October 2008, the European Commission will review its anti-dumping measures on leather shoes imported from countries excluding China and Vietnam. However, we anticipate exceptions for technical athletic footwear, which represents the majority of our footwear product offering, to be maintained with only minor adaptations. Nonetheless, due to the proactive regional diversification of our sourcing portfolio, any unforeseen changes in the new EU legislation would likely have a very minor financial effect on our Group. Similarly, we continue to regard the medium-term risk of further political and regulatory actions as having a low probability of occurrence. However, an unexpected significant change in the political or regulatory environment could have a medium potential financial impact.

LEGAL RISKS The adidas Group is exposed to the risk of claims and litigation for infringement of third party trademark, patent and other rights. To reduce this risk, new product technologies, designs and names are carefully researched to identify and avoid potential conflicts with the rights of third parties. In February 2006, a major competitor sued the adidas Group for an alleged infringement of patent rights regarding a range of footwear models. This litigation was settled amicably in 2007. Also in 2007, several suppliers and retailers in the athletic footwear industry, including the adidas Group, were sued for infringement of two patents relating to footwear designs. The adidas Group is vigorously contesting the claims in this litigation. We have also strengthened our Intellectual Property department resources to drive further enhancements in our patent portfolio, and in the reviewing and analysis of third party patents.

Due to the safeguards in place, we believe there is a low likelihood of our Group infringing third party trademark or patent rights in a material way. Nevertheless, we continue to believe that litigation could have a medium financial impact on our Group.

RISKS FROM PRODUCT COUNTERFEITING As popular consumer brands which rely on technological and design innovation as defining characteristics, the Group's brands are a frequent target for counterfeiting and imitation. Over seven million counterfeit adidas Group products were seized worldwide in 2007 (2006: more than six million). To reduce the loss of sales and the potential reputation damage resulting from counterfeit products sold under our brand names, the adidas Group makes use of extensive legal protection (generally through registration) and works closely with law enforcement authorities, investigators and outside counsel. Although we have stepped up measures such as product security labeling with our authorized suppliers, continued development of these measures remains a high priority for 2008 and beyond.

We regard the likelihood of sustained counterfeiting as high in the short and medium term. However, we believe we have adequate costs budgeted to support our ongoing efforts to successfully combat counterfeiting. We continue to assess the potential risk of counterfeiting to negatively impact our forecasted financial contribution as low.

SOCIAL AND ENVIRONMENTAL RISKS We have a continuing responsibility to our workers, suppliers and the environment. Malpractice in these areas, in particular human rights violations and dubious employment practices, can have a significant impact on the reputation and operational efficiency of our Group and our suppliers. To limit this risk, we have established workplace standards to which suppliers must conform before and during business relationships with the Group. see Sustainability, p. 065 Internal inspections of supplier factories verified by extensive independent audits are conducted regularly. In the event of non-compliance with these standards, we develop joint action plans and set deadlines for compliance and further improvement. When these deadlines are not met, business relations are terminated. see Sustainability, p. 065, and www.adidas-Group.com/sustainability

We expect to further strengthen our supplier monitoring program in 2008. As a result, we continue to regard the risk of social and environmental malpractice as likely in only isolated cases and we believe the potential financial impact is low.

NATURAL RISKS The adidas Group is exposed to external risks such as natural disasters, epidemics, fire and accidents. Further, physical damage to our own or our suppliers' premises, production units, warehouses and stock in transit can lead to property damage and business interruption. These risks are mitigated by ample loss prevention measures such as working with reliable suppliers and logistics providers who guarantee high safety standards and disaster recovery plans. In addition to the considerable insurance coverage we have secured, the Group has also implemented contingency plans to minimize potential negative effects.

Our overall assessment of this risk is unchanged versus the prior year. As a result, we believe the likelihood of natural risks is low and expect only minor financial loss after insurance compensation should natural risks materialize.

STRATEGIC AND OPERATIONAL RISKS

PORTFOLIO INTEGRATION RISKS The adidas Group is exposed to risks related to the integration of newly acquired businesses. In our ongoing initiatives to integrate the Reebok brand, we face a risk of overestimating potential revenue and cost synergies as well as organizational execution risks. Organizational execution risks relate, for example, to the standardization of functional business processes across the different brands and harmonization of the Group's IT systems. To mitigate these risks, we implemented a dedicated controlling function in 2006 to continuously oversee our integration activities.

The realization of the projected revenue and cost synergies in 2007, as well as internal transparency on 2008 initiatives, supports our confidence in achieving our medium-term synergy targets. see Outlook, p. 118 We therefore believe there continues to be a low likelihood of portfolio integration risk occurrence. Due to the magnitude of projected synergies, however, we still regard the potential financial impact of these risks as high.

RISKS FROM LOSS OF BRAND IMAGE Maintaining and enhancing brand image and reputation through the creation of strong brand identities is crucial for sustaining and driving revenue and profit growth. It is also an important credential as we extend our brands into new categories and regions. The adidas Group faces considerable risk if we are unable to uphold high levels of consumer awareness, affiliation and purchase intent for our brands. To mitigate this risk, we have defined clear mission statements, values and goals for all our brands. These form the foundation of our product and brand communication strategies. We also continually refine our product offering to meet shifts in consumer demand and to contemporize our offering to respond to current trends. Central to all our brand image initiatives is ensuring clear and consistent messaging to our targeted consumer audience, in particular at point-of-sale. Strong brand momentum at adidas and TaylorMade-adidas Golf, as evidenced in improving market research results, gives us confidence that brand image risk in both these segments remains low.

During the past twelve months, we introduced our first post-acquisition initiatives to support our long-term brand image strategy for Reebok. In 2008, we will increase our efforts by launching several new product technologies and a new global brand campaign to improve the overall consumer experience for the Reebok brand. see Reebok Strategy, p. 050 Nevertheless, due to the current weakness of the brand in North America and the UK, and the possibility that our revitalization initiatives fail to improve brand image in the short term, we view the likelihood of a further reduction in brand image as medium. This could potentially have a high financial impact on the sales and profitability of the Reebok segment.

Aggregating these risks, we continue to believe that brand image risk for the Group has a medium likelihood of occurrence and also a medium potential financial impact on our Group.

OWN-RETAIL RISKS New adidas, Reebok and Rockport own-retail stores require considerable up-front investment in furniture and fittings as well as ongoing maintenance. In addition, own-retail activities often require longer-term lease or rent commitments. Own retail also employs significantly more personnel in relation to net sales than our wholesale business. The higher portion of fixed costs compared to our wholesale business implies a larger profitability impact in cases of significant sales declines. The Group minimizes this risk by only entering into lease contracts with a duration of less than ten years. Store performance is measured by a retail scorecard consisting of nine quantitative key performance indicators. All shops are ranked by their weighted average score. Underperforming stores are restructured or closed as appropriate.

We continue to believe the likelihood of major closures is medium. However, due to the strong growth of own-retail activities and a rapidly consolidating retail environment, we assess the potential financial impact from these closures, which may also involve impairment charges, as medium.

RISKS FROM RISING INPUT COSTS Raw material and labor costs account for approximately 70 % of the Group's cost of sales. Prices of materials such as rubber, which closely correlate with the oil price, are especially subject to the risk of price increases. As our ordering process and price negotiations usually take place around six months in advance of production, our sourcing function has visibility and reaction time to manage and plan for sharp increases in input costs.

To reduce the financial impact on our product margins from higher sourcing costs, we collaborate closely with our vendors to increase efficiency in manufacturing processes and search for new materials. In addition, we have exploited economies of scale from our higher sourcing volume following the Reebok acquisition and are constantly improving production efficiency. see Global Operations, p. 062 We may also compensate for this risk by increasing the selling prices of our products – although this is subject to the prevailing consumer and retail climate. In addition, in the medium term we have the ability to adapt our sourcing structure to take advantage of more competitive pricing in other locations.

We continue to assess the risks from rising input costs as having a medium likelihood. As a result of the time lag between ordering and production, we believe the short-term financial impacts from input cost increases are low. However, with the sharp oil price increases during 2007, ongoing wage inflation in Asia and increasing freight costs, we believe the potential financial impact from rising input costs has grown for the medium term. This could have a medium financial impact on our profitability beyond 2008.

SUPPLIER DEFAULT RISKS Over 95 % of our product offering is sourced through independent suppliers mainly located in Asia. see Global Operations, p. 062 To reduce the risk of business interruptions following a potential supplier default, we work with vendors who demonstrate reliability, quality, innovation and continuous improvement. In addition, we have bought insurance coverage for the risk of business interruptions caused by physical damage to supplier premises. The Group has also significantly reduced the number of independent manufacturers by combining the adidas and Reebok sourcing organizations. This exercise has allowed us to reduce risk by simplifying our sourcing structure, and focusing on the highest-quality suppliers, without compromising our flexibility or competitiveness.

We continue to assess supplier risks as having a low likelihood of occurrence and potential financial impact.

PRODUCT QUALITY RISKS The adidas Group faces a risk of selling defective product, which may result in injury to consumers and / or image impairment. We mitigate this risk through rigorous testing prior to production, close cooperation with suppliers throughout the manufacturing process, random testing after retail delivery, open communication about defective products and quick settlement of product liability claims when necessary. In 2007, approximately 3,400 FSMK hockey masks which were delivered to retail in Canada, Europe and the USA, were subsequently recalled voluntarily due to a quality issue. The issue arose during subsequent random testing of products after market launch. During these random tests, a hockey puck was aimed at full speed directly at the face masks. Many of the masks dented and the coating chipped slightly. No incidents or injuries were reported before or after the recall.

Our assessment of product quality risk remains unchanged versus the prior year. We regard the likelihood of significant product liability cases or having to conduct wide-scale product recalls as low. As we have insurance protecting us against the financial consequences of significant product liability cases, we also assess the financial impact as low.

CUSTOMER RISKS Customer risks arise from our dependence on key customers who have the ability to exert bargaining power and can therefore cause considerable margin pressure or cancel orders. These risks exist not only due to the relative size of some of our major customers, but also as a result of our limited ability to impact how they conduct business and the external impacts of the consumer environment in which they operate.

To limit these risks, we utilize a broad distribution strategy which includes our expanding controlled space activities. This enables us to reduce negative consequences that result from sales shortfalls that can occur with key customers. Specifically, no customer at brands adidas, Reebok and TaylorMade-adidas Golf accounted for more than 10 % of brand sales in 2007. In addition, we are proactively cooperating with key retail partners to further optimize sales through innovative point-of-sale initiatives (e. g. our shop-in-shop concepts at Dick's Sporting Goods).

When necessary, we also restrict the distribution of our brands to protect brand image or product margins, and to streamline supply. For example, in the course of 2007, the Group decided to limit the Reebok product offering to an important mall-based key account in North America who had continually discounted Reebok product. Although we have been strengthening Reebok's business in other retail channels such as sporting goods, we expect this development will have a significant negative impact on Reebok segment sales in North America throughout 2008. Nevertheless, the Group projects only a low impact on the Group's overall contribution in 2008 from this action.

Due to the current difficulties at mall-based retailers and the overall economic environment in the USA, we continue to view a strong reduction of business with one of our brands' biggest retailers as having a medium likelihood of occurrence. Such an event could have a medium financial impact on the sales and profitability of a particular region. However, on a Group level, we continue to view the financial impact from customer risks as low.

RISKS FROM LOSS OF KEY EVENT OR PROMOTION PARTNERSHIPS Event and promotion partnerships play an important role in building brand image and generating sales of licensed product. The adidas Group faces the risk of either losing key partnerships or having to accept unfavorable terms due to intensified competition for attractive contracts. To mitigate these inherent risks, we regularly seek to extend our most important partnership agreements before contract expiry. We also regularly include change-of-control clauses as well as non-cash compensation components in contracts to avoid the risk that negotiations are reduced solely to price. In addition, we follow a strategy of broadening the Group's portfolio of premium partnerships in order to reduce our reliance on single affiliations.

During 2007, we successfully secured long-term contract extensions with a variety of important partners and announced several important new event and multi-year promotion partnership agreements. see adidas Strategy, p. 046 In 2007, competition for top partnership assets within our industry increased notably. An example of this was an attempt from a major competitor to sign the German Football Federation (DFB). Although we successfully extended our contract with the DFB, we now believe there is a medium likelihood of losing important individual promotion contracts. Nevertheless, given the maturity of our most important contracts, we assess the potential financial impact of this risk to be low in the medium term.

PRODUCT DESIGN AND DEVELOPMENT RISKS Innovative and attractive products generate strong sales and – more importantly – create a halo effect for other products. The speed with which new product technologies and fresh designs are brought to market is decisive for maintaining competitive advantage. In 2007, all brands generated the majority of their sales with products which had been brought to market over the last 12 to 18 months. see Research and Development, p. 072 If the adidas Group failed to maintain a strong pipeline of new innovative products over a sustained period of time, we would risk a significant sales decline. We continue to invest in increasing our innovational and design strength. To ensure we can quickly adapt to changing consumer preferences, we focus on streamlining research and development processes to speed up the time to market.

We continue to assess the occurrence probability of this risk, which could potentially have a significant financial impact, as low.

PERSONNEL RISKS The adidas Group's future success is highly dependent on our employees and their talents. We thus face the risk of being unable to identify, recruit and retain the most talented people that best meet the specific needs of our Group. To reduce this risk, and enable our employees to make use of their full potential, we strongly engage in developing a motivating working environment. Our goal is to make the adidas Group the "Employer of Choice" within our industry. This is supplemented by offering attractive reward and incentive schemes as well as long-term career opportunities and planning. see Employees, p. 068

In 2007, we believe our personnel risks have increased moderately due to (1) growth of our own-retail activities where employee turnover is higher than the Group average, and (2) growth in emerging markets where higher levels of wage inflation increase the volatility of the employment market. Nevertheless, we continue to regard the occurrence likelihood of these risks as low. Should these risks materialize, they could have a medium financial impact on our Group.

RISKS FROM NON-COMPLIANCE We face the risk that our employees breach rules and standards that guide appropriate and responsible business behavior. In order to successfully manage this risk, the Group Policy Manual was launched at the end of 2006 to provide the framework for basic work procedures and processes. It also includes a newly developed Code of Conduct which stipulates that every employee shall act ethically in compliance with the laws and regulations of the legal systems where they conduct Group business. In 2007, the Group launched a new Code of Conduct e-learning tool as part of our Global Compliance Program to facilitate the ongoing training of our staff in these matters. see Corporate Governance Report, p. 026 The global roll-out of this tool will be completed in 2008. Participation is mandatory for all employees.

We continue to regard the likelihood of grave misconduct as low. Should they materialize, these risks could have a medium financial impact on the Group.

IT RISKS A Group-wide breakdown of IT systems or a significant loss of data could result in considerable disruptions to our business. Insufficient project management could delay the execution of projects critical to the Group or make them more expensive than planned. To mitigate system default risk, we review our IT policy on a regular basis and engage in proactive maintenance and business continuity planning. We perform scheduled backups several times a day and one full backup daily, alternating between two different data center locations. In addition, for the central enterprise resource planning system, our contingency solution allows us to quickly switch to a remote site if necessary – without any data loss. System security and reliability are reviewed and tested internally and via external audits on a regular basis. Our target availability of 99.7 % for major IT applications was exceeded in 2007. IT project risks are further mitigated by implementing a proven project methodology for all IT projects and by performing regular risk reviews for all major projects.

We believe the risk of a major IT default continues to be extremely low. Such a default, however, would result in a significant potential financial impact.

FINANCIAL RISKS

CREDIT RISKS A credit risk arises if a customer or other counterparty to a financial instrument fails to meet its contractual obligations. The adidas Group is exposed to credit risk from its operating activities and from certain financing activities. Credit risks arise principally from accounts receivable and to a lesser extent from other contractual financial obligations such as other financial assets, short-term bank deposits and derivative financial instruments. see Note 23, p. 180 Without taking into account any collateral or other credit enhancements, the carrying amount of financial assets represents the maximum exposure to credit risk.

At the end of 2007, there was no relevant concentration of credit risk by type of customer or geography. Instead, our credit risk exposure is mainly influenced by individual customer characteristics. Under the Group's credit policy, new customers are analyzed for creditworthiness before standard payment and delivery terms and conditions are offered. This review utilizes external ratings from credit agencies. Purchase limits are also established for each customer. Then both creditworthiness and purchase limits are monitored on an ongoing basis. Customers that fail to meet the Group's minimum creditworthiness are allowed to purchase products only on a pre-payment basis. Other activities to mitigate credit risks, which are employed on a selective basis only, include credit insurances, bank guarantees as well as retention of title clauses.

The Group utilizes allowance accounts for impairments that represent our estimate of incurred credit losses with respect to accounts receivable. The allowance consists of two components: (1) an allowance based on historical experience of unexpected losses established for all receivables based on the ageing structure of receivables past due date, and (2) a specific allowance that relates to individually assessed risk for each specific customer – irrespective of ageing. Allowance accounts are used to record impairment losses unless our Group is satisfied that no recovery of the amount owed is possible; at that point the amount considered irrecoverable is written off against the receivable directly.

At the end of 2007, no customer at either adidas, Reebok or TaylorMade-adidas Golf accounted for more than 10 % of accounts receivable. Allowance for doubtful accounts receivable remained at a similar level of total accounts receivable in 2007 compared to the prior year. Our Days of Sales Outstanding were unchanged compared to the prior year at 58 days. As a result, we believe that our overall credit risk level from customers has remained nearly unchanged despite an increasingly difficult retail environment in many key markets. see Economic and Sector Development, p. 078 Therefore, we continue to estimate the likelihood and potential financial impact of credit risks from customers as low.

Credit risks from other financial contractual relationships include items such as other financial assets, short-term bank deposits and derivative financial instruments. The adidas Group Treasury department arranges currency and interest rate hedges, and invests cash, with major banks of a high credit standing throughout the world. All banks are rated "A–" or higher in terms of Standard & Poor's long-term ratings (or a comparable rating from other rating agencies). Foreign-based adidas Group companies are authorized to work with banks rated "BBB+" or higher. Only in exceptional cases are subsidiaries authorized to work with banks rated lower than "BBB+". To limit risk in these cases, restrictions are clearly stipulated such as maximum cash deposit levels. As a result, we estimate the likelihood and potential financial impact of credit risks from these assets as low. We believe our risk concentration is limited due to the broad distribution of our investment business with a syndicate of approximately 30 banks. In 2007, no bank accounted for more than 17 % of our investment business and the average concentration is 1 %. This leads to a maximum exposure of € 63 million in the event of default of any single bank.

FUTURE CASH OUTFLOWS
€ in millions

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	After 5 years	Total
As at December 31, 2007					
Bank borrowings incl. commercial paper	0	—	198	—	**198**
Private placements	186	583	376	419	**1,564**
Convertible bond	—	384	—	—	**384**
Accounts payable	849	—	—	—	**849**
Other financial liabilities	16	1	1	2	**20**
Derivative financial liabilities	88	62	8	2	**160**
Total	**1,139**	**1,030**	**583**	**423**	**3,175**
As at December 31, 2006					
Bank borrowings incl. commercial paper	144	—	275	—	**419**
Private placements	109	610	474	591	**1,784**
Convertible bond	—	—	375	—	**375**
Accounts payable	752	—	—	—	**752**
Other financial liabilities	18	2	2	3	**25**
Derivative financial liabilities	37	29	12	5	**83**
Total	**1,060**	**641**	**1,138**	**599**	**3,438**

FINANCING AND LIQUIDITY RISKS Liquidity risks arise from not having the necessary resources available to meet maturing liabilities with regard to timing, volume and currency structure. In addition, the adidas Group faces the risk of having to accept unfavorable financing terms due to liquidity restraints. Our Group's Treasury department uses an efficient cash management system to manage liquidity risk. At December 31, 2007, Group cash and cash equivalents amounted to € 295 million (2006: € 311 million). Moreover, our Group maintains credit lines and long-term financing arrangements with leading banks, such as a € 2 billion international medium-term syndicated loan facility and a € 2 billion Commercial Paper Program, in order to ensure sufficient liquidity at all times.
see Treasury, p. 091

Future cash outflows arising from financial liabilities that are recognized in the Consolidated Balance Sheet are presented within the adjacent table. This includes payments to settle obligations from borrowings as well as cash outflows from cash-settled derivatives with negative market values. Financial liabilities that may be settled in advance without penalty are included on the basis of the earliest date of potential repayment. Cash flows for variable-interest liabilities are determined with reference to the conditions at the balance sheet date.

In 2007, we reduced net debt by € 465 million. see Treasury, p. 091 As a result of this effort, we have reduced our exposure to financing and liquidity risks in 2007. We view these risks as having a low likelihood of occurrence. Nevertheless, failure to maintain liquidity could have a high financial impact on Group performance.

CURRENCY RISKS Currency risks for the adidas Group are a direct result of multi-currency cash flows within the Group. The biggest single driver behind this risk results from the mismatch of the currencies required for sourcing our products versus the denominations of our sales. The vast majority of our sourcing expenses are in US dollars while sales are denominated in other currencies to a large extent – most notably the euro and the British pound. Since Group companies in the UK are invoiced in euro internally, our main exposures are a US dollar short and a British pound long exposure versus the euro.

In line with IFRS 7 requirements, we have estimated the impact on net income and shareholders' equity based on changes in our most important currency exchange rates. The calculated impacts mainly result from our hedging practice. The analysis does not include effects that arise from the translation of our foreign entities' financial statements into the Group's reporting currency. The sensitivity analysis is based on the net balance sheet exposure, including inter-company balances from monetary assets and liabilities denominated in foreign currencies. Moreover, all currency derivatives were re-evaluated using hypothetical foreign exchange rates to determine the effects on net income and equity. The analysis was performed on the same basis for both 2006 and 2007.

Based on this analysis, a 10 % increase in the euro versus the US dollar at December 31, 2007, would have led to a € 5 million increase in net income. The negative market values of the US dollar hedges would have decreased shareholders' equity by € 111 million. A 10 % weaker euro at December 31, 2007 would have led to a € 6 million decrease in net income. Shareholders' equity would have increased by € 130 million. The impacts of fluctuations of the euro against the British pound and other major currencies on net income and shareholders' equity are also included in accordance with IFRS requirements.

EXPOSURE TO FOREIGN EXCHANGE RISK [1]
based on notional amounts, € in millions

	USD	GBP	Other
As at December 31, 2007			
Exposure from firm commitments and forecasted transactions	(2,510)	442	726
Balance sheet exposure including intercompany exposure	(65)	15	100
Total gross exposure	**(2,575)**	**457**	**825**
Hedged with other cash flows	154	0	0
Hedged with currency options	562	0	141
Hedged with forward contracts	1,124	153	309
Net exposure	**(735)**	**304**	**375**
As at December 31, 2006			
Exposure from firm commitments and forecasted transactions	(2,088)	497	701
Balance sheet exposure including intercompany exposure	(67)	76	59
Total gross exposure	**(2,154)**	**573**	**760**
Hedged with other cash flows	89	0	0
Hedged with currency options	543	44	90
Hedged with forward contracts	544	189	226
Net exposure	**(978)**	**340**	**444**

1) Rounding differences may arise in totals.

SENSITIVITY ANALYSIS OF FOREIGN EXCHANGE RATE CHANGES
€ in millions

	USD	GBP	Other
As at December 31, 2007			
Euro +10 %			
Equity	(111)	9	9
Net income	5	(1)	(9)
Euro –10 %			
Equity	130	(11)	(11)
Net income	(6)	2	11
As at December 31, 2006			
Euro +10 %			
Equity	(53)	12	10
Net income	6	(7)	(5)
Euro –10 %			
Equity	72	(13)	(12)
Net income	(7)	8	6

However, many other financial and operational variables that could potentially reduce the effect from currency fluctuations are excluded from the analysis. These include:

- Interest rates and all other exchange rates are assumed constant.

- Exchange rates are assumed at a year-end value instead of the more relevant sales-weighted average figure, which we utilize internally to better reflect both the seasonality of our business and intra-year currency fluctuations.

- The underlying forecasted cash flow exposure (which the hedge instrument mainly relates to) is not required to be revalued in this analysis.

- Operational issues, such as potential discounts to key accounts who have high transparency regarding the impacts of currency on our sourcing activities (due to their own private label sourcing efforts), are also excluded from this presentation.

Utilizing a centralized currency risk management system, our Group hedges currency needs for projected sourcing requirements on a rolling 12- to 18-month basis. see Treasury, p. 091 Our goal is to have the vast majority of our hedging volume secured six months prior to the start of a given season. In rare instances, long-term promotion partnership contracts are hedged beyond the 18-month horizon. The Group also largely hedges balance sheet risks. Due to our strong global position, we are able to minimize currency risk to a large extent by utilizing natural hedges. Nevertheless, our net US dollar exposure calculated for the full current hedging period was roughly € 2.4 billion at year-end 2007, which we hedged using forward contracts, currency options and currency swaps. Our Group's Treasury Policy allows us to utilize hedging instruments, such as currency options or option combinations, which provide protection while – at the same time – retain the potential to benefit from future favorable exchange rate developments in the financial markets.

The Group increased the proportion of its longer-term hedges in 2007, to strategically utilize the strong euro versus nearly all other major currencies. We also employed a higher rate of forward contracts to reduce option premiums. see Note 23, p. 180 As 2008 hedging has almost been completed, it is clear that exchange rates will be more favorable than those of 2007. Correspondingly, we believe that both the level and likelihood of currency risk to our 2008 financial contribution has declined versus the prior year and is low overall.

INTEREST RATE RISKS Changes in market interest rates affect future interest payments for variable-interest liabilities. As a result, significant interest rate increases can have an adverse effect on the Group's profitability, liquidity and financial position. The acquisition of Reebok in 2006 led to an increase in interest rate risks due to the higher financing requirements and the resulting higher weighted-average interest rate on the Group's financing structure. see Treasury, p. 091

In line with IFRS 7 requirements, we have analyzed the impact of changes in the Group's most important interest rates on net income and shareholders' equity. The effect of interest rate changes on future cash flows is excluded from this analysis. Nevertheless, accrued interest, which is recognized as a liability, has been re-calculated based on the hypothetical market interest rates as at December 31, 2007. Fair values for derivative interest rate instruments accounted for as cash flow hedges were then re-evaluated based on the hypothetical market interest rates with the resulting effects on net income and equity included in the sensitivity analysis. The fair value interest rate risk from private placements that are hedged with fair value hedges was also taken into consideration. However, the effect on the income statement from changes in the fair values of hedged items and hedging instruments attributable to interest rate changes was not material. Exclusions from this analysis are as follows:

- Some fixed-rate financial assets, such as commercial paper and certificates of deposit, which our Group values at "fair value through profit or loss" due to the short-term maturity of these instruments. Potential effects due to changes in interest rates are considered immaterial and are not recognized in the sensitivity analysis.

- Other fixed-rate financial instruments are measured at amortized cost. Since a change in interest rates would not change the carrying amount of this category of instruments, there is no net income impact and they are excluded from this analysis.

The interest rate sensitivity analysis assumes a parallel shift of the interest yield curve for all currencies and was performed on the same basis for both 2006 and 2007. A 100 basis point increase in interest rates at December 31, 2007 would have increased shareholders' equity by € 6 million (2006: € 5 million) and decreased net income by € 2 million (2006: € 2 million). A 100 basis point decrease of the interest rates at December 31, 2007 would have resulted in a € 7 million decrease in shareholders' equity (2006: € 8 million) and a € 2 million increase in net income (2006: € 2 million).

We believe the IFRS 7 interest rate analysis represents a realistic if rough estimate of our current interest rate risk.

To moderate interest rate risks and maintain financial flexibility, a core tenet of our Group's financial strategy is to reduce financial leverage (i. e. net debt / shareholders' equity) to under 50%. In 2007, we strongly reduced net debt associated with the financing of the Reebok acquisition. see Treasury, p. 091 Capitalizing on low interest rates at the time of the acquisition, we also strongly increased the share of fixed-rate financing arrangements in early 2006. In 2007, we prioritized our debt reduction activities on variable interest instruments. As a result, fixed-rate financing arrangements accounted for 70% of our total debt outstanding at December 31, 2007, compared to 65% in the prior year. see Treasury, p. 091

Due to these and various other risk compensation measures, we believe we have made considerable progress on reducing interest rate risks in 2007. Taking the current macroeconomic situation into account, we do not anticipate a significant change in our Group's average interest rate in 2008. Therefore, we continue to project the likelihood of significant Group interest rate increases, which could have a low financial effect on our contribution, as low.

CORPORATE OPPORTUNITIES OVERVIEW

External and Industry Opportunities
Favorable macroeconomic and fiscal developments
Sports participation on the rise
Increasing demand for functional apparel
Fast-growing women's segment
Ongoing fusion of sport and lifestyle
Emerging markets as long-term growth drivers
Growing popularity of "green" products
Strategic and Operational Opportunities
Strong market positions worldwide
Multi-brand approach
Personalization and customization replacing mass wear
Breaking new ground in distribution
Taking control of distribution rights
Cost optimization to drive profitability improvements
Financial Opportunities
Favorable financial markets changes

EXTERNAL AND INDUSTRY OPPORTUNITIES

FAVORABLE MACROECONOMIC AND FISCAL POLICY CHANGES As a consumer goods company, consumer confidence and spending can impact our sales development. Therefore, better than initially forecasted macroeconomic developments and fiscal policy changes which support private consumption can have a positive impact on our sales and profitability. In addition, legislative changes, e. g. with regard to the taxation of corporate profits, can positively impact Group profitability.

SPORTS PARTICIPATION ON THE RISE Governments increasingly promote living an active lifestyle to fight obesity and cardiovascular disease. According to the World Health Organization, around 400 million people were considered obese in 2005. Another 1.6 billion more were estimated to be overweight. These numbers are projected to increase to 700 million and 2.3 billion respectively by 2015. Once considered a problem only in affluent nations, obesity is also becoming an issue in countries with low per capita income. This development has serious health consequences and a dramatic effect on health care expenditures. As a result, governments and non-governmental organizations are increasing their efforts to promote a healthy lifestyle and encourage sports participation. Given our strong market position, in particular in categories considered suitable for weight loss such as training, running and swimming, we expect to benefit from this trend.

INCREASING CONSUMER DEMAND FOR FUNCTIONAL APPAREL Consumer demand for functional apparel has increased significantly in recent years as consumers realize the benefits of functional apparel over traditional cotton sportswear. Improved moisture management, superior ease of motion, and increased comfort are all factors encouraging consumers to switch to high-performance gear. The design and development of functional apparel requires significantly more expertise, product and material research as well as production know-how compared to low-tech apparel. Therefore, only a few companies are able to supply high-end functional apparel. Our resources and our positioning as a sports performance leader enable us to constantly develop innovative products and capitalize on them. For example, adidas is strongly growing in compression apparel. Due to our attractive TECHFIT™ offering, we achieved strong growth in this category in 2007 and expect to double sales in 2008.

FAST-GROWING WOMEN'S SEGMENT The women's sports market is one of the most attractive segments in the sporting goods industry with women accounting for almost half of total spending on athletic footwear. In addition, women also make over 80 % of the purchase decisions for sports apparel for men, women and children. As our Group generates the majority of its revenue in the men's segment, the women's category offers potential for further growth. adidas, Reebok and TaylorMade-adidas Golf each address the female consumer in their own distinctive way. With targeted product offerings in both performance and lifestyle, such as the adilibria, Fuse and Clima 365 collections at adidas, the Avon Pink Ribbon collection at Reebok and the Women's r7® CGB MAX at TaylorMade, all of our brands are well-positioned in the women's category. Going forward, we will extend and broaden our women's offering – emphasizing individuality, authenticity and style.

ONGOING FUSION OF SPORT AND LIFESTYLE The border between pure athletics and lifestyle continues to blur as sport becomes a more integral part in the lives of more and more consumers. People want to be fashionable when engaging in sporting activities without compromising on quality or the latest technological advances. At the same time, performance features and styles are finding their way into products meant for more leisure-oriented use. As the global sports lifestyle market is roughly three times larger than the performance market, this development opens up additional opportunities for our Group and our brands – which already enjoy strong positions in this market. adidas has an authentic sports lifestyle offering and the adidas Sport Style division is targeted to grow overproportionately until at least 2010. see adidas Strategy, p. 046
Lifestyle products are also an important pillar in Reebok's brand strategy. We have augmented Reebok's Classics and music-inspired business with new celebrity partnerships to upgrade and emotionalize the brand's lifestyle offering. In 2008 and beyond, we will launch new initiatives in this category to capitalize on Reebok's lifestyle credibility.

EMERGING MARKETS AS LONG-TERM GROWTH DRIVERS Emerging economies in Asia, Europe and Latin America have consistently grown at stronger rates than more mature markets over the last several years. However, due to economic constraints, sports participation in most of these countries has historically been lower than in industrialized countries. Now, rising real incomes and employment rates as well as positive demographic trends and a growing middle class are fueling these economies – and subsequently our industry. This development is expected to continue for at least three to five years.

European and North American sporting goods brands are often seen as easily accessible, affordable luxury goods. Our Group currently generates around 25% of sales in emerging markets, which reflects a higher exposure compared to many of our competitors. Further, we believe we have excellent opportunities for further growth, in particular in China and Russia. Supported by our strong portfolio of partnerships, e.g. the NBA, Yao Ming and the China Golf Association in China as well as Andrij Shevchenko and the Russian Basketball Federation in Russia, our strong market positions and our extensive distribution network, we aim to reach sales of € 1 billion in China, while Russia is expected to become our biggest market in terms of sales and profits in Europe by 2010.

GROWING POPULARITY OF "GREEN" PRODUCTS Today's consumers are increasingly concerned about the impact their consumption has on the environment. Therefore, they demand more and more products that are environmentally benign. For many consumers, materials used in footwear and apparel are now expected to be suitable for re-use, while still looking fashionable and stylish. By positioning ourselves in this field within the sports lifestyle segment, we can benefit from the growing demand for environmentally friendly products. In 2008, we are launching the adidas Grün collection within our adidas Sport Style division. The collection consists of footwear and apparel made of organic, untreated or recycled materials such as cork, manila and linen. We expect consumer demand for environmentally friendly products to increase going forward.

STRATEGIC AND OPERATIONAL OPPORTUNITIES

STRONG MARKET POSITIONS WORLDWIDE The adidas Group has the highest market share in numerous countries around the world. This strong competitive position offers us many advantages in terms of global brand visibility, market power and the ability to effectively expand our position in emerging markets. As a result of our strong partnership portfolio and marketing efforts, consumers around the globe are highly aware of our brands and are receptive to our brand messaging. This makes demand for our products more stable compared to smaller competitors. Hence, many retailers consider our products as core to their offering. The adidas Group is therefore in a strong bargaining position and can compete more effectively for shelf space. Our local market knowledge and marketing power also enable us to quickly react to emerging trends in niche categories such as skateboarding or even enter completely new categories.

MULTI-BRAND APPROACH We believe there is a natural limit to the audience size a single brand can appeal to, given the diverse tastes and expectations of a highly-fragmented consumer market. Our multi-brand approach provides us with the opportunity to leverage the power of our brands in a more precise and meaningful way. see Group Strategy, p. 044 We are able to utilize the combined strengths of each brand to compete for a higher percentage of the total market – covering a greater number of consumer needs, price points and demographics.

PERSONALIZATION AND CUSTOMIZATION REPLACING MASS WEAR Today's consumers are looking for choice and variety that goes beyond choosing from a wide selection of products. We engage in developing unique and relevant products that fit specific functional and aesthetic requirements. see Group Strategy, p. 044 adidas, Reebok and TaylorMade-adidas Golf all offer different personalization and customization platforms reflecting each brand's strategy. Key concepts include the adidas "mi Innovation Center" and Reebok's "Rbk Custom" online platform. Utilizing the newest body mapping technology, consumers can personalize our most innovative and popular footwear styles to their own fit and performance needs. We believe this technology leads the way in sporting goods retail and have started to roll out "mi Innovation Centers" throughout our concept stores in 2007. "Rbk Custom" is a web-based platform over which consumers can customize footwear. Shoes are then shipped within ten business days. We expect the market for personalized and customized footwear, apparel and hardware to grow strongly and evolve further in the coming years.

BREAKING NEW GROUND IN DISTRIBUTION The sporting goods retail environment is changing constantly. People increasingly want to get involved with our brands. We have adapted our distribution to cater to this change and have made controlled space initiatives a strategic priority. We will start introducing e-commerce in the Netherlands as a test market for Europe in 2008. We also see opportunities to operate new shop formats in cooperation with other brands. In 2007, we opened the "NHL Powered by Reebok" store in New York, showcasing Reebok's broad choice of hockey products. Similarly, adidas opened the first European NBA Concept Shop in Istanbul, Turkey. Through initiatives like these, we can more effectively target consumers and involve them emotionally with our products. In our wholesale business, we are increasing our flexibility to utilize changes in consumption behavior as they arise. In 2007, for example, we actively strengthened our North American distribution in the growing sporting goods retail channel. Here, we are able to showcase a much broader choice of our footwear – and particularly apparel products – compared to the athletic specialty channel where industry sales decreased.

TAKING CONTROL OF DISTRIBUTION RIGHTS Our brands do business in virtually all countries around the world. The majority of our business is done through fully-owned subsidiaries or sales organizations. see Group Strategy, p. 044 Nevertheless, in some markets, we work with distributors or joint venture partners, in particular at brand Reebok. In doing so, we capitalize on third party expertise in terms of how to best service retailers in those countries. While this strategy can be appropriate in a market's early development, we strongly believe in having full control over distribution and brand management in more mature markets. Therefore, it is our Group's strategy to buy back distribution rights for our brands when possible and economically sensible. Over the last several years, we have been very successful in this respect. After having bought back distribution rights for the adidas brand in Japan, Italy and Turkey, we grew significantly in these markets. At Reebok, we have identified the buyback of distribution rights as the single most important revenue synergy potential. see Outlook, p. 118 In 2007, we realized incremental sales in all countries where Reebok bought back distribution rights. Going forward, we will evaluate potential buyback opportunities on a case-by-case basis, considering opportunities as well as inherent risks from litigation.

COST OPTIMIZATION DRIVES PROFITABILITY IMPROVEMENTS Continued optimization of key business processes and strict cost control are vital to achieving high profitability and return on invested capital. As a result of the Reebok acquisition, we generate cost synergies that support adidas and Reebok profitability development. see Outlook, p. 118 Nonetheless, our profit margins continue to be below those of our main competitors. We do, however, see numerous levers for streamlining our cost base going forward. We can further simplify processes across brands and functions to reduce operational inefficiencies owed to the increased complexity of our Group. In North America, we believe we will be able to realize medium-term economies of scale as we continue to integrate adidas and Reebok back-office functions. In addition, we strive to further increase efficiency in our supply chain and make it truly demand-driven. By implementing end-to-end planning processes and improving our replenishment capabilities, we see opportunities to not only better serve our customers but also to further reduce our operating working capital needs. see Global Operations, p. 062

FINANCIAL OPPORTUNITIES

FAVORABLE FINANCIAL MARKET CHANGES Favorable exchange and interest rate developments can potentially have a positive impact on the Group's financial results. Our Group Treasury department closely monitors the financial markets to identify opportunities.

MANAGEMENT ASSESSMENT OF OVERALL RISK AND OPPORTUNITIES

Central risk management aggregates all risks reported by brand, regional and headquarter functions. Based on the compilation of risks – taking into account the occurrence likelihood and potential financial impact and the current business outlook explained within this report – adidas Group Management does not foresee any individual or aggregate risks which could materially jeopardize the ongoing business health and viability of the Group. In comparison to the prior year, some External and Industry Risks as well as some Strategic and Operational Risks have increased. All Financial Risks have decreased. As a result, Management regards the overall risk likelihood as having increased moderately versus 2007. The potential financial impact from the Group's overall risk exposure is largely unchanged, due to increased risk-compensating and transfer factors now in place.

This assessment is also supported by the continued positive responses to our financing demands. see Treasury, p. 091 The adidas Group therefore has not sought an official rating by any of the leading rating agencies.

Management remains confident that the Group's earning power forms a solid basis for our future business development and provides the necessary resource to pursue the opportunities available to the Group.

SUBSEQUENT EVENTS Since the end of 2007, there have been subsequent events which will influence the future development of the adidas Group. In addition to the announcement of a share buyback program, other subsequent events include the expansion of the Amsterdam-based adidas International Trading B.V., adidas Canada's purchase of Saxon Athletic as well as TaylorMade-adidas Golf's divestiture of the Maxfli brand. However, there has been no subsequent event since the end of 2007 which we expect to influence our business materially going forward or that has changed Management expectations for 2008.

SUBSEQUENT CHANGES IN THE GROUP'S STRUCTURE
On February 5, 2008, we announced the expansion of the Amsterdam-based adidas International Trading B.V. to create a global, multi-brand trading platform for the adidas Group. Primary responsibility will be to purchase product from our suppliers and sell it to the adidas and Reebok sales organizations and distributors around the globe. As a result, we expect to improve service levels to our sales organizations and increase the speed with which our supply chain responds to change. Around 60 positions, in particular in the Global Operations and Logistics sectors, will be transferred from various locations to Amsterdam. Ultimately, we expect this company to employ more than 150 employees.

SUBSEQUENT EVENTS AT ADIDAS Effective January 3, 2008, adidas Canada acquired Saxon Athletic Manufacturing Inc. (based in Brantford / Ontario, Canada) to strengthen adidas' position in the teamwear business in North America. Canadian-based Saxon Athletic is a design, development, marketing and manufacturing company for team uniforms worn by professional and amateur teams throughout North America. Both Saxon Athletic sales and the transaction value in euros represent an amount in the low-single-digit millions.

SUBSEQUENT EVENTS AT TAYLORMADE-ADIDAS GOLF
Effective February 11, 2008, TaylorMade-adidas Golf divested the Maxfli brand, which will allow the segment to increase and improve the focus of its golf ball business under the TaylorMade brand. As the divested business accounted for approximately 1 % of TaylorMade-adidas Golf sales in 2007, this will have a minor negative impact on the segment's sales development in 2008. The transaction value in euros represents an amount in the low-double-digit millions.

SUBSEQUENT SHARE COUNT CHANGES As a result of stock options exercised as part of various tranches of the Management Share Option Plan (MSOP) for executives of of adidas AG, the number of outstanding shares increased by 16,000 to 203,644,960 no-par value shares on January 15, 2008.

On January 29, 2008, adidas AG announced the launch of a share buyback program. Treasury shares of up to 5% of the Company's stock capital (up to 10,182,248 shares) with an aggregate value of up to € 420 million (excluding incidental purchasing costs) shall be repurchased, exclusively via the stock exchange. adidas AG intends to cancel the repurchased shares, thus reducing its stock capital. As a result, the Group's equity ratio will decrease and earnings per share will increase. Further, shares may also be used to meet obligations towards Group employees arising from share option programs. The share buyback will be financed exclusively from the Group's free cash flow. The buyback program started on January 30, 2008, and will be conducted in accordance with the Commission Regulation (EC) No. 2273 / 2003 of December 22, 2003. As at February 15, 2008, adidas AG had bought back 1,180,000 shares with an average purchase price of € 42.68. In line with the Commission Regulation (EC) No. 2273 / 2003, adidas AG provides regular updates on the progress of the share buyback on its corporate website.
www.adidas-Group.com/sharebuyback

NO OTHER SUBSEQUENT CHANGES Since the end of 2007, there have been no significant macroeconomic, sociopolitical, legal or financing changes which we expect to influence our business materially going forward. In addition, there have been no major management changes since the end of 2007.

OUTLOOK 2008 is poised to be another strong year for the adidas Group. Based on our current product pipeline and planned marketing initiatives, we expect strong top- and bottom-line results despite some negative macroeconomic signals in important markets such as the USA. This year's two global sporting events, the UEFA EURO 2008™ and the Beijing 2008 Olympic Games, are expected to support development of the adidas segment in 2008. Further progress on the Reebok revitalization process will be another area of particular focus. Compared to the prior year, Group revenue and cost synergies resulting from the Reebok integration will increase. Consequently, we expect to grow currency-neutral sales at a high-single-digit rate for the adidas Group, driven by growth at all our brands. In addition, we project increases in both our gross and operating margins, which will be between 47.5 and 48% and at least 9.5%, respectively. Further, we forecast net income attributable to shareholders to grow by at least 15%.

MAJOR SPORTING EVENTS TO IMPACT 2008 RESULTS Our Group's operating activities will be positively influenced by this year's major sporting events: the UEFA EURO 2008™ and the Beijing 2008 Olympic Games.

As Official Sponsor of the UEFA EURO 2008™, adidas will benefit from this event in terms of positive brand visibility but also in terms of additional sales of adidas football products. As a result, we forecast brand adidas sales in the important football category to increase strongly to a new record level of over € 1.2 billion in 2008. The operating margin of the adidas brand, however, is not expected to be positively impacted by this event as the related top-line growth is projected to be offset by a modest marketing working budget increase.

The Olympic Games will be the most important sports event ever in China, one of the fastest-growing markets for sporting goods in the world. adidas is the Official Sportswear Partner for the Beijing 2008 Olympic Games and the outfitter of 16 National Olympic Committees. As a result, adidas will be the most visible brand during this event, outfitting all technical officials and more than 100,000 volunteers. Further, we anticipate a positive impact on brand Reebok. In China, Reebok will benefit from the partnership with Yao Ming, China's most prominent athlete. As a result, we expect our involvement in the Beijing 2008 Olympic Games to have a positive long-term impact on the image and sales development of both adidas and Reebok. Supported by this event, we expect the adidas Group to become the market leader in China in 2008. However, we expect no significant sales increase related to the Olympic Games in 2008, as we have only limited opportunities to commercialize products for highly specialized Olympic disciplines. Additionally, event-related marketing costs will lead to a minor marketing working budget increase at both brands.

INCREASING REVENUE AND COST SYNERGIES IN 2008

We have ambitious revenue and cost synergy targets related to the Reebok integration in 2008. adidas Group revenue synergies will grow to around € 250 million in 2008 (2007: around € 100 million) and are expected to positively impact the sales development of both the adidas and Reebok segments. The majority of revenue synergies will be related to accelerating sales growth in Europe's emerging markets and Asia where Reebok has bought out distributor and joint venture partners. We also expect adidas to continue to benefit from increasing revenue synergies. These relate to the further expansion of adidas' exclusive relationship with the NBA – particularly in Asia – as well as to the utilization of the Sports Licensed division for other licensed products in North America such as college sports. One-time costs associated with achieving these synergies are estimated to be between € 15 million and € 25 million in 2008 (2007: around € 25 million).

We expect cost synergies related to the Reebok integration to be around € 175 million in 2008 (2007: around € 90 million). This increase will positively impact both cost of sales and operating expense development. We will continue to achieve cost of sales synergies through supply chain optimization. Cost synergies within the Group's operating expenses will be realized through various initiatives such as joint media buying, office consolidation in Europe and Asia, harmonizing and consolidating our IT systems, eliminating duplicative corporate functions as well as sharing finance and administrative services across the Group. One-time costs associated with achieving these cost synergy targets are expected to remain on a level of around € 70 million in 2008 (2007: around € 70 million). As a result, net cost synergies are expected to rise to around € 105 million in 2008 (2007: around € 20 million).

EXPIRATION OF AMER SOURCING AGREEMENT TO NEGATIVELY IMPACT HQ / CONSOLIDATION SALES Sales recorded in the HQ / Consolidation segment will decrease during 2008, as a result of the expiration of the Group's cooperation agreement with Amer Sports Corporation in the first quarter. Under this agreement, the adidas Group sourced product for Salomon at a fixed buying commission for a limited period in an effort to support the transfer of Salomon's business activities to Amer Sports Corporation. However, as this agreement includes margins below the Group's average, the expiration of this contract is expected to have a positive impact on the Group's gross and operating margins. However, this impact will be limited due to the small size of the business contained in the cooperation agreement.

SLOWDOWN IN GLOBAL ECONOMIC EXPANSION PROJECTED IN 2008 According to the World Bank, growth of the global economy is expected to decline in 2008 with a projected GDP growth rate of around 3 %. Recent turbulence in financial markets triggered by the US subprime crisis and its spillover effects are seen as the main catalyst.

In Europe, GDP in the Euro Zone is expected to grow at a level of below 2 % in 2008. Financial market uncertainties, lower exports and a further strengthening of the euro are all expected to hamper growth in the region. Consumer confidence is forecasted to continue to decline mainly due to tight credit and unstable financial market conditions as well as increasing energy prices. The region's emerging markets will remain largely unaffected by these uncertainties, with GDP growth forecasted to be around 5 %.

In North America, GDP growth is projected to decline versus the prior year to a level below 2 %. Of particular concern is an expected further weakening of consumer spending in the first six months of the year, driven by the persistent challenges of the housing market and continuing high oil prices. A government-sponsored stimulus package, however, is expected to help US consumer confidence improve modestly in the second half of 2008.

In Asia, the region's most populous countries, such as China and India, are expected to remain the largest contributors to the region's growth in 2008. Compared to 2007, growth in Asia excluding Japan is likely to slow slightly to a level around 9 %, with consumer confidence in most countries expected to continue to grow strongly despite financial market volatility. For Japan, increased global financial market instability has clouded the near-term outlook and economic growth is projected to slow to a level of no more than 2 %. Sound corporate earnings, rising employment and encouraging export signals are expected to be tempered by a weakening in domestic demand led by lackluster consumer spending.

Growth in Latin America is likely to decline slightly compared to the prior year to a level below 4.5 %. As in previous years, private consumption as well as buoyant exports will be the key drivers of economic growth. Nevertheless, consumer confidence in the region is expected to moderate.

MIXED OUTLOOK FOR THE GLOBAL SPORTING GOODS INDUSTRY In 2008, the global sporting goods industry is projected to grow modestly. Although strong increases are expected in Asia, Latin America and Europe's emerging markets, the US market is forecasted to decline modestly.

EUROPEAN SPORTING GOODS INDUSTRY TO GROW MODERATELY We expect the European sporting goods market to grow at a low-single-digit rate. During the first half of 2008, the industry is expected to largely focus on the UEFA EURO 2008™. This should provide positive impetus to otherwise slow retail markets in Western Europe. However, the impact is likely to be somewhat less than what was initially anticipated due to the failure of England to qualify. Traditionally, England has been the region's largest football licensed apparel market. Following the event, regional growth for the sector is likely to be driven by emerging markets, in particular Russia.

NORTH AMERICAN SPORTING GOODS MARKET EXPECTED TO DECLINE In North America, we project a declining market in 2008. Lower overall consumer spending coupled with promotional activity among mall-based retailers and a polarization of price points are likely to further burden the market. Mixed development of product categories and distribution channels is expected to continue throughout 2008. Whereas growth in running and soccer footwear as well as training apparel is projected to continue, sales in the basketball and Classics categories are expected to decline. In addition, we expect the region's golf market to remain highly competitive in 2008 as many market participants introduce new technologies that capitalize on the recent rulings by the USGA (United States Golf Association), allowing for a broader interpretation of adjustability in both metalwoods and irons.

ASIAN SPORTING GOODS INDUSTRY FORECASTED TO EXPAND FURTHER The sporting goods market in Asia is expected to continue to grow at a high-single-digit rate. In Japan, weak overall private consumption may affect average selling prices in the industry. In the emerging markets, especially China, the industry is likely to grow at low-double-digit levels driven by the upcoming Olympics Games in Beijing.

INCREASING TRADE BARRIERS DAMPEN LATIN AMERICAN SPORTING GOODS INDUSTRY GROWTH Mid-single-digit industry growth rates are expected in Latin America. The momentum of the region's sporting goods industry is projected to remain intact, but there are concerns related to increasing trade barriers being implemented in certain markets such as Argentina and Brazil.

ADIDAS ORDER BACKLOGS (CURRENCY-NEUTRAL)[1]
Development by product category and region in %

	Europe	North America	Asia	Total
Footwear	14	(5)	29	13
Apparel	20	4	30	20
Total[2]	18	(2)	28	17

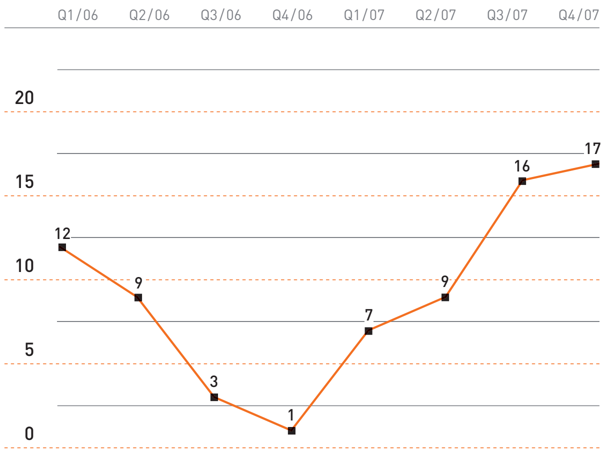
1) At year-end, change year-over-year.
2) Includes hardware backlogs.

ADIDAS ORDER BACKLOGS (IN €)[1]
Development by product category and region in %

	Europe	North America	Asia	Total
Footwear	11	(14)	22	8
Apparel	17	(6)	23	15
Total[2]	15	(11)	22	12

1) At year-end, change year-over-year.
2) Includes hardware backlogs.

ADIDAS ORDER BACKLOGS (CURRENCY-NEUTRAL)[1]
Development by quarter in %



1) Change year-over-year.

ADIDAS GROUP SALES TO EXCEED ECONOMIC GROWTH RATES Based on our strength in innovation, operational execution and regional diversification, we are confident that the Group's net sales increase in 2008 will again exceed growth rates of the global economy. We also expect Group sales growth to be at least in line with the overall development of the sporting goods industry. Sales in Asia and Latin America are expected to grow at double-digit rates due to our strong brand recognition and growing distribution infrastructure. This increase is forecasted to exceed both economic and industry growth rates. Mid- to high-single-digit growth rates are expected in Europe, positively impacted by the UEFA EURO 2008™. This expectation exceeds projected growth rates for both the economy and the industry in this region. Sales in North America, however, are projected to decline modestly as a result of the challenging market environment and intensified retail competition. This development is likely to be in line with sector development in the region.

HIGH-SINGLE-DIGIT SALES INCREASE EXPECTED AT BRAND ADIDAS We project high-single-digit currency-neutral sales growth for brand adidas in 2008. Both the adidas Sport Performance and adidas Sport Style divisions are forecasted to grow. In the Sport Performance division, we expect football to be one of the fastest-growing category in 2008. As Official Sponsor of the UEFA EURO 2008™, adidas will benefit from this event in terms of additional sales of football products. In addition, we expect strong improvements in the Sport Performance running, training and basketball categories, supported by a compelling pipeline of product launches. Strong order backlogs and positive retailer and trade show feedback as well as expected further own-retail expansion, for which order backlogs are not included in the order book, support our ambitious growth expectations for 2008.

ADIDAS BACKLOGS GROW STRONGLY Backlogs for the adidas brand at the end of 2007 increased 17 % versus the prior year on a currency-neutral basis. This improvement was supported by adidas' strength in all major categories. Order backlogs in Europe were positively impacted by orders for UEFA EURO 2008™ related products. In euro terms, adidas backlogs grew 12 %. Footwear backlogs increased 13 % in currency-neutral terms (+ 8 % in euros). Double-digit growth in both Asia and Europe more than offset a decline in North America. Apparel backlogs grew 20 % on a currency-neutral basis (+ 15 % in euros), driven by strong double-digit increases in Asia and Europe. Hardware backlogs grew at a double-digit rate due to increases in Asia and Europe.

REEBOK ORDER BACKLOGS (CURRENCY-NEUTRAL) [1]
Development by product category and region in %

	Europe	North America	Asia	Total
Footwear	9	(30)	6	(12)
Apparel	(13)	19	20	3
Total [2]	(1)	(20)	12	(8)

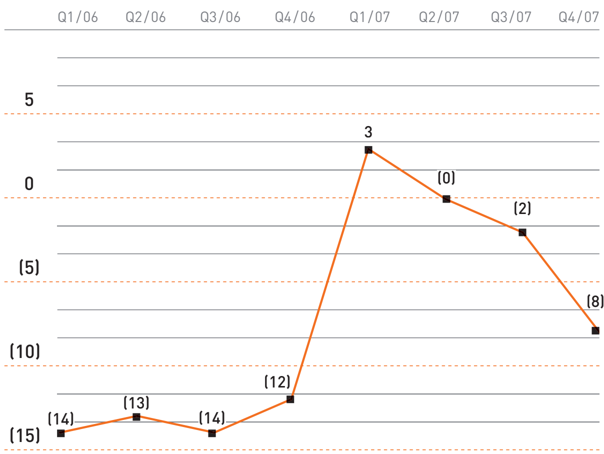
1) At year-end, change year-over-year.
2) Includes hardware backlogs.

REEBOK ORDER BACKLOGS (IN €) [1]
Development by product category and region in %

	Europe	North America	Asia	Total
Footwear	6	(36)	(0)	(18)
Apparel	(16)	8	14	(3)
Total [2]	(4)	(27)	5	(14)

1) At year-end, change year-over-year.
2) Includes hardware backlogs.

REEBOK ORDER BACKLOGS (CURRENCY-NEUTRAL) [1]
Development by quarter in %



1) Change year-over-year.

LOW- TO MID-SINGLE-DIGIT SALES INCREASE EXPECTED FOR REEBOK SEGMENT Currency-neutral Reebok segment sales are projected to grow at a low- to mid-single-digit rate in 2008. Sales are expected to increase at Reebok, Reebok-CCM Hockey and Rockport. At brand Reebok, we continue to focus on improving the brand's position in performance sports. This effort will be driven by several product launches in Reebok's running and women's categories. see Reebok Products and Campaigns, p. 138 In addition, product launches in American sports will highlight additional focus on the key North American market. Our efforts to broaden the brand's lifestyle offering will also become more visible. We anticipate a positive sales development at Reebok-CCM Hockey and Rockport, supported by the launch of new product lines. Retailer and trade show feedback, especially in emerging markets, supports Reebok's 2008 growth expectations.

REEBOK BACKLOGS DECLINE Currency-neutral Reebok backlogs at the end of 2007 were down 8% versus the prior year on a currency-neutral basis. In euro terms, this represents a decline of 14%. Footwear backlogs decreased 12% in currency-neutral terms (–18% in euros). This is the result of lower orders from mall-based retailers in North America scheduled for delivery in the first half of 2008. Apparel backlogs grew by 3% on a currency-neutral basis (–3% in euros). Hardware backlogs declined at a double-digit rate due to decreases in the hockey category. Backlogs at Reebok, however, are expected to improve over the course of the year due to an improved product mix and the launch of the "Your Move" brand campaign.

MID-SINGLE-DIGIT SALES INCREASE EXPECTED AT TAYLORMADE-ADIDAS GOLF We expect our strong product pipeline to help increase currency-neutral TaylorMade-adidas Golf sales at a mid-single-digit rate in 2008. Growth will mainly be driven by new product launches including TaylorMade metalwoods and irons as well as adidas Golf footwear and apparel.

Because the order profile in golf differs from other parts of our Group's business, we do not provide order information for TaylorMade-adidas Golf. However, trade show performance and ongoing dialog with customers both support our expectation of continued positive development in the segment.

2008 PRODUCT LAUNCH SCHEDULE

Product	Brand	Launch Date
Predator® PowerSwerve football boot	adidas	Nov. 2007
adiPure football boot	adidas	Dec. 2007
UEFA EURO 2008™ Match Ball, EUROPASS	adidas	Dec. 2007
adiSTAR Control 4 running shoe	adidas	Jan.
adidas Originals "Handbags For Feet" collection	adidas	Jan.
adidas Originals Denim by Diesel apparel collection	adidas	Feb.
Stella McCartney "Golf" apparel collection	adidas	Feb.
adidas Originals "adidas Grün" collection	adidas	Mar.
adiZero CS running shoe	adidas	Mar.
F50 TUNiT™ football boot	adidas	Mar.
miCoach training system	adidas	Mar. / Apr.
Women's Yatra training collection	adidas	Jul.
adiSTAR Revolt running shoe	adidas	Sep.
Team Signature Creator basketball shoe	adidas	Oct.
Men's training adidas TECHFIT™ POWERWEB	adidas	Dec.
Freestyle Cities Collection	Reebok	throughout 2008
Avon Pink Ribbon collection	Reebok	Jan. / Feb.
Hex Ride Rally running shoe	Reebok	Feb.
KFS Sprintfit II Pro football boot	Reebok	Feb. – Jul.
Vince Young Electrify SD (American football boot)	Reebok	May
Voltron Men's footwear collection	Reebok	Jun.
Premier Verona KFS running shoe	Reebok	Jul.
Yao Pump Omni Hex Ride basketball shoe	Reebok	Aug.
Women's American football apparel collection	Reebok	Aug. / Sep.
Big Papi 2M (baseball footwear)	Reebok	Oct.
Rbk OPS 7K Sickick Stick	Reebok-CCM Hockey	Nov. 2007
CCM Vector U+ Stick	Reebok-CCM Hockey	May
Rockport Signature Series	Rockport	Mar.
Tour Preferred® Red and Black balls	TaylorMade-adidas Golf	Jan.
Burner® and Burner® TP balls	TaylorMade-adidas Golf	Jan.
TOUR360 LTD adidas Golf shoe	TaylorMade-adidas Golf	Feb.
TECHFIT™ POWERWEB adidas Golf apparel line	TaylorMade-adidas Golf	Mar.
r7® CGB MAX Limited driver	TaylorMade-adidas Golf	Apr.
r7® CGB MAX Rescue hybrid	TaylorMade-adidas Golf	Apr.
Tour Burner® TP driver	TaylorMade-adidas Golf	Apr.
Tour Burner® iron	TaylorMade-adidas Golf	Apr.

GROUP GROSS MARGIN TO FURTHER IMPROVE In 2008, the adidas Group gross margin is expected to increase modestly to a range of 47.5 to 48 %, driven by improvements in all three brand segments.

Gross margin improvement in the adidas segment will be largely related to further own-retail expansion and an improving product and regional mix.

We also anticipate a gross margin improvement in the Reebok segment due to an improving product mix as a result of the focus on higher-margin product segments. Lower clearance activities as well as an improving distribution and regional mix are also expected to contribute to gross margin expansion within the Reebok segment. Further, for both adidas and Reebok, we will continue our efforts to increase operational efficiency throughout the Group's supply chain in 2008, which will continue to positively impact cost of sales.

The gross margin at TaylorMade-adidas Golf is also expected to increase, largely driven by an improving product mix and lower clearance activities.

In addition, the expiration of the Group's cooperation agreement with Amer Sports Corporation in the first quarter of 2008 is expected to support gross margin development in the HQ / Consolidation segment. The continued strength of the euro is likely to have a modest positive impact on gross margin in 2008.

Further, positive gross margin developments in all segments are expected to moderate during the course of 2008, mainly as a result of higher raw material prices, increased freight rates and higher labor costs.

OPERATING EXPENSES TO INCREASE In 2008, Group operating expenses as a percentage of sales are expected to be higher than in the prior year, as a result of increases in all three brand segments. This mainly reflects increases in the marketing working budget as a percentage of sales at both adidas and Reebok. Operating overhead costs as a percentage of sales are expected to increase modestly in all brand segments.

MARKETING WORKING BUDGET TO INCREASE Group marketing working budget as a percentage of sales is expected to increase in 2008. Marketing expenses at brand adidas are forecasted to increase mainly in conjunction with the major 2008 sporting events: the UEFA EURO 2008™ and the Beijing 2008 Olympic Games. Reebok's marketing working budget is forecasted to grow as a result of the launch of Reebok's new 2008 brand campaign "Your Move". see Reebok Products and Campaigns, p. 138 The marketing working budget at TaylorMade-adidas Golf is expected to remain stable as a percentage of sales in 2008.

ADIDAS GROUP 2008 TARGETS

Currency-neutral sales growth	high-single-digit
Gross margin	47.5 to 48 %
Operating margin	at least 9.5 %
Net income growth	at least 15 %

ADIDAS SEGMENT 2008 TARGETS

Currency-neutral sales growth	high-single-digit
Gross margin	increase
Operating expenses as a percentage of sales	increase
Operating margin	increase

REEBOK SEGMENT 2008 TARGETS

Currency-neutral sales growth	low- to mid-single-digit
Gross margin	increase
Operating expenses as a percentage of sales	increase
Operating margin	increase

TAYLORMADE-ADIDAS GOLF SEGMENT 2008 TARGETS

Currency-neutral sales growth	mid-single-digit
Gross margin	increase
Operating expenses as a percentage of sales	increase
Operating margin	increase

MODEST INCREASE IN OPERATING OVERHEAD COSTS EXPECTED The adidas Group's operating overhead costs as a percentage of sales are expected to grow modestly due to increases in all brand segments, largely as a result of the expansion of own-retail activities at adidas and Reebok in fast-growing emerging markets such as Russia. This will more than offset cost synergies related to the Reebok integration into the adidas Group. Operating overhead costs as a percentage of sales at TaylorMade-adidas Golf are also expected to increase modestly due to our plans to expand TaylorMade's presence in the golf ball category. A portion of the operating overhead increases at the brands will be offset by lower costs in the HQ / Consolidation segment. These are expected to decline as a percentage of sales due to increasing cost synergies resulting from the Reebok integration.

Primarily as a result of the anticipated strong retail expansion and growth in the emerging markets, we expect the number of employees within the adidas Group to grow modestly. Accordingly, personnel expenses for the adidas Group will also increase.

The adidas Group will continue to spend around 1 % of sales on research and development in 2008. Areas of particular focus include running, football, basketball and training at the adidas and Reebok brands, as well as golf hardware at TaylorMade-adidas Golf. The number of employees working in research and development throughout the Group will increase in 2008 to support our increasing number of innovation projects.

Accounting effects related to purchase price allocation following the Reebok acquisition are expected to impact Group operating expenses in a range of € 10 million to € 20 million in 2008 (2007: € 12 million).

OPERATING MARGIN TO SHOW IMPROVEMENT In 2008, we expect the operating margin for the adidas Group to increase to at least 9.5 % from 9.2 % in 2007 as a result of operating margin improvements in all segments. Gross margin improvements are expected to more than compensate operating overhead increases as a percentage of sales in all segments.

NET INCOME FOR THE ADIDAS GROUP TO GROW AT LEAST 15% Net income attributable to shareholders is projected to grow by at least 15% in 2008 versus the 2007 level of € 551 million. This represents the eighth consecutive year of double-digit net income growth. Top-line improvement and an increased operating margin will be the primary drivers of this positive development. In addition, we expect slightly lower interest expenses as a result of a reduction in average debt to also have a positive impact on net income. However, this effect will be partially offset by a higher tax rate versus the prior year as a result of small changes in the earnings mix. Minority interests are expected to remain broadly unchanged in 2008.

WORKING CAPITAL MANAGEMENT TO IMPROVE BALANCE SHEET Operating working capital management is a major focus of our efforts to improve the Group's balance sheet. see Internal Group Management System, p. 056 Our goal is to further reduce operating working capital as a percentage of sales in 2008. Inventory management in particular will be an important mechanism for the realization of further improvements. Optimizing inventory levels for fast replenishment and rigorous control of inventory aging are the top priorities for our Working Capital Task Force in 2008. We also target further improvement in accounts receivable by improving collection efforts, and in accounts payable by optimizing payment terms with our suppliers.

INVESTMENT LEVEL TO BE BETWEEN € 300 MILLION AND € 400 MILLION In 2008, investments in tangible and intangible assets are expected to amount to € 300 million to € 400 million (2007: € 289 million). Expenditures will focus on own-retail expansion and retail support at brand adidas. In emerging markets, own-retail expansion of the Reebok brand will also impact investments. Expenditure per brand will be roughly in line with our sales split.

Around 50 % of total investments in 2008 will be dedicated to controlled space initiatives within the adidas Group. Other areas of investment are the increased deployment of SAP and other IT systems in major subsidiaries within the Group, the further development of the adidas Group Headquarters in Herzogenaurach, Germany, as well as investments for the joint adidas and Reebok warehouse projects in the USA and UK in order to generate cost synergies in the future. The most important factors in determining the exact level and timing of investments will be the rate at which we are able to successfully secure controlled space opportunities and integrate new SAP systems within existing applications. All investments within the adidas Group are expected to be fully covered through cash generated in our operating business.

EXCESS CASH TO BE USED FOR ADIDAS SHARE BUYBACK
In 2008, we expect continued strong cash flows from operating activities. We intend to largely invest our excess cash of € 300 million to € 400 million in the buyback of adidas shares to support earnings per share growth for increasing shareholder value. see Subsequent Events, p. 117 As a result, we expect net borrowings to be at or slightly below the prior year level. Cash inflows from operating activities will be used to finance working capital needs, investment activities as well as dividend payments. Tight working capital management and disciplined investment activities are expected to help optimize the Group's cash flow in 2008. For 2009 and beyond, we see the potential for free cash flow generation to increase and we are well on track to achieving our medium-term financial leverage target of below 50 % (2007: 58.4 %).

EFFICIENT LIQUIDITY MANAGEMENT IN PLACE FOR 2008 AND BEYOND Efficient liquidity management continues to be a priority for the adidas Group in 2008. We focus on continuously anticipating the cash inflows from the operating activities of our Group segments as this represents the main source of liquidity within the Group. Liquidity is forecasted on a multi-year financial and liquidity plan on a quarterly basis. Long-term liquidity is ensured by continued positive free cash flows and sufficient unused credit lines. see Treasury, p. 091 Consequently, we do not plan any significant financing initiatives in 2008.

19 % DIVIDEND INCREASE TO BE PROPOSED We are committed to maintaining the Group's dividend payout ratio corridor of between 15 and 25 % of net income. At our Annual General Meeting on May 8, 2008, we intend to propose a dividend of € 0.50 per share for the 2007 financial year (2006: € 0.42). Based on the number of shares outstanding at the end of 2007, the dividend payout will increase 19 % to € 102 million (2006: € 85 million), outpacing the earnings growth of 14 % for the year. This represents a payout ratio of 19 % versus 18 % in 2006, highlighting our confidence in the Group's future business performance. However, as a result of the share buyback program, the total dividend payout and the payout ratio could decrease slightly. Going forward, we expect the dividend payout to grow broadly in line with net income attributable to shareholders.

NO MAJOR CHANGES IN LEGAL STRUCTURE EXPECTED In 2008, we expect only minor legal changes within the adidas Group. Changes in the Reebok segment could arise from the buyback of Reebok distribution rights, which will be evaluated on a case-by-case basis in 2008. Buybacks could be realized in countries where we anticipate long-term growth opportunities for the Reebok business and the price for a buyback is reasonable. In the TaylorMade-adidas Golf segment, no major changes will arise from the divestiture of the Maxfli brand. see Subsequent Events, p. 117

AMBITIOUS NON-FINANCIAL GOALS FOR 2008 AND BEYOND
In addition to our Group's ambitious financial targets for 2008, we have several non-financial targets to ensure the continued long-term success of the adidas Group. Major non-financial developments within the adidas Group in 2008 and beyond are expected to be:

- *Controlled space:* We intend to increase our controlled space initiatives see Group Strategy, p. 044 to at least 30 % of Group sales by 2010. As a result, we intend to further grow our Group's own-retail activities. New openings will concentrate on emerging markets, in particular Russia. Here, we plan to open over 100 stores for the Group in 2008. We are also extending our franchise network in countries such as India, Turkey, Korea and Poland. Our mono-branded adidas and Reebok store base in China is targeted to increase to 7,000 stores by 2010 (year-end 2007: around 4,000). In addition, key account initiatives such as shop-in-shop or similar solutions, especially in the USA and UK, are an important trend that we plan to extend substantially going forward.

- *Global Operations:* As our products are almost entirely manufactured by independent suppliers, our Group's Global Operations function continuously strives to optimize our Group's supplier network and implement initiatives to maximize cost efficiency, reduce lead times and ensure consistently high product quality. In 2008, we are again committed to further supply chain improvements. see Global Operations, p. 062

- *Sustainability:* As a responsible company, we are committed to further strengthening our social and environmental performance in the coming years. For 2008, we plan to further intensify our outreach to governments in key sourcing countries to promote social and legislative changes for the benefit of our employees and our suppliers' workers. In addition, we strive to improve the external monitoring of our tier two and three suppliers. Finally, we plan to commission external verification of the tools and processes developed for selecting organic and recycled materials used in our products.

2009 REVENUE SYNERGIES FROM REEBOK INTEGRATION

We have an ambitious target to generate around € 500 million of incremental revenues by 2009 related to the Reebok integration. We estimate one-time expenses associated with the generation of revenue synergies to be between € 15 million and € 25 million in 2009. Specific initiatives to generate revenue synergies include:

- *Branded apparel:* We expect to deliver around € 100 million from leveraging adidas' industry-leading branded apparel know-how to strengthen and expand Reebok's branded apparel efforts.

- *Licensed products:* At brand adidas, we expect to generate around € 100 million of additional sales in licensed products. Having transferred the NBA contract to adidas, we can further expand this exclusive partnership more effectively – in particular outside of North America. We will also focus on utilizing Reebok's sales and production capabilities for licensed products of brand adidas, particularly in North America.

- *Regional initiatives:* We expect around € 100 million of incremental revenue synergies from greater regional traction in Europe and Asia. This will result from Reebok product category initiatives in underdeveloped markets with a strong existing adidas infrastructure.

- *Distributor buyouts:* We project around € 200 million in incremental sales synergies to result from exercising more control over the Reebok brand around the globe, particularly in high-growth markets in Asia and Latin America as well as Emerging Europe. This will be achieved by buying out distributors and joint venture partners.

PHASING OF INTEGRATION REVENUE SYNERGIES

€ in millions

	2008	2009
Annual revenue synergies	250	500
Average one-time cost per year	15 – 25	15 – 25

PHASING OF INTEGRATION COST SYNERGIES

€ in millions

	2008	2009
Annual cost savings	175	175
Average one-time cost per year	70	–
Net cost savings	105	175

GROUP 2009 FINANCIAL TARGETS

Currency-neutral sales growth	high-single-digit
Gross margin	46 % to 48 %
Operating margin	approx. 11 %
Net income growth	double-digit

2009 COST SYNERGIES FROM REEBOK INTEGRATION During our integration planning phase, we identified significant annual cost of sales and operating expense synergy potential. We expect to realize the full amount of around € 175 million in 2009. In particular, we project cost savings to come from the following areas:

- *Cost of sales:* By integrating Reebok into our Global Operations function, we expect to achieve a cost of sales reduction through optimized purchasing processes by 2009.

- *Sales and marketing, distribution, administration and IT:* We have also identified the opportunity to generate operating expense savings by realizing various initiatives such as joint media buying, office consolidation in Europe and Asia, harmonizing and consolidating our IT systems, eliminating duplicative corporate functions and sharing finance and administrative services across the Group.

2009 OUTLOOK CONFIRMED As a result of continued underlying growth of our brands and the synergies from the Reebok integration, we expect a strong top- and bottom-line development again in 2009. We project Group sales to increase at a high-single-digit rate on a currency-neutral basis. This development will be driven by continued strength at adidas and TaylorMade-adidas Golf as well as the ongoing revitalization of the Reebok business segment. The Group's gross margin is expected to be between 46 and 48 % in 2009. Positive effects from an improving product and geographical mix, own-retail expansion and cost synergies derived as a result of the integration of Reebok will be largely offset by increasing input prices driven by higher raw material prices, freight rates and labor costs. We also expect the Group's operating margin to increase to approximately 11 % in 2009, driven by a modestly lower marketing working budget as well as efficiency gains largely related to Reebok integration cost synergies. This is expected to lead to an improvement of the Group's operating expenses as a percentage of sales. Net income is forecasted to increase at a double-digit rate in 2009 as a result of our continuing top-line growth and improved profitability projected at all brands.

RESOLUTE & REAL

YOU'RE SOMEONE WHO KNOWS THAT ACTIONS SPEAK LOUDER THAN WORDS. EVERY TIME PEOPLE UNDERESTIMATE YOU, YOU PROVE THEM WRONG. DEMONSTRATED SUCCESSFULLY BY NEW YORK GIANTS QUARTERBACK AND 2008 SUPER BOWL CHAMPION AND MVP ELI MANNING.

-UNITED BY DETERMINATION-

Eli Manning

PRODUCTS AND CAMPAIGNS

OUR RESEARCHERS, DESIGNERS AND DEVELOPERS ALL HAVE
ONE COMMON GOAL: TO CREATE THE BEST SPORTS AND LIFESTYLE
PRODUCTS IN THE WORLD. THE RESULT IS TECHNOLOGY
THAT SETS NEW STANDARDS. AND STYLE THAT SETS NEW TRENDS.
FOR EVERY TYPE OF SPORT. FOR EVERY TYPE OF ATHLETE.
FOR EVERY TYPE OF CONSUMER.

TO CONNECT WITH OUR CONSUMERS,
WE KNOW THAT WORLD-CLASS MARKETING IS CRITICAL TO OUR SUCCESS.
OUR AWARD-WINNING GLOBAL BRAND CAMPAIGNS TRANSFORM OUR BRAND VALUES
INTO CREATIVE CONCEPTS, CLEAR MESSAGES AND EXCITING VISUALS.

THE FOLLOWING PAGES FEATURE SOME OF OUR BIGGEST AND MOST
EXCITING PRODUCTS AND CAMPAIGNS FOR 2008.
AND THEY ILLUSTRATE HOW EVERYTHING WE DO IN OUR GROUP TRULY IS

-UNITED BY SPORT-

-- ✂ YOUR FAVORITE COVER --

DO YOU WANT TO SEE YOUR FAVORITE PRODUCT OR CAMPAIGN ON THE FRONT OF THIS REPORT?
NO PROBLEM. JUST REPLACE THE STARTER INSERT WITH ONE OF THE FOLLOWING PAGES.

PRECISION & STYLE

-- ADIDAS FOOTBALL --

- Predator® PowerSwerve, adiPure and F50 TUNiT -

For the UEFA EURO 2008™ in Austria and Switzerland, adidas developed three new football boots. The Predator® PowerSwerve boot can be summed up in three words: power, swerve and control. This will again be the industry's top-selling football boot in 2008. Predator® Foam, Power Pulse™ technology and asymmetrical lacing make it the gold standard for elite footballers such as Michael Ballack and Patrick Vieira.
Elegance is at the heart of the game as well as at the heart of the new adiPure footwear line. Timeless design highlights adidas' unique heritage in the world's biggest sport. adiPure features intricate detailing, ultra-soft leather and a glove-like fit. It is the signature shoe of reigning FIFA world footballer of the year Kaká.
The F50 TUNiT is the world's first fully customizable football boot with exchangeable cleats, chassis and uppers. Lightweight and stylish in design, this is the shoe of the game's biggest up-and-coming stars such as Lionel Messi, Lukas Podolski and David Villa.

✂ YOUR FAVORITE COVER

INNOVATION & DYNAMICS

-- ADIDAS RUNNING --

- adiSTAR Control -

The adiSTAR Control is an exciting addition to adidas' premium family of running shoes.
It employs road-smoothing ForMotion™ elements and is enhanced with a lighter upper, extra cushioning in the midsole and a snug and comfortable lining for exceptional fit.

POWER & BALANCE

-- ADIDAS TRAINING --

- TECHFIT™ POWERWEB -

The adidas TECHFIT™ POWERWEB is at the cutting edge of athletic design and delivers unique benefits in power and balance by focusing on improving body stability and posture. This compression apparel reduces muscle vibration and enhances temperature management to maximize the power of key muscle groups.

UNIQUE & COLORFUL

-- ADIDAS ORIGINALS --

- Handbags For Feet -

This collection is a new must-have for style-conscious women. It offers a comprehensive selection of footwear featuring graphics and materials inspired by luxurious handbag design.

-- ADIDAS OLYMPIC GAMES --

- Together in 2008, Impossible Is Nothing -

As the Official Sportswear Partner of the Beijing 2008 Olympic Games, adidas launched its biggest-ever Chinese marketing campaign which includes exciting visuals at famous locations such as Yong Ding Men, a gate in the old Beijing city wall. This campaign demonstrates the power of "Together" by showcasing how the entire Chinese nation supports their athletes and the Games themselves. Famous Chinese Olympians such as basketball superstar Sui Feifei, key members of the Chinese women's volleyball team, diving sensation Hu Jia and football legend Zheng Zhi are featured in the campaign.

04

✂ YOUR FAVORITE COVER

-- ADIDAS FOOTBALL --

- UEFA EURO 2008™, Impossible Is Nothing -

Building further on the Impossible Is Nothing message, in 2008 adidas will introduce a new multi-stage football campaign for the UEFA EURO 2008™. This campaign aims to help consumers improve their game through insights given by some of the world's best footballers. Players such as Lukas Podolski, Michael Ballack and Sebastian Schweinsteiger spend time with up-and-coming young players, sharing their experiences and knowledge on what it takes to be a great footballer.

< YOUR FAVORITE COVER

-- ADIDAS BASKETBALL --

- Basketball Is A Brotherhood -

The team idea is at the core of the "Basketball Is A Brotherhood" campaign. As official sponsor to the NBA, adidas is proud to be front and center at this year's NBA All-Star Game in New Orleans, Louisiana, USA. With stand-out players such as Kevin Garnett (pictured), Tim Duncan and Dwight Howard, adidas will also have the best on-court representatives.

-- ADIDAS ORIGINALS --

- Celebrate Originality -

In the 1970s, adidas routinely used a globe in its advertising to show consumers the diversity of its product offers as the one, genuinely global sports brand. Now thirty years later, adidas is reintroducing the visual device to celebrate the brand's originality and highlight the breadth and depth adidas Originals lifestyle products offer around the world.

-- ADIDAS Y-3 --

- Global Spring / Summer 2008 Campaign -

The inspiration for the Y-3 2008 advertising campaign is rooted in video aesthetics of the 1980s. The grainy quality, movement and fast-looking action all blend to create a stimulating environment with an urban quality.

FIT & FUNCTIONALITY

-- REEBOK RUNNING --

- HEXRIDE Rally Running Shoe -

Reebok's HEXRIDE running footwear collection features a hexagonal sole, in a honeycomb shape, which is one of the top strength-to-weight ratio constructions engineering can offer.
The HEXRIDE technology features both exceptional cushioning and a lightweight ride.

✂ YOUR FAVORITE COVER

AWARENESS & DEDICATION

-- REEBOK WOMEN'S --

- Reebok Pink Ribbon Collection -

Reebok is the official global footwear and apparel sponsor of the 2008 Avon Walk Around the World for Breast Cancer. The brand has developed a special Pink Ribbon collection of sports and lifestyle products. All products carry the symbolic pink ribbon and color. Reebok is donating a portion of the proceeds to the Avon Foundation for breast cancer research. The Pink Ribbon RW Cushion KFS running shoe features two of the brand's leading technologies: KineticFit System and PlayDry moisture wicking. The Pink Ribbon Swara features an open weave mesh upper for breathability and support and a removable sockliner to accommodate orthotics and DMX Foam for the ultimate in cushioning technology.

STYLISH & ICONIC

-- REEBOK WOMEN'S LIFESTYLE --

- Freestyle Cities Collection: Paris -

Inspired by some of the world's most famous cities, Reebok's Freestyle Cities Collection features shoes designed as unique as the cities they take inspiration from. Fresh new treatments and colors update this Classic silhouette with its trademark double adjustable straps and pay homage to the international cities of Tokyo, Paris, New Delhi, Madrid, London and New York City.

CLASSIC & COOL

-- REEBOK MEN'S LIFESTYLE --

- The Voltron Collection -

Reebok's Voltron Collection will appeal to collectors and fans alike of the popular 1980s animated television series. This line features five of Reebok's most celebrated Classic models tied in to the five key robot characters of the original series. The Voltron Collection is a key directional and lifestyle story for the brand.

STABILITY & SPEED

-- REEBOK-CCM HOCKEY --

- CCM Vector U+ Pro Skate and Rbk 7K Sickick Stick -

U-foam technology makes the new CCM Vector U+ Pro Skate an ultra-lightweight, completely thermo-formable and extremely strong hockey skate. This skate also features Reebok's PlayDry anti-microbial liner to reduce slippage.

The newly designed Black & Gold Rbk 7K Sickick Stick is currently being used by hockey superstar Sidney Crosby. The Sickick creates a low kick zone that helps players release the puck faster than goalies can react.

-- REEBOK --

- Your Move -

Reebok's "Your Move" global marketing campaign will support the brand's commitment to celebrating individuality, while also encouraging consumers to play by their own rules. The "Your Move" message will be communicated through integrated brand, running, women's and global football stories.

-- REEBOK OLYMPIC GAMES --

- Fuel Yao's Unlimited Power -

Reebok's 2008 Chinese marketing campaign "Fuel Yao's Unlimited Power" celebrates basketball icon Yao Ming's exciting journey to the 2008 Olympic Games. Running exclusively in China, this integrated campaign will inspire consumers to support Yao on his quest for Olympic success.

-- ROCKPORT --

- Live in Rockport -

Rockport's new advertising campaign underscores the brand's commitment to style, substance and authenticity. Rockport strives to deliver shoes which make it easy for consumers to go where they want to go, do what they want to do and be who they want to be. That's what it means to "Live in Rockport".

TECHNOLOGY & CRAFTSMANSHIP

-- TAYLORMADE-ADIDAS GOLF --

- TOUR360 LTD -

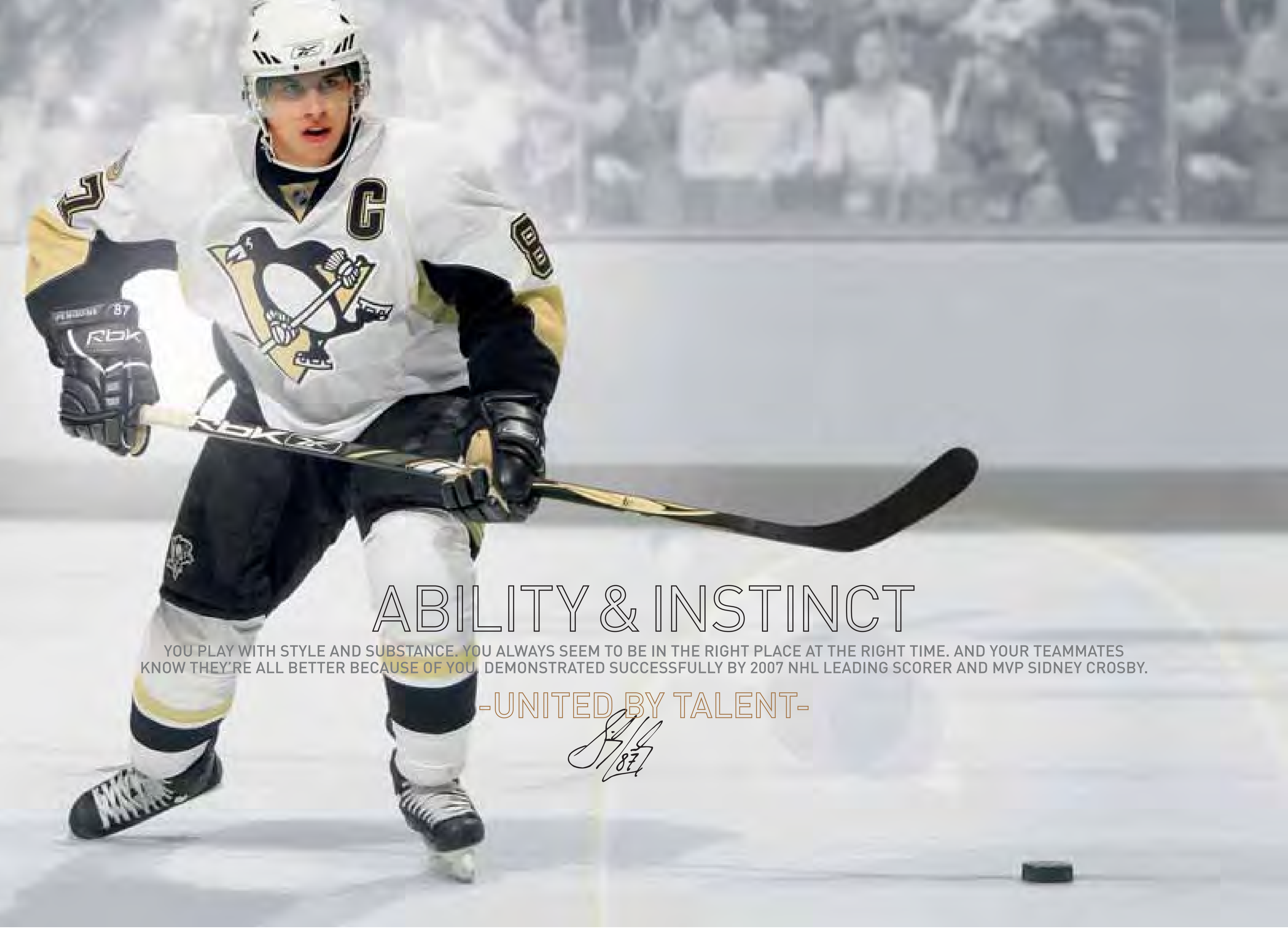
adidas Golf's new TOUR360 LTD represents a new class of high-performance golf footwear that melds advanced technology with luxurious features. Instantly popular with adidas Golf's Tour Staff professionals, the TOUR360 LTD proves that properly uniting performance innovation with world-class craftsmanship results in a state-of-the-art performance product that has no peer.

✂ YOUR FAVORITE COVER

-- TAYLORMADE-ADIDAS GOLF --

- The Beast Campaign -

TaylorMade's "Beast" advertising campaign for the new Tour Burner® driver utilizes muscular language to convey the club's function: extreme power fueled by innovation. The campaign is designed to convey the club's persona: brash, powerful and in-your-face.


ABILITY & INSTINCT
YOU PLAY WITH STYLE AND SUBSTANCE. YOU ALWAYS SEEM TO BE IN THE RIGHT PLACE AT THE RIGHT TIME. AND YOUR TEAMMATES KNOW THEY'RE ALL BETTER BECAUSE OF YOU. DEMONSTRATED SUCCESSFULLY BY 2007 NHL LEADING SCORER AND MVP SIDNEY CROSBY.
-UNITED BY TALENT-

CONSOLIDATED FINANCIAL STATEMENTS

RESPONSIBILITY STATEMENT To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Herzogenaurach, February 15, 2008

Herbert Hainer
Chairman and CEO

Glenn Bennett
Global Operations

Robin J. Stalker
Finance

Erich Stamminger
President and CEO of the adidas Brand

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by adidas AG, Herzogenaurach – comprising the balance sheet, the income statement, statement of recognized income and expense, cash flow statement and the notes to the consolidated financial statements – together with the Group Management Report for the business year from January 1, 2007 to December 31, 2007. The preparation of the consolidated financial statements and the Group Management Report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a section 1 HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the parent company's Management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group Management Report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group Management Report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group Management Report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and Group Management Report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a section 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group Management Report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, February 15, 2008
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Dr. Bernd Erle
German Public Auditor

Rainer Gebele
German Public Auditor

CONSOLIDATED BALANCE SHEET (IFRS)

€ in millions

	Note	Dec. 31, 2007	Dec. 31, 2006	Change in %
Cash and cash equivalents	5	295	311	(5.2)
Short-term financial assets	6	86	36	137.6
Accounts receivable	7	1,459	1,415	3.1
Inventories	8	1,629	1,607	1.3
Income tax receivables	27	60	84	(28.6)
Other current assets	9	529	413	28.0
Assets classified as held for sale	3	80	59	35.3
Total current assets		4,138	3,925	5.4
Property, plant and equipment	10	702	689	2.0
Goodwill	11	1,436	1,516	(5.3)
Trademarks	12	1,291	1,454	(11.2)
Other intangible assets	12	194	223	(13.0)
Long-term financial assets	13	103	106	(2.6)
Deferred tax assets	27	315	332	(4.9)
Other non-current assets	14	147	134	7.9
Total non-current assets		4,188	4,454	(6.0)
Total assets		**8,325**	**8,379**	**(0.6)**
Accounts payable		849	752	12.8
Income taxes	27	285	283	0.6
Accrued liabilities and provisions	16	1,025	921	11.3
Other current liabilities	17	266	232	14.9
Liabilities classified as held for sale	3	4	4	(4.5)
Total current liabilities		2,429	2,192	10.8
Long-term borrowings	15	2,146	2,578	(16.7)
Pensions and similar obligations	18	124	134	(7.8)
Deferred tax liabilities	27	450	522	(13.9)
Non-current accrued liabilities and provisions	16	73	74	(1.4)
Other non-current liabilities	19	69	43	65.3
Total non-current liabilities		2,862	3,351	(14.6)
Share capital		204	204	0.0
Reserves		161	425	(62.2)
Retained earnings		2,658	2,199	20.9
Shareholders' equity	21	3,023	2,828	6.9
Minority interests	20	11	8	45.6
Total equity		3,034	2,836	7.0
Total liabilities and equity		**8,325**	**8,379**	**(0.6)**

Rounding differences may arise in percentages and totals.
The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT (IFRS)

€ in millions

	Note	Year ending Dec. 31, 2007	Year ending Dec. 31, 2006	Change
Net sales		10,299	10,084	2.1 %
Cost of sales		5,417	5,589	(3.1 %)
Gross profit		4,882	4,495	8.6 %
(% of net sales)		47.4 %	44.6 %	2.8 pp
Royalty and commission income		102	90	13.5 %
Other operating income and expenses	10, 12, 24	4,035	3,704	8.9 %
(% of net sales)		39.2 %	36.7 %	2.5 pp
Operating profit		949	881	7.8 %
(% of net sales)		9.2 %	8.7 %	0.5 pp
Financial income	26	36	39	(8.7 %)
Financial expenses	26	170	197	(13.6 %)
Income before taxes		815	723	12.7 %
(% of net sales)		7.9 %	7.2 %	0.7 pp
Income taxes	27	260	227	14.3 %
(% of income before taxes)		31.8 %	31.4 %	0.4 pp
Net income		555	496	12.0 %
(% of net sales)		5.4 %	4.9 %	0.5 pp
Net income attributable to shareholders		551	483	14.2 %
(% of net sales)		5.4 %	4.8 %	0.6 pp
Net income attributable to minority interests		4	13	(70.6 %)
Basic earnings per share (in €)	28	2.71	2.37	14.1 %
Diluted earnings per share (in €)	28	2.57	2.25	13.9 %

Rounding differences may arise in percentages and totals.
The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

€ in millions

	Note	Year ending Dec. 31, 2007	Year ending Dec. 31, 2006
Operating activities:			
Income before taxes		815	723
Adjustments for:			
Depreciation and amortization	10, 12, 13, 24	215	217
Unrealized foreign exchange (gains) / losses, net		(23)	76
Interest income	26	(27)	(37)
Interest expense	26	166	184
(Gains) / Losses on sale of property, plant and equipment, net		(7)	2
Operating profit before working capital changes		1,139	1,165
(Increase) / Decrease in receivables and other current assets		(66)	52
Decrease in inventories		26	98
Increase / (Decrease) in accounts payable and other current liabilities		97	(98)
Cash provided by operations		1,196	1,217
Interest paid		(161)	(158)
Income taxes paid		(255)	(297)
Net cash provided by operating activities		**780**	**762**
Investing activities:			
Purchase of trademarks and other intangible assets		(55)	(75)
Proceeds from sale of other intangible assets		10	19
Purchase of property, plant and equipment		(230)	(202)
Purchase of finance-leased assets		—	(170)
Proceeds from sale of property, plant and equipment		30	36
Acquisition of further investments in subsidiaries	4	(7)	(32)
Acquisition of subsidiaries and other business units net of cash acquired	4, 30	(2)	(2,432)
Buyback of employee stock options and convertible bonds		—	(223)
Disposal of discontinued operations net of cash		—	33
(Purchase of) / Proceeds from sale of short-term financial assets		(47)	22
Purchase of investments and other long-term assets		(11)	(1)
Interest received		27	37
Net cash used in investing activities		**(285)**	**(2,988)**

CONSOLIDATED STATEMENT OF CASH FLOWS (IFRS)

€ in millions

	Note	Year ending Dec. 31, 2007	Year ending Dec. 31, 2006
Financing activities:			
(Decrease) / Increase in long-term borrowings		(424)	1,099
Dividend to shareholders of adidas AG	21	(85)	(66)
Dividend to minority shareholders		(1)	(4)
Exercised share options		0	6
Net cash (used in) / provided by financing activities		**(510)**	**1,035**
Effect of exchange rates on cash		(1)	(23)
Decrease in cash and cash equivalents		(16)	(1,214)
Cash and cash equivalents at beginning of year	5	311	1,525
Cash and cash equivalents at year-end	5	**295**	**311**

Rounding differences may arise in percentages and totals.
The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSE

€ in millions

	Note	Year ending Dec. 31, 2007	Year ending Dec. 31, 2006
Net loss on cash flow hedges, net of tax	23	(38)	(67)
Net gain on hedge of net investments in foreign subsidiaries, net of tax		—	0
Actuarial gain of defined benefit plans, net of tax	18	10	1
Currency translation		(237)	(215)
Net income recognized directly in equity		**(265)**	**(281)**
Net income after taxes		555	496
Total income and expense recognized in the financial statements		**290**	**215**
Attributable to shareholders of adidas AG		286	202
Attributable to minority interests		4	13

Rounding differences may arise in percentages and totals.
The accompanying notes are an integral part of these consolidated financial statements.

NOTES adidas AG, a listed German stock corporation, and its subsidiaries design, develop, produce and market – increasingly through own-retail activities – a broad range of athletic and sports lifestyle products. The Group's Headquarters are located at Adi-Dassler-Str. 1, 91074 Herzogenaurach, Germany. The adidas Group has divided its operating activities by major brand into three segments: adidas, Reebok and TaylorMade-adidas Golf. The business of Reebok International Ltd. (USA) and its subsidiaries is consolidated within the adidas Group as of February 1, 2006, and has a material impact on the Group's financial position, results of operations and cash flows.

adidas branded products include footwear, apparel and hardware, such as bags and balls. The products are designed and developed by adidas and are almost exclusively manufactured by subcontractors on behalf of adidas.

Reebok branded products also include footwear, apparel and hardware, such as bags and balls. The products are designed and developed by Reebok and are almost exclusively manufactured by subcontractors on behalf of Reebok.

TaylorMade designs, develops and assembles or manufactures high-quality golf clubs, balls and accessories. adidas Golf branded products include footwear, apparel and accessories. Maxfli is specialized in golf balls and golf accessories.

1 GENERAL The accompanying consolidated financial statements of adidas AG and its subsidiaries (collectively the "adidas Group" or the "Group") as at December 31, 2007, are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and the additional requirements of German commercial law pursuant to § 315a section 1 HGB.

New standards, amendments to standards and interpretations applicable for the financial year ending December 31, 2007:
-- IAS 1 Amendment – Capital Disclosures (effective date: January 1, 2007): This amendment required additional disclosures with respect to the Group's capital management.
-- IFRS 7 Financial Instruments: Disclosures (effective date: January 1, 2007): This new standard required extensive additional disclosures with respect to the Group's financial instruments.
-- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective date: March 1, 2006): This interpretation had no impact on the Group's financial statements.
-- IFRIC 8 Scope of IFRS 2 (effective date: May 1, 2006): This interpretation had no impact on the Group's financial statements.
-- IFRIC 9 Reassessment of Embedded Derivatives (effective date: June 1, 2006): This interpretation had no impact on the Group's financial statements.
-- IFRIC 10 Interim Financial Reporting and Impairment (effective date: November 1, 2006): This interpretation had no impact on the Group's financial statements.

New standards and interpretations that will be effective for financial years after December 31, 2007, and have not been applied in preparing these consolidated financial statements:
-- IFRS 8 Operating Segments (effective date: January 1, 2009): The Group is currently analyzing the potential effects of this new standard.
-- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective date: March 1, 2007): This interpretation is not expected to have any impact on the Group's financial statements.

Entities shall apply the new standards, amendments to existing standards and interpretations for annual periods beginning on or after the effective date.

New standards and interpretations, and amendments to existing standards and interpretations are usually not applied by the Group before the effective date.

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain items such as cash and cash equivalents, available-for-sale financial assets, derivative financial instruments and receivables, which are measured at fair value.

The consolidated financial statements are presented in euros and all values are rounded to the nearest million.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with the consolidation, accounting and valuation principles described below.

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of adidas AG and its direct and indirect subsidiaries, which are prepared in accordance with uniform accounting principles.

A company is considered a subsidiary if adidas AG directly or indirectly governs the financial and operating policies of the respective enterprise.

The number of consolidated subsidiaries evolved as follows for the years ending December 31, 2007 and 2006, respectively:

NUMBER OF CONSOLIDATED COMPANIES

	2007	2006
January 1	168	94
Newly founded / consolidated companies	6	2
Divestments / exclusion from consolidation	(1)	(4)
Merged companies	(2)	(1)
Purchased companies	—	77
December 31	171	168

A schedule of the shareholdings of adidas AG is shown in Attachment II to these Notes. Further, a schedule of these shareholdings will be published on the electronic platform of the German Federal Gazette.

The first-time consolidation of purchased companies had a material impact in 2006. see Note 4

Within the scope of the first-time consolidation, all acquired assets and liabilities are recognized in the balance sheet at fair value. A debit difference between the investment book value and the proportionate fair value of assets and liabilities is shown as goodwill. A credit difference is recorded in the income statement. No fair value adjustments are recognized at the first-time consolidation of acquired minority interests in companies accounted for using the purchase method. A debit difference between the cost for such an additional investment and the carrying amount of the net assets at the acquisition date is shown as goodwill. A credit difference is recorded in the income statement.

All intercompany transactions and balances, as well as any unrealized gains and losses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

CURRENCY TRANSLATION Transactions of assets and liabilities in foreign currencies are translated into the respective functional currency at spot rates on the transaction date.

In the individual financial statements of Group companies, monetary items denominated in non-functional currencies of the subsidiaries, are generally measured at closing exchange rates at the balance sheet date. The resulting currency gains and losses are recorded directly in income.

Assets and liabilities of the Group's non-euro functional currency subsidiaries are translated into the reporting currency the "euro", which is also the functional currency of adidas AG, at closing exchange rates at the balance sheet date. Revenues and expenses are translated at exchange rates on the transaction dates. All cumulative differences from the translation of equity of foreign subsidiaries resulting from changes in exchange rates, are included in a separate item within shareholders' equity without affecting income.

A summary of exchange rates to the euro for major currencies in which the Group operates is as follows:

EXCHANGE RATES

€ 1 equals

	Average rate for the year ending Dec. 31		Spot rate at Dec. 31	
	2007	2006	2007	2006
USD	1.3709	1.2562	1.4721	1.3170
GBP	0.6845	0.6820	0.7334	0.6715
JPY	161.19	146.08	164.93	156.93

DERIVATIVE FINANCIAL INSTRUMENTS The Group uses derivative financial instruments, such as interest and currency options, forward contracts, as well as interest rate swaps and cross-currency interest rate swaps to hedge its exposure to foreign exchange and interest rate risks. In accordance with its treasury policy, the Group does not enter into derivative financial instruments with banks for trading purposes.

Derivative financial instruments are initially recognized in the balance sheet at fair value, and subsequently also measured at their fair value. The method of recognizing the resulting gains or losses is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of a forecasted transaction (cash flow hedge), a hedge of the fair value of a recognized asset or liability (fair value hedge) or a hedge of a net investment in a foreign entity.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges, and that are 100% effective, as defined in IAS 39, are recognized in equity. When the effectiveness is not 100%, the ineffective portion of the fair value is recognized in net income. Cumulated gains and losses in equity are transferred to the income statement in the same periods during which the hedged forecasted transaction affects the income statement.

For derivative instruments designated as fair value hedges, the gains or losses on the derivatives and the offsetting gains or losses on the hedged items are recognized immediately in net income.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, may not qualify for hedge accounting under the specific rules of IAS 39. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognized immediately in the income statement.

Hedges of net investments in foreign entities are accounted for in a similar way to cash flow hedges. If, for example, the hedging instrument is a derivative (e.g. a forward contract) or, for example, a foreign currency borrowing, effective currency gains and losses in the derivative and all gains and losses arising on the translation of the borrowing, respectively, are recognized in equity.

The Group documents the relationship between hedging instruments and hedged items at transaction inception, as well as the risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific forecasted transactions. The Group also documents its assessment of whether the derivatives that are used in hedging transactions are highly effective by using different methods of effectiveness testing, such as the "dollar offset method" or the "hypothetical derivative method".

The fair values of forward contracts and currency options are determined on the basis of market conditions on the reporting dates. The fair value of a currency option is determined using generally accepted models to calculate option prices. The fair market value of an option is influenced not only by the remaining term of the option but also by additional factors, such as the actual foreign exchange rate and the volatility of the underlying foreign currency base. The fair values of interest rate options on the reporting date are assessed by generally accepted models, such as the "Markov functional model".

CASH AND CASH EQUIVALENTS Cash and cash equivalents represent cash and short-term bank deposits with maturities of three months or less from the date of acquisition.

RECEIVABLES AND OTHER ASSETS Receivables and other assets are recognized at fair value, which is estimated as the present value of future cash flows discounted at the market rate of interest at the balance sheet date. If necessary, required allowances are determined on the basis of individual risk assessment and past experience of losses.

INVENTORIES Merchandise and finished goods are valued at the lower of cost or net realizable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Costs are determined using a standard valuation method: the "average cost method". Costs of finished goods include cost of raw materials, direct labor and the components of the manufacturing overheads which can reasonably be attributed. The net realizable value allowances are computed consistently throughout the Group based on the age and expected future sales of the items on hand.

ASSETS / LIABILITIES CLASSIFIED AS HELD-FOR-SALE Assets and liabilities (primarily non-current) that are expected to be recovered principally through sale rather than through continuing use are classified as held-for-sale. These are measured at the lower of their carrying amount and fair value less cost to sell.

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment are stated at cost (which comprises any costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by Management) less accumulated depreciation (except for land and construction in progress) and accumulated impairment losses. Depreciation is computed utilizing the "straight-line method", except where the "declining-balance method" is more appropriate in light of the actual utilization pattern. Useful lives are as follows:

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

	Years
Buildings / Leasehold improvements	5 – 50
Technical equipment and machinery as well as other equipment and furniture and fittings	2 – 10

Expenditures for maintenance and repairs are expensed as incurred. Renewals and improvements are capitalized and depreciated separately, if the recognition criteria are met.

IMPAIRMENT In the event that facts and circumstances indicate that the cost of non-current assets (financial and non-financial assets) should be impaired, an evaluation of recoverability is performed. An impairment loss is recognized in the income statement if the carrying amount exceeds the recoverable amount. If there is an impairment loss for a cash-generating unit, first the carrying amount of any goodwill allocated to the cash-generating unit is reduced, and subsequently the other assets of the unit are reduced pro rata on the basis of the carrying amount of each asset in the unit.

Irrespective of whether there is an impairment indication, intangible assets with an indefinite useful life and goodwill acquired in business combinations are tested annually for impairment.

An impairment loss recognized in goodwill is not reversible. With respect to other assets, an impairment loss recognized in prior periods is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized.

LEASES If substantially all risks and rewards associated with an asset are transferred to the Group under finance lease agreements, the asset less accumulated depreciation and the corresponding liability are recognized at the fair value of the asset or the lower net present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability.

Under operating lease agreements, rent expenses are recognized on a straight-line basis over the term of the lease.

IDENTIFIABLE INTANGIBLE ASSETS Acquired intangible assets are valued at cost less accumulated amortization (except for assets with indefinite useful lives) and impairment losses. Amortization is calculated on a straight-line basis with the following useful lives:

USEFUL LIVES OF IDENTIFIABLE INTANGIBLE ASSETS

	Years
Trademarks	indefinite
Software	3 – 5
Patents, trademarks and concessions	5 – 15

In 2007, the adidas Group determined that there was no impairment necessary for any of its trademarks with indefinite useful lives.

The recoverable amount is determined on the basis of fair value less costs to sell, which are calculated with 1 % of the fair value. The fair value is determined through discounting the royalty savings after tax and adding a tax amortization benefit, resulting from the amortization of the acquired asset (relief-from-royalty method). These calculations use projections of net sales related royalty savings, based on financial planning which covers a period of five years in total. Royalty savings beyond this period are extrapolated using steady growth rates of 2.5% (2006: 2%). The growth rates do not exceed the long-term average growth rate of the business to which the trademarks are allocated.

The discount rate is based on a weighted average cost of capital calculation considering a five-year average debt/equity structure and financing costs including the Group's major competitors. The discount rate used is after-tax rates and reflects specific equity and country risk. The applied discount rate is 7.5 % (2006: 7.5 %).

Expenditures for internally generated intangible assets are expensed as incurred if they do not qualify for recognition.

GOODWILL Goodwill is the excess of the purchase cost over the fair value of acquired identifiable assets and liabilities. Goodwill arising from the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets and liabilities of that foreign entity, are treated as assets and liabilities of the reporting entity respectively, and are translated at exchange rates prevailing at the date of the initial consolidation. Goodwill is carried in the functional currency of the acquired foreign entity.

Acquired goodwill is valued at cost less accumulated impairment losses. Effective January 1, 2005, scheduled amortization of goodwill ceased due to changes in IFRS. Goodwill is tested annually for impairment, and additionally when there are indications of potential impairment.

Goodwill has been allocated for impairment testing purposes to three cash-generating units. The Group's cash-generating units are identified according to brand of operations in line with the internal management approach. The adidas Group has thus defined the three segments adidas, Reebok and TaylorMade-adidas Golf as the relevant cash-generating units.

The carrying amounts of acquired goodwill are allocated to the cash-generating units as follows:

ALLOCATION OF GOODWILL
€ in millions

	adidas	Reebok	TaylorMade-adidas Golf	Total goodwill
December 31, 2006	**795**	**437**	**284**	**1,516**
Additions	—	—	—	—
Currency effects	(47)	(31)	(2)	(80)
December 31, 2007	**748**	**406**	**282**	**1,436**

In 2007, the adidas Group determined that no impairment of goodwill was necessary.

The recoverable amount of a cash-generating unit is determined on the basis of fair value less costs to sell, which are calculated with 1 % of the fair value. These calculations use cash flow projections based on the financial planning covering a five-year period in total. Cash flows beyond the five-year period are extrapolated using steady growth rates of 2.0 % to 2.5 % (2006: 2 %). These growth rates do not exceed the long-term average growth rate of the business in which each cash-generating unit operates.

Discount rates are based on a weighted average cost of capital calculation considering a five-year average debt / equity structure and financing costs including the Group's major competitors of each cash-generating unit. The discount rates used are after-tax rates and reflect the specific equity and country risk of the relevant cash-generating unit. The applied discount rates for specific cash-generating units are between 7.5 % and 8.4 % (2006: between 7.2 % and 8.0 %).

RESEARCH AND DEVELOPMENT Research costs are expensed as incurred. Development costs are also expensed as incurred when recognition criteria are not met.

The Group spent € 84 million and € 98 million on product research and development for the years ending December 31, 2007 and 2006, respectively.

FINANCIAL ASSETS All purchases and sales of financial assets are recognized on the trade date. Costs of purchases include transaction costs. If the fair value of available-for-sale financial assets (i. e. non-derivative financial assets which are not allocable under another category of IAS 39) can be measured reliably, they are subsequently carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value of financial assets are included in the income statement for the period in which they arise except for available-for-sale financial assets where unrealized gains and losses are recognized in equity unless they are impaired.

BORROWINGS AND OTHER LIABILITIES Borrowings and other liabilities are recognized at fair value using the effective interest method, net of transaction costs incurred. In subsequent periods, long-term borrowings are stated at amortized cost using the "effective interest method". Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the term of the borrowing.

The fair value of the liability component of the Group's convertible bond is determined using a market interest rate for a comparable straight bond. This amount is presented as part of long-term borrowings on an amortized cost basis until conversion or maturity of the bond. The remaining portion is included in shareholders' equity where the value of the equity component is not changed in subsequent periods.

ACCRUED LIABILITIES AND PROVISIONS Provisions are recognized where a present obligation (legal or constructive) to third parties has been incurred which is likely to lead to an outflow of resources where the timing or amount is uncertain. Non-current provisions are discounted if the effect of discounting is material.

With respect to accrued liabilities, the timing and amount of an outflow of resources is not uncertain.

PENSIONS AND SIMILAR OBLIGATIONS Provisions for pensions and similar obligations comprise the Group provision obligation under defined benefit and contribution plans. Obligations under defined benefit plans are calculated separately for each plan by estimating the benefit amount that employees have earned in return for their service during the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high-quality corporate bonds. Calculations are performed by qualified actuaries using the projected unit credit method in accordance with IAS 19. Obligations for contributions to defined contribution plans are recognized as an expense in the income statement when they are due.

As of January 1, 2005, due to application of the amendment to IAS 19 ("Employee Benefits" issued in December 2004), the Group recognizes actuarial gains or losses to defined benefit plans arising during the financial year immediately outside the income statement in "other reserves" within equity as shown in the statement of recognized income and expense.

RECOGNITION OF REVENUES Sales are recognized at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates, when the significant risks and rewards of ownership of the goods are transferred to the buyer, and when it is probable that the economic benefits associated with the transaction will flow to the Group.

Royalty and commission income is recognized based on the contract terms on an accrual basis.

ADVERTISING AND PROMOTIONAL EXPENDITURES Production costs for media campaigns are included in prepaid expenses (other current and non-current assets) until the advertising is finalized, after which they are expensed in full. Significant media buying costs (e.g. broadcasting fees) are expensed over the original duration of the campaign after usage.

Promotional expenses, including one-time up-front payments for promotional contracts, are expensed systematically over the term of the agreements.

INTEREST Interest is recognized as income or expense as incurred (using the effective interest method) and is not capitalized.

INCOME TAXES Current income taxes are computed in accordance with the applicable taxation rules established in the countries in which the Group operates.

The Group computes deferred taxes for all temporary differences between the carrying amount and the tax base of its assets and liabilities and tax loss carry-forwards. As it is not permitted to recognize a deferred tax liability for goodwill, the Group does not compute any deferred taxes thereon.

Deferred tax assets arising from deductible temporary differences and tax loss carry-forwards which exceed taxable temporary differences are only recognized to the extent that it is probable that the company concerned will generate sufficient taxable income to realize the associated benefit.

Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

EQUITY COMPENSATION BENEFITS Stock options were granted to members of the Executive Board of adidas AG as well as to the managing directors / senior vice presidents of its affiliated companies and to further senior executives of the Group in connection with the Management Share Option Plan (MSOP) of adidas AG. see also Note 32 The Company has the choice to settle a potential obligation by issuing new shares or providing the equivalent cash compensation. When options are exercised and the Company decides to issue new shares, the proceeds received net of any transaction costs are credited to share capital and capital surplus. In the past, the Company has chosen to issue new shares. It is planned to maintain this methodology in the future.

In accordance with IFRS 2, an expense and a corresponding entry to equity for equity-settled stock options and an expense and a liability for cash-settled stock options is recorded.

The Group has applied IFRS 2 retrospectively and has taken advantage of the transitional provisions of IFRS 2 with respect to equity-settled awards. As a result, the Group has applied IFRS 2 only to equity-settled awards granted after November 7, 2002, that had not yet vested on January 1, 2005 [Tranche V (2003)].

ESTIMATION UNCERTAINTIES The preparation of financial statements in conformity with IFRS requires the use of assumptions and estimates that affect reported amounts and related disclosures. Although such estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined in the respective Notes, in particular goodwill see Note 11, trademarks see Note 12, provisions see Note 16, pensions see Note 18 as well as deferred taxes see Note 27.

3 ASSETS / LIABILITIES CLASSIFIED AS HELD-FOR-SALE Part of the assets of GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG and adidas AG as well as assets of Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG within the HQ / Consolidation segment are presented as disposal groups held-for-sale following a Memorandum of Understanding signed by the Group's Management on December 21, 2006. Selling negotiations have commenced. Alternatives are currently under assessment and a final decision is expected in 2008. At December 31, 2007, the disposal groups contained assets of € 60 million (2006: € 59 million) less liabilities of € 4 million (2006: € 4 million).

Furthermore, due to the proposed move of storage and distribution facilities to the new shared warehouse, the old adidas and Reebok warehouses in the UK have been classified as assets held-for-sale (€ 10 million). The selling process commenced in April 2007 and the contract finalization is in process.

In connection with the planned divesture of the Maxfli golf ball brand, the carrying amount of this trademark was also classified as asset held-for-sale (€ 7 million). The selling negotiations commenced in September 2007, and the contract was signed in February 2008.

ASSETS CLASSIFIED AS HELD-FOR-SALE
€ in millions

	Dec. 31, 2007	Dec. 31, 2006
Accounts receivable and other current assets	33	29
Property, plant and equipment, net	40	30
Trademarks and other intangible assets, net	7	—
Total	**80**	**59**

LIABILITIES CLASSIFIED AS HELD-FOR-SALE
€ in millions

	Dec. 31, 2007	Dec. 31, 2006
Accounts payable and other current liabilities	2	2
Accrued liabilities and provisions	2	2
Total	**4**	**4**

4 ACQUISITION / DISPOSAL OF SUBSIDIARIES AS WELL AS ASSETS AND LIABILITIES The adidas Group assumed full ownership of the shares of its brand adidas subsidiary in Finland, adidas Suomi OY, Helsinki (Finland), by purchasing the remaining 50 % of shares effective January 1, 2007 for an amount of € 1.2 million. Further, the adidas Group assumed 72.5 % ownership of the shares of its brand adidas subsidiary in Greece, adidas Hellas A. E., Thessaloniki (Greece), by purchasing a further 22.5 % of shares effective January 1, 2007 for an amount of € 6 million.

On November 9, 2007, the Group acquired the assets and liabilities of Mitchell & Ness as part of an asset deal. The purchase price of € 2 million was paid for inventories (€ 1 million), accounts receivable (€ 1 million), accounts payable (negative € 3 million) and remaining other intangible assets (€ 3 million) based on preliminary purchase price allocation.

Effective January 31, 2006, the adidas Group assumed control of Reebok International Ltd. (USA), with all its direct and indirect shareholdings. The purchase price for 100 % of the shares of Reebok International Ltd. (USA) was US$ 3.6 billion (€ 3.0 billion), fully paid in cash.

The acquisition had the following effect on the Group's assets and liabilities:

REEBOK'S NET ASSETS AT THE ACQUISITION DATE
€ in millions

	Pre-aquisition carrying amounts	Fair value adjustments	Recognized values on acquisition
Cash and cash equivalents	539	—	539
Accounts receivable	453	—	453
Inventories	447	55	502
Other current assets	103	(3)	100
Property, plant and equipment, net	293	(33)	260
Trademarks and other intangible assets, net	68	1,674	1,742
Long-term financial assets	—	4	4
Deferred tax assets	198	44	242
Other non-current assets	16	—	16
Borrowings	(506)	—	(506)
Accounts payable	(109)	—	(109)
Income taxes	(59)	—	(59)
Accrued liabilities and provisions	(329)	(30)	(359)
Other current liabilities	(418)	—	(418)
Pensions and similar obligations	(7)	—	(7)
Deferred tax liabilities	(11)	(578)	(589)
Other non-current liabilities	(2)	—	(2)
Minority interests	(3)	—	(3)
Net assets	**673**	**1,133**	**1,806**
Goodwill arising on acquisition			1,165
Purchase price settled in cash			**2,971**
Cash and cash equivalents acquired			539
Cash outflow on acquisition			**2,432**

Pre-acquisition carrying amounts were based on applicable IFRS standards.

The following valuation methods for the acquired assets were applied:

-- *Inventories:* The pro rata basis valuation was applied for estimating the fair value of acquired inventories. Realized margins were added to the book values of acquired inventories. Subsequently, the costs for completion for selling, advertising and general administration as well as a reasonable profit allowance were deducted.

-- *Property, plant and equipment:* The "comparison method" was used for acquired land by considering the prices paid for comparable properties. The "direct capitalization method" was applied for the valuation of all acquired buildings. Annual rents which could be realized in the future were discounted following adjustments for risk factors and deduction of applicable operating costs. The acquired machinery and equipment was valued utilizing the depreciated replacement cost method. The replacement costs were determined by applying an index to the asset's historical cost. The replacement costs were then adjusted for the loss in value caused by depreciation.

-- *Trademarks and other intangible assets:* The "relief-from-royalty method" was applied for trademarks and technologies. The fair value was determined by discounting the royalty savings after tax and adding a tax amortization benefit, resulting from the amortization of the acquired asset. For the valuation of licensing agreements, customer relationships and order backlogs, the "multi-period-excess-earnings method" was used. The respective future excess cash flows were identified and adjusted in order to eliminate all elements not associated with these assets. Future cash flows were measured on the basis of the expected sales by deducting variable and sales-related imputed costs for the use of contributory assets. Subsequently, the outcome was discounted using the appropriate discount rate and adding a tax amortization benefit.

-- *Long-term financial assets:* The "discounted cash flow method" was used for the valuation of a participation. Future free cash flows were discounted back to the valuation date using an appropriate discount rate.

The excess of the acquisition cost paid versus the net of the amounts of the fair values assigned to all assets acquired and liabilities assumed, taking into consideration the respective deferred taxes, was recognized as goodwill. Any acquired asset that did not meet the identification and recognition criteria for an asset was included in the amount recognized as goodwill.

Based on the expected cost of sales and operating expenses synergy potential, the goodwill arising on this acquisition was allocated to the cash-generating units adidas and Reebok in an amount of € 699 million and € 466 million, respectively, and was converted in functional currencies as appropriate.

If this acquisition had occurred on January 1, 2006, total Group net sales would have been € 10.2 billion and net income would have been € 448 million for the year ending December 31, 2006.

The acquired Reebok subsidiaries contributed € 92 million to the Group's operating profit for the period from February to December 2006. Contribution to net income cannot be disclosed due to the advanced integration of financing and tax activities.

5 CASH AND CASH EQUIVALENTS Cash and cash equivalents consist of cash at banks and on hand as well as short-term bank deposits.

6 SHORT-TERM FINANCIAL ASSETS Short-term financial assets are classified at "fair value through profit or loss". Changes in the fair value are recognized in the income statement as they occur.

The majority of short-term financial assets are marketable securities relating to money market funds and structured deposits.

7 ACCOUNTS RECEIVABLE Accounts receivable consist mainly of the currencies US dollar, euro, Japanese yen and British pound and are as follows:

ACCOUNTS RECEIVABLE
€ in millions

	Dec. 31 2007	Dec. 31 2006
Accounts receivable, gross	1,570	1,527
Less: allowance for doubtful accounts	111	112
Accounts receivable, net	**1,459**	**1,415**

Specific allowances on accounts receivable exist in the amount of € 38 million as at December 31, 2007.

MOVEMENT IN ALLOWANCES FOR DOUBTFUL ACCOUNTS
€ in millions

	2007	2006
Allowances at January 1	112	81
Additions	78	62
Additions – Reebok acquisition	—	58
Reversals	(64)	(62)
Write-offs charged against the allowance accounts	(10)	(21)
Currency translation differences	(4)	(5)
Other changes	(1)	(1)
Allowances at December 31	**111**	**112**

ACCOUNTS RECEIVABLE PAST DUE BUT NOT IMPAIRED
€ in millions

	past due 1 – 30 days	past due 31 – 60 days	past due 61-90 days	past due 91 – 180 days	past due more than 180 days
Dec. 31, 2007	166	64	15	12	6
Dec. 31, 2006	164	55	12	12	10

With respect to accounts receivable past due but not impaired, based on credit history and current credit ratings, there are no indications that customers will not be able to meet their obligations.

Further, no indications of default are recognizable for accounts receivable that are neither past due nor impaired.

8 INVENTORIES Inventories by major classification are as follows:

INVENTORIES

€ in millions

	Dec. 31, 2007			Dec. 31, 2006		
	Gross value	Allowance for obsoles-cence	Net value	Gross value	Allowance for obsoles-cence	Net value
Finished goods and merchandise on hand	1,187	75	1,112	1,208	86	1,122
Goods in transit	468	—	468	428	—	428
Raw materials	40	3	37	46	2	44
Work in progress	12	—	12	13	—	13
Inventories, net	**1,707**	**78**	**1,629**	**1,695**	**88**	**1,607**

Goods in transit mainly relate to shipments from suppliers in the Far East to subsidiaries in Europe, Asia and the Americas. The allowance for obsolescence mainly relates to inventories on hand which amounted to € 431 million and € 349 million as at December 31, 2007 and 2006, respectively. see also Note 2

9 OTHER CURRENT ASSETS Other current assets consist of the following:

OTHER CURRENT ASSETS

€ in millions

	Dec. 31 2007	Dec. 31 2006
Prepaid expenses	274	213
Tax receivables other than income tax	68	74
Financial Assets		
Interest rate derivatives	—	—
Currency options	23	6
Forward contracts	11	7
Security deposits	38	28
Other financial assets	50	29
Sundry	67	56
Other current assets, gross	**531**	**413**
Less: allowance	2	—
Other current assets, net	**529**	**413**

Prepaid expenses relate mainly to promotion agreements and service contracts as well as rents.

Information in relation to forward contracts as well as currency options and interest rate derivatives is also included in these Notes. see Note 23

10 PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment consist of the following:

PROPERTY, PLANT AND EQUIPMENT

€ in millions

	Dec. 31 2007	Dec. 31 2006
Land and buildings	430	484
Technical equipment and machinery	115	118
Other equipment, furniture and fittings	629	567
	1,174	1,169
Less: accumulated depreciation	514	498
	660	671
Construction in progress, net	42	18
Property, plant and equipment, net	**702**	**689**

Depreciation expenses were € 145 million and € 129 million for the years ending December 31, 2007 and 2006, respectively see also Note 24. Impairment losses which are included within depreciation and amortization (shown in other operating income and expenses see also Note 24) were € 3 million and € 11 million for the years ending December 31, 2007 and 2006, respectively. These are related to assets within other equipment, furniture and fittings, mainly in the Group's own-retail activities, for which contrary to expectations there will be an insufficient flow of future economic benefits.

In connection with the planned sale of the GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG see Note 3, assets amounting to € 17 million were transferred in 2006 from other current assets to property, plant and equipment (Land and buildings).

For details see Statement of Movements of Tangible and Intangible Assets and Financial Assets (Attachment I to these Notes)

11 GOODWILL Goodwill primarily relates to the Group's acquisitions of the Reebok business as well as the previous acquisition of subsidiaries in the United States, Australia / New Zealand, Netherlands / Belgium and Italy.

GOODWILL
€ in millions

	Dec. 31 2007	Dec. 31 2006
Goodwill, gross	1,436	1,516
Less: impairment	—	—
Goodwill, net	**1,436**	**1,516**

The majority of goodwill which primarily relates to the acquisition of the Reebok business in 2006 is denominated in US dollars. A negative currency translation effect of € 80 million and € 88 million was recorded for the years ending December 31, 2007 and 2006, respectively.

From January 1, 2005, goodwill is tested annually for impairment. There was no impairment expense for the years ending December 31, 2007 and 2006. The Group determines whether goodwill impairment is necessary at least on an annual basis. This requires an estimation of the fair value less costs to sell of the cash-generating units to which the goodwill is allocated. Estimating the fair value less costs to sell requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Future changes in expected cash flows and discount rates may lead to impairments of the accounted goodwill in the future.

For details see Statement of Movements of Tangible and Intangible Assets and Financial Assets (Attachment I to these Notes)

12 TRADEMARKS AND OTHER INTANGIBLE ASSETS Trademarks and other intangible assets consist of the following:

TRADEMARKS AND OTHER INTANGIBLE ASSETS
€ in millions

	Dec. 31 2007	Dec. 31 2006
Trademarks, gross	1,291	1,454
Less: accumulated amortization	—	—
Trademarks, net	**1,291**	**1,454**
Software, patents and concessions, gross	441	447
Less: accumulated amortization	247	224
Other intangible assets, net	**194**	**223**
Trademarks and other intangible assets, net	**1,485**	**1,677**

Intangible asset amortization expenses were € 64 million and € 69 million for the years ending December 31, 2007 and 2006, respectively. see also Note 24

At December 31, 2007, trademarks related to the Reebok acquisition with indefinite useful lives amounted to € 1.285 billion (December 31, 2006: € 1.436 billion). They were estimated to be indefinite due to the high degree of brand recognition as well as their long standing heritage. The trademarks are allocated to the cash-generating unit Reebok.

The Group determines whether trademarks with indefinite useful life are impaired at least on an annual basis. This requires an estimation of the fair value less costs to sell of the cash-generating units to which the trademark is allocated. Estimating the fair value less costs to sell requires the Group to make an estimate of the expected future brand-specific sales and appropriate arm's length royalty rates from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. There was no impairment expense for the years ending December 31, 2007 and 2006.

Future changes in expected cash flows and discount rates may lead to impairments of the accounted trademarks in the future.

For details see Statement of Movements of Tangible and Intangible Assets and Financial Assets (Attachment I to these Notes)

13 LONG-TERM FINANCIAL ASSETS Long-term financial assets include a 10 % investment in FC Bayern München AG of € 77 million which remains unchanged from when the stake was purchased in July 2002. This investment is classified as available for sale and recorded at fair value. This equity security does not have a quoted market price in an active market, therefore other methods of reasonably estimating fair value as at December 31, 2007 were used. Dividends are distributed by FC Bayern München AG instead of regular interest payments.

Additionally, long-term financial assets include investments which are mainly invested in insurance products and are measured at fair value, as well as loans.

Fair value adjustments from impairment losses amounted to € 4 million and € 8 million for the years ending December 31, 2007 and 2006, respectively. As in the prior year, these are related to impairments of other financial assets to cover anticipated risks of default. see also Note 26

For details see Statement of Movements of Tangible and Intangible Assets and Financial Assets (Attachment I to these Notes)

14 OTHER NON-CURRENT ASSETS Other non-current assets consist of the following:

OTHER NON-CURRENT ASSETS
€ in millions

	Dec. 31 2007	Dec. 31 2006
Prepaid expenses	105	103
Financial assets		
Interest rate derivatives	4	3
Currency options	3	1
Security deposits	22	22
Other financial assets	1	1
Sundry	12	4
Other non-current assets	**147**	**134**

Prepaid expenses mainly include prepayments for long-term promotional contracts and service contracts. see also Note 31 and Note 22

15 BORROWINGS AND CREDIT LINES With settlement on October 8, 2003, adidas issued a € 400 million convertible bond through its wholly-owned Dutch subsidiary, adidas International Finance B.V. The bond was guaranteed by adidas AG and issued in tranches of € 50,000 each with a maturity up to 15 years. The bond is, at the option of the respective holder, subject to certain conditions, convertible from and including November 18, 2003, up to and including September 20, 2018, into ordinary no-par-value bearer shares of adidas AG at the conversion price of € 25.50 which was fixed upon issue. The coupon of the bond is 2.5 % and is payable annually in arrears on October 8 of each year, commencing on October 8, 2004. The bond is convertible into approximately 16 million no-par-value shares.

The convertible bond is not callable by the issuer until October 2009. It is callable thereafter, subject to a 130 % trigger between October 2009 and October 2012 and subject to a 115 % trigger between October 2012 and 2015. The convertible bond is unconditionally callable thereafter. Investors have the right to convert the bond in October 2009, October 2012 and October 2015.

The fair values of the liability component and the equity conversion component were determined on the issuance of the bond. The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate of approximately 4.6 % for an equivalent straight bond without conversion rights. Due to the retrospective application of the amendment to IAS 39 and IAS 32, the liability and equity split of the convertible bond changed. As a result, the liability component as at the date of issuance increased by € 71.1 million with an equivalent decrease in equity. The amount of the equity component, which is included in equity in the capital reserve, amounts to € 44.1 million (less transaction costs of € 0.9 million). The liability component is valued using the “effective interest method”.

The adidas AG share first traded above 110 % (€ 28.05) of the conversion price of € 25.50 on more than 20 trading days within the last 30 trading days in the fourth quarter of 2004. Consequently, bond holders have had the right to convert their convertible bonds into equity since January 1, 2005. An early redemption or conversion of the convertible bond is currently not expected.

Gross borrowings decreased by € 432 million in 2007 compared to an increase of € 1.543 billion in 2006.

Borrowings are denominated in a variety of currencies in which the Group conducts its business. The largest portions of effective gross borrowings (before liquidity swaps for cash management purposes) as at December 31, 2007 are denominated in euros (2007: 51 %; 2006: 51 %) and US dollars (2007: 45 %; 2006: 44 %).

Month-end weighted average interest rates on borrowings in all currencies ranged from 5.2 % to 5.6 % in 2007 and from 4.2 % to 5.3 % in 2006.

As at December 31, 2007, the Group had cash credit lines and other long-term financing arrangements totaling € 6.3 billion (2006: € 6.9 billion); thereof unused credit lines accounted for € 4.1 billion (2006: € 4.4 billion). In addition, the Group had separate lines for the issuance of letters of credit in an amount of approximately € 0.2 billion (2006: € 0.3 billion).

The Group's outstanding financings are unsecured.

The private placement and convertible bond documentation each contain a negative-pledge clause. Additionally, the private placement documentation contains minimum equity covenants and net loss covenants. As at December 31, 2007, actual shareholders' equity was well above the amount of the minimum equity covenant.

The amounts disclosed as borrowings represent outstanding borrowings under the following arrangements with aggregated expiration dates as follows:

GROSS BORROWINGS AS AT DECEMBER 31, 2007

€ in millions

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	After 5 years	Total
Bank borrowings incl. commercial paper	—	—	198	—	**198**
Private placements	186	583	376	419	**1,564**
Convertible bond	—	384	—	—	**384**
Total	**186**	**967**	**574**	**419**	**2,146**

GROSS BORROWINGS AS AT DECEMBER 31, 2006

€ in millions

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	After 5 years	Total
Bank borrowings incl. commercial paper	144	—	275	—	**419**
Private placements	109	610	474	591	**1,784**
Convertible bond	—	—	375	—	**375**
Total	**253**	**610**	**1,124**	**591**	**2,578**

As all short-term borrowings are based upon long-term arrangements, the Group reports them as long-term borrowings.

The borrowings related to our outstanding convertible bond changed in value, reflecting the accruing interest on the debt component in accordance with IFRS requirements.

16 ACCRUED LIABILITIES AND PROVISIONS

Accrued liabilities and provisions consist of the following:

ACCRUED LIABILITIES AND PROVISIONS
€ in millions

	Jan. 1 2007	Currency translation differences	Usage	Reversals	Addition	Transfers	Dec. 31 2007	Thereof non-current
Marketing	49	(2)	38	2	33	—	40	—
Employee benefits	39	(3)	23	3	38	—	48	18
Returns, allowances, warranty	120	(7)	72	6	91	—	126	1
Taxes, other than income taxes	11	(1)	10	—	9	—	9	—
Other provisions	136	(4)	56	5	61	(1)	131	17
Total provisions	**355**	**(17)**	**199**	**16**	**232**	**(1)**	**354**	**36**
Goods and services not yet invoiced	241	(11)	192	6	288	—	320	5
Marketing	113	(4)	74	5	117	—	147	5
Payroll and commissions	175	(10)	118	7	128	—	168	22
Other accruals	111	(6)	93	—	96	1	109	5
Total accrued liabilities	**640**	**(31)**	**477**	**18**	**629**	**1**	**744**	**37**
Total accrued liabilities and provisions	**995**	**(48)**	**676**	**34**	**861**	**—**	**1,098**	**73**

Marketing provisions mainly consist of provisions for promotion contracts.

Provisions for employee benefits mainly consist of provisions for profit-sharing plans. With regard to provisions for early retirement, claims for reimbursement in an amount of € 3 million are shown under other non-current assets.

Other provisions mainly include items not otherwise allocated as well as anticipated losses from purchases and other transactions, and contingent losses from pending lawsuits.

Marketing accrued liabilities mainly consist of accruals for distribution, such as discounts, rebates and sales commissions.

Accrued liabilities for payroll and commissions mainly consist of accruals for outstanding salary payments, such as bonuses and overtime, as well as outstanding vacation.

Other accrued liabilities mainly include items not otherwise allocated and also accruals for interest.

17 OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

OTHER CURRENT LIABILITIES
€ in millions

	Dec. 31 2007	Dec. 31 2006
Liabilities due to personnel	29	27
Tax liabilities other than income taxes	55	65
Liabilities due to social security	8	8
Deferred income	14	17
Financial liabilities		
Interest rate derivatives	—	—
Currency options	26	9
Forward contracts	63	27
Other financial liabilities	14	15
Sundry	57	64
Other current liabilities	**266**	**232**

Information regarding forward contracts as well as currency options and interest rate derivatives is also included in these Notes. see Note 23

18 PENSIONS AND SIMILAR OBLIGATIONS

The Group has obligations both from defined contribution and defined benefit pension plans. The benefits are provided pursuant to the legal, fiscal and economic conditions in each respective country.

PENSIONS AND SIMILAR OBLIGATIONS
€ in millions

	Dec. 31 2007	Dec. 31 2006
Defined benefit plans	115	126
Thereof: adidas AG	99	109
Similar obligations	9	8
Pensions and similar obligations	**124**	**134**

DEFINED CONTRIBUTION PLANS The total expense for defined contribution plans amounted to € 39 million in 2007 (2006: € 42 million). All other pension plans are defined benefit plans, which are partly funded by plan assets.

DEFINED BENEFIT PLANS Given the diverse Group structure, different defined benefit plans exist, comprising both pension payments and widow's and orphan's pensions as well as other post-employment benefits for employees and members of the Executive Board. These plans are partly funded.

ACTUARIAL ASSUMPTIONS
in %

	Dec. 31 2007	Dec. 31 2006
Discount rate	5.6	4.5
Salary increases	3.5	3.5
Pension increases	1.8	1.5
Expected return on plan assets	5.7	3.0

The actuarial valuations of the defined benefit plans are made at the end of each reporting period. The assumptions for employee turnover and mortality are based on empirical data, the latter for Germany on the 2005 G version of the mortality tables of Dr. Heubeck. The actuarial assumptions in Germany and in other countries are not materially different.

As of January 1, 2005, due to application of the amendment to IAS 19 "Employee Benefits" issued in December 2004, the Group recognizes actuarial gains or losses of defined benefit plans arising during the financial year immediately outside the income statement in the statement of recognized income and expense. The actuarial gain recognized in the statement of recognized income and expense for 2007 was € 18 million (2006: € 2 million). The cumulative recognized actuarial losses amounted to € 12 million (2006: € 30 million). see also Note 21

PENSION EXPENSES FOR DEFINED BENEFIT PLANS

€ in millions

	Year ending Dec. 31 2007	2006
Current service cost	12	7
Interest cost	7	5
Expected return on plan assets	(4)	(1)
Pension expenses	**15**	**11**

Of the total pension expenses, an amount of € 12 million (2006: € 7 million) relates to employees in Germany. Contributions to post-employment benefit plans for employees living in Germany for the year ending December 31, 2008, are expected to amount to € 7 million. The pension expense is recorded within the operating expenses whereas the production-related part thereof is recognized within the cost of sales.

DEFINED BENEFIT OBLIGATION

€ in millions

	2007	2006
Defined benefit obligation as at January 1	**170**	**131**
Increase in companies consolidated	—	34
Currency translation differences	2	1
Current service cost	12	7
Interest cost	7	5
Pensions paid	(6)	(6)
Actuarial gain	(14)	(2)
Defined benefit obligation as at December 31	**171**	**170**

STATUS OF FUNDED AND UNFUNDED OBLIGATIONS

€ in millions

	Dec. 31 2007	Dec. 31 2006
Present value of unfunded obligation	114	110
Present value of funded obligation	57	60
Present value of total obligations	**171**	**170**
Fair value of plan assets [1]	(56)	(44)
Recognized liability for defined benefit obligations	**115**	**126**

1) A portion of the € 60 million (2006: € 46 million) total of plan assets cannot be deducted, as it is not possible to use the exceeding amount for another plan.

The calculations of recognized assets and liabilities from defined benefit plans are based upon statistical and actuarial calculations. In particular, the present value of the defined benefit obligation is impacted by assumptions on discount rates used to arrive at the present value of future pension liabilities and assumptions on future increases in salaries and benefits. Furthermore, the Group's independent actuaries use statistically based assumptions covering areas such as future participant plan withdrawals and estimates on life expectancy. The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants and other changes in the factors being assessed. These differences could impact the assets or liabilities recognized in the balance sheet in future periods.

MOVEMENT IN PLAN ASSETS

€ in millions

	2007	2006
Fair value of plan assets at January 1	**46**	**—**
Increase in companies consolidated	—	25
Currency translation differences	(3)	—
Pensions paid	(1)	—
Contributions paid into the plan	10	20
Actuarial gain	4	—
Expected return on plan assets	4	1
Fair value of plan assets at December 31	**60**	**46**

Contributions into the plan are only paid by the employer. In 2008, the expected payments into the plan amount to € 1 million. The plan assets are invested in several pension funds. The return on plan assets is in conformity with the current strategy of the pension funds. In 2007, the actual return on plan assets was € 7 million (2006: € 2 million).

CONSTITUTION OF PLAN ASSETS
€ in millions

	Dec 31. 2007
Equity instruments	28
Bonds	5
Pension plan reinsurance	16
Other assets	11
Fair value of plan assets	**60**

HISTORICAL DEVELOPMENT
€ in millions

	Dec. 31 2007	Dec. 31 2006	Dec. 31 2005	Dec. 31 2004	Dec. 31 2003
Present value of defined benefit obligation	171	170	131	118	100
Fair value of plan assets	60	46	—	—	—
Non-deductible plan assets	(4)	(2)	—	—	—
Deficit in plan	**115**	**126**	**131**	**118**	**100**
Experience adjustments	(1)	4	1	—	—

19 OTHER NON-CURRENT LIABILITIES Other non-current liabilities consist of the following:

OTHER NON-CURRENT LIABILITIES
€ in millions

	Dec. 31 2007	Dec. 31 2006
Financial lease obligations	3	5
Liabilities due to personnel	6	4
Deferred income	14	12
Financial liabilities		
Interest rate derivatives	10	12
Currency options	16	1
Forward contracts	16	—
Other financial liabilities	1	1
Sundry	3	8
Other non-current liabilities	**69**	**43**

Information regarding finance lease obligations, forward contracts as well as currency options and interest rate derivatives is also included in these Notes. see Notes 22 and 23

Liabilities due after more than five years amounted to € 15 million at December 31, 2007 (2006: € 15 million).

20 MINORITY INTERESTS This line item within equity comprises the equity of third parties in a number of our consolidated companies. Minority interests are attributable to three subsidiaries as at December 31, of both 2007 and 2006. see Shareholdings (Attachment II to these Notes)

These subsidiaries were mainly purchased as part of the acquisition of the Reebok business.

In accordance with IAS 32, the following minority interests are not reported within minority interests: GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG (Germany), as the company is a limited partnership, and adidas Hellas A. E. (Greece), as this minority is held with a put option. The fair value of these minorities is shown within other liabilities. The difference between the fair value and the minority interests is shown as goodwill less accumulated amortization. The result for these minorities is reported within financial expenses.

21 SHAREHOLDERS' EQUITY On December 31, 2006, the nominal capital of adidas AG amounted to € 203,536,860 and was divided into 203,536,860 no-par-value bearer shares ("shares") and was fully paid in.

In January 2007, the nominal capital increased to a total of € 203,567,060 divided into 203,567,060 shares, as a result of the exercise of a total of 7,550 stock options in November 2006 and the issuance of 30,200 shares associated with the Management Share Option Plan (MSOP) of adidas AG. Capital reserves thus increased by € 175,296.

Furthermore, in July 2007, the nominal capital increased to a total of € 203,625,060 divided into 203,625,060 shares, as a result of the exercise of a total of 14,500 stock options in May 2007 and the issuance of 58,000 shares associated with the Management Share Option Plan. In October 2007, the nominal capital again increased as a result of the exercise of a total of 975 stock options in August 2007 and the issuance of 3,900 shares associated with the Management Share Option Plan.

At the balance sheet date, the nominal capital of adidas AG amounted to a total of € 203,628,960 and was divided into 203,628,960 shares. The nominal capital is fully paid in.

In January 2008, the nominal capital of adidas AG was then increased by a further € 16,000 as a result of the exercise of 4,000 stock options in November 2007 and the issuance of 16,000 shares associated with the Management Share Option Plan.

On February 15, 2008, the nominal capital of adidas AG therefore amounted to € 203,644,960 and was divided into 203,644,960 shares.

The corresponding adjustment of the amount of the nominal capital resulting from the above transactions up to and including January 2008 was registered with the Commercial Register on February 4, 2008.

Each share is entitled to one vote and, starting from the year it was issued, is also entitled to a dividend. Treasury shares held directly or indirectly and repurchased based on the authorization of the Executive Board granted by resolution of the Annual General Meeting on May 10, 2007, are not entitled to a dividend payment in accordance with § 71 b German Stock Corporation Act (AktG – Aktiengesetz).

The number of shares in circulation is as follows:

DEVELOPMENT OF NUMBER OF SHARES IN CIRCULATION

	Number of shares
Number of no-par-value shares issued as at Jan. 1, 2007	**203,536,860**
Capital increase and issuance of no-par-value shares in January 2007 based on MSOP exercises in November 2006	30,200
Capital increase and issuance of no-par-value shares in July 2007 based on MSOP exercises in May 2007	58,000
Capital increase and issuance of no-par-value shares in October 2007 based on MSOP exercises in August 2007	3,900
Number of no-par-value shares issued as at Dec. 31, 2007	**203,628,960**

AUTHORIZED CAPITAL The Executive Board of adidas AG did not make use of the existing amounts of Authorized Capital of up to € 90,312,500 in 2007 or in the period beyond the balance sheet date up to and including February 15, 2008.

As at the balance sheet date, the Authorized Capital of the Company is set out in § 4 sections 2, 3 and 4 of the Articles of Association, pursuant to which the Executive Board is entitled, subject to Supervisory Board approval, to increase the nominal capital

until June 19, 2010
-- by issuing new shares against contributions in cash once or several times by no more than a maximum of € 64,062,500 and, subject to Supervisory Board approval, to exclude fractional shares from shareholders' subscription rights (Authorized Capital 2005 / I);

and until June 19, 2008
-- by issuing new shares against contributions in cash or in kind once or several times by no more than a maximum of € 6,250,000 and, subject to Supervisory Board approval, to exclude shareholders' subscription rights (Authorized Capital 2005 / II);

and until May 28, 2011
-- by issuing new shares against contributions in cash once or several times by no more than a maximum of € 20,000,000 and, subject to Supervisory Board approval, to exclude shareholders' subscription rights for fractional amounts and when issuing the new shares at a value not essentially below the stock market price of shares with the same features (Authorized Capital 2006). The authorization to exclude subscription rights pursuant to the last sentence, may, however, only be used to the extent that the pro rata amount of the new shares in the nominal capital together with the pro rata amount in the nominal capital of other shares which were issued by the Company after May 11, 2006, subject to the exclusion of subscription rights pursuant to § 186 section 3 sentence 4 AktG on the basis of authorized capital or following a repurchase, or for which conversion or subscription rights were granted after May 11, 2006, through issuance of convertible bonds or bonds with warrants, with subscription rights excluded pursuant to § 186 section 3 sentence 4 AktG, does not exceed 10 % of the nominal capital existing on the date of entry of this authorization into the Commercial Register or – if this amount is lower – as at the respective date on which the authorization is used.

CONTINGENT CAPITAL The following description of the Contingent Capital amounts is based on § 4 sections 5, 6 and 7 of the applicable Articles of Association as at the balance sheet date.

CONTINGENT CAPITAL 1999 / I The Contingent Capital 1999 / I serves the purpose of fulfilling stock options in connection with the Management Share Option Plan to members of the Executive Board of adidas AG as well as to managing directors / senior vice presidents of its affiliated companies and to other executives of adidas AG and of its affiliated companies (§ 4 section 5 of the Articles of Association).

Due to the exercise of 23,025 stock options and the issuance of 92,100 shares within the scope of the exercise periods ending in January, July and October 2007 for Tranche II (2000), Tranche III (2001), Tranche IV (2002) and Tranche V (2003) of the Management Share Option Plan, the nominal amount of the Contingent Capital 1999 / I at the balance sheet date totalled € 1,363,548 and was divided into 1,363,548 shares.

In January 2008, the nominal value of the Contingent Capital 1999 / I was reduced to € 1,347,548 divided into 1,347,548 shares, as a result of the exercise of 4,000 stock options in November 2007 and the issuance of 16,000 shares associated with the expired exercise period for Tranche III (2001), Tranche IV (2002) as well as Tranche V (2003) of the Management Share Option Plan.

On February 15, 2008, the nominal value of the Contingent Capital 1999 / I amounted to € 1,347,548 and was divided into 1,347,548 shares.

The change to the nominal value of the Contingent Capital 1999 / I resulting from the above transactions up to and including January 2008, was registered with the Commercial Register on February 4, 2008.

CONTINGENT CAPITAL 2003/II As at the balance sheet date, the nominal capital is conditionally increased by up to a further € 35,998,040, divided into no more than 35,998,040 shares (Contingent Capital 2003/II, § 4 section 6 of the Articles of Association). Shares from this contingent capital will be issued only to the extent that the holders of bonds issued in October 2003 with the exclusion of shareholders' subscription rights exercise their conversion rights. In the event of the exercise of all conversion rights, the total number of shares to be issued to this group of persons amounts to 15,684,315 at the balance sheet date. In addition, the Executive Board is authorized, subject to Supervisory Board approval, to issue up to 20,313,723 shares to the holders of the subscription or conversion rights or the persons obligated to exercise the subscription or conversion duties based on the bonds with warrants or convertible bonds, which are issued by the Company or a Group subsidiary, pursuant to the authorization of the Executive Board by the shareholder's resolution dated May 8, 2003, in the version of the shareholder's resolution dated May 11, 2006, to the extent that they make use of their subscription or conversion rights or, if they are obligated to exercise the subscription or conversion rights, they meet their obligations to exercise the warrant or convert the bond.

The Executive Board of adidas AG did not issue any shares from the Contingent Capital 2003/II in the period beyond the balance sheet date up to and including February 15, 2008.

CONTINGENT CAPITAL 2006 At the balance sheet date, the nominal capital was conditionally increased by up to a further € 20,000,000 divided into no more than 20,000,000 shares (Contingent Capital 2006; § 4 section 7 of the Articles of Association). The contingent capital increase will be implemented only to the extent that the holders of the subscription or conversion rights or the persons obligated to exercise the subscription or conversion duties based on the bonds with warrants or convertible bonds, which are issued or guaranteed by the Company or a subordinate Group company pursuant to the authorization of the Executive Board by the shareholder's resolution dated May 11, 2006, make use of their subscription or conversion rights or, if they are obligated to exercise the subscription or conversion rights, they meet their obligations to exercise the warrant or convert the bond. The Executive Board is authorized, subject to Supervisory Board approval, to fully suspend the shareholders' rights to subscribe the bonds with warrants and/or convertible bonds, if the bonds with warrants and/or convertible bonds are issued at a price which is not significantly below the market value of these bonds. The limit for subscription right exclusions of 10 % of the registered stock capital according to § 186 section 3 sentence 4 in conjunction with § 221 section 4 sentence 2 of the German Stock Corporation Act has been observed.

The Executive Board of adidas AG did not issue any shares from the Contingent Capital 2006 in the period beyond the balance sheet date up to and including February 15, 2008.

ACQUISITION OF TREASURY SHARES By resolution of the Annual General Meeting held on May 10, 2007, the shareholders of adidas AG cancelled the authorization to repurchase treasury shares resolved upon on May 11, 2006, which had not been used, and resolved upon a new authorization of the Executive Board to acquire treasury shares in an aggregate amount of up to 10 % of the nominal capital for any permissible purpose and within the legal framework until November 9, 2008. The authorization can be used by the Company but also by Group companies or by third parties, on the account of the Company or Group companies. The Executive Board is authorized to use the treasury shares repurchased on the basis of this authorization for the following purposes:

-- Subject to Supervisory Board approval, for the resale of shares via the stock exchange or via a tender offer to all shareholders for cash at a price not significantly below the stock market price of the shares with the same features.

-- Subject to Supervisory Board approval, for the purpose of acquiring companies, parts of companies or participations in companies.

-- Subject to Supervisory Board approval, as consideration for the acquisition, also through Group companies, of industrial property rights such as patents, brands, names and logos of athletes, sports clubs and other third parties or for the acquisition of licenses relating to such rights.

-- To meet subscription or conversion rights or conversion obligations arising from bonds with warrants and/or convertible bonds issued by the Company or any direct or indirect subsidiary of the Company.

-- To meet the Company's obligations arising from the Management Share Option Plan 1999 (MSOP).

-- Subject to Supervisory Board approval, to redeem and cancel the shares without a further shareholders' resolution on the redemption or the cancellation.

Furthermore, the Supervisory Board is authorized to assign or promise reacquired treasury shares to Executive Board members as compensation by way of a stock bonus, subject to the proviso that resale shall only be permitted following a retention period of at least two years from the date of assignment.

The Executive Board of adidas AG did not make use of this authorization up to the balance sheet date. Following the approval by the Supervisory Board, the Executive Board decided on January 29, 2008, to make use of this authorization. The Company began a share buyback program on January 30, 2008, and has since acquired a total of 1,180,000 shares corresponding to 0.58 % of the stock capital (as at February 15, 2008).

CONVERTIBLE BOND adidas International Finance B.V. issued a convertible bond with a nominal value of € 400,000,000 on October 8, 2003 divided into 8,000 convertible bonds with a nominal value of € 50,000 each. The convertible bond is due for repayment on October 8, 2018, if not previously repaid or converted into adidas AG shares. adidas AG has assumed the unconditional and irrevocable guarantee with respect to payments of all amounts payable under the convertible bond by adidas International Finance B.V. for this convertible bond. Furthermore, adidas AG has also taken over the obligation to the holders of the convertible bond to supply shares to be delivered following conversion of a bond. The convertible bond entitles the holder to acquire shares in adidas AG at a conversion price of an original € 102 per share, whereby the conversion ratio results from dividing the nominal amount of a bond (€ 50,000) by the conversion price ruling at the exercise date. The conversion price has been meanwhile adjusted to € 25.50 following the stock split undertaken in 2006. The conversion right can be exercised by a bond holder between November 18, 2003 and September 20, 2018, whereby certain conversion restrictions apply. When the conversion is exercised, the shares are to be obtained from contingent capital established by resolution of the Annual General Meeting of adidas AG on May 8, 2003 in the version of the resolution of the Annual General Meeting held on May 11, 2006. adidas International Finance B.V. is entitled to repay the convertible bond fully on or after October 8, 2009 although, in the period from October 8, 2009 through October 7, 2015 only to the extent the market value of the shares of adidas AG amounts to at least 130 % (period from October 8, 2009 through October 7, 2012) or 115 % (period from October 8, 2012 through October 7, 2015) of the conversion price valid at that time over a certain reference period of time (as set out in the bond conditions). The convertible bond was issued as a bearer bond and subscription rights of shareholders to the bearer bonds were excluded. The shareholders have no subscription rights per se to the shares for which the holders of the bonds have rights, due to security provided by contingent capital. There were 7,999 bonds outstanding at December 31, 2007 and February 15, 2008, respectively.

CHANGES IN THE PERCENTAGE OF VOTING RIGHTS (ANNOUNCEMENTS PURSUANT TO § 160 SEC. 1 NO 8 AKTG) INVESCO Asset Management Deutschland GmbH, Frankfurt / Main, informed the Company on March 20 and March 21, 2007, pursuant to § 21 sec. 1 sent. 1 WpHG (German Securities Trading Act), that on March 13, 2007 the voting interest of AMVESCAP PLC, London, UK, in adidas AG exceeded the threshold of 5 % and amounted to 5.087 % of the voting rights (10,356,271 shares) on this date. 5.087 % of the voting rights (10,356,271 shares) are attributable to AMVESCAP PLC, in accordance with § 22 sec. 1 sent. 1 no. 6 WpHG in connection with sent. 2 and 3 WpHG. The chain of controlled undertakings through which the voting rights are held is: 5.0739 % of the voting rights (10,328,700 shares) AVZ CALLCO INC., AMVESCAP Inc., AIM Canada Holdings Inc. and AIM Fund Management Inc. The remaining 0.0131 % of voting rights (27,571 shares) are held by other subsidiaries of AMVESCAP PLC.

Fidelity International, Tadworth, UK, informed the Company by letter dated December 20, 2007, in accordance with § 21 sec. 1 WpHG, that on December 19, 2007 the voting interest of Fidelity Management & Research Company, Boston, Massachusetts, USA, in adidas AG exceeded the threshold of 3 % and amounted to 3.06 % of the voting rights (6,223,900 shares) on this date. All of these voting rights are attributable to Fidelity Management & Research Company, Boston, Massachusetts, USA pursuant to § 22 sec. 1 sent. 1 no. 6 WpHG.

In addition, Fidelity International, Tadworth, UK, informed the Company by letter of the same day, pursuant to § 21 sec. 1 WpHG, that on December 19, 2007, the voting interest of FMR LLC, Boston, Massachusetts, USA, in adidas AG exceeded the threshold of 3 % and amounted to 3.06 % of the voting rights (6,230,600 shares) on this date. All of these voting rights are attributable to FMR LLC, Boston, Massachusetts, USA, pursuant to § 22 sec. 1 sent. 1 no. 6 in conjunction with sent. 2 WpHG.

Capital Research and Management Company, Los Angeles, USA, informed the Company by letter dated February 4, 2008, in accordance with § 21 sec. 1 WpHG that its voting interest in adidas AG exceeded the threshold of 3 % on January 31, 2008, and amounted to 3.089 % of the voting rights (6,290,497 shares) on this date. All of these voting rights are attributable to Capital Research and Management Company pursuant to § 22 sec. 1 sent. 1 no. 6 WpHG.

CAPITAL MANAGEMENT The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a solid capital position. The primary Group's financial leverage target is below 50 % net debt to equity. In addition, it is intended to largely use future excess cash for a buyback of adidas AG shares.

There were no changes in the Group's approach to capital management during the year.

RESERVES Reserves within shareholders' equity are as follows:

-- *Capital reserve:* comprises the paid premium for the issuance of share capital.

-- *Cumulative translation adjustments:* this reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

-- *Hedging reserve:* comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet occurred as well as of hedges of net investments in foreign subsidiaries.

-- *Other reserve:* comprises the cumulative net change of actuarial gains or losses of defined benefit plans, expenses recognized for share option plans as well as fair values of available for-sale financial assets.

DISTRIBUTABLE PROFITS AND DIVIDENDS Distributable profits to shareholders are determined by reference to the retained earnings of adidas AG and calculated under German Commercial Law.

The dividend for 2006 was € 0.42 per share (total amount: € 85.5 million) approved by the 2007 Annual General Meeting. The Executive Board of adidas AG will propose to shareholders a dividend payment of € 0.50 per dividend-entitled share for the year 2007 to be made from retained earnings of € 128.5 million reported as at December 31, 2007. The subsequent remaining amount will be carried forward.

203,628,960 dividend-entitled shares exist as at December 31, 2007, which would lead to a dividend payment of € 101.8 million. adidas AG began a share buyback program on January 30, 2008. As of February 15, 2008, adidas AG has repurchased 1,180,000 shares. As repurchased shares are not entitled to a dividend payment, the number of shares entitled to a dividend payment may change until the resolution on the dividend payment. Retained earnings to be allotted to treasury shares held by adidas AG at that time, will also be carried forward.

05

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ in millions

	Note	Share capital	Capital reserve	Cumulative translation adjustments	Hedging reserve	Other reserve[1]	Retained earnings	Total shareholders' equity	Minority interests	Total equity
Balance at December 31, 2005		**130**	**731**	**(58)**	**47**	**(19)**	**1,853**	**2,684**	**28**	**2,712**
Net income recognized directly in equity				(215)	(67)	1		**(281)**	0	**(281)**
Net income							483	**483**	13	**496**
Total recognized income and expense for the period				(215)	(67)	1	483	202	13	215
Dividend payment							(66)	**(66)**	(4)	**(70)**
Increase in share capital due to share split		73					(73)	**0**		**0**
Exercised share options		0	6					**6**		**6**
Acquisition of shares from minority shareholders								**—**	(32)	**(32)**
Acquisition of Reebok – minority shareholders								**—**	3	**3**
Reclassifications of minorities in accordance with IAS 32	20						2	**2**		**2**
Balance at December 31, 2006		**204**	**737**	**(273)**	**(20)**	**(18)**	**2,199**	**2,828**	**8**	**2,836**
Net income recognized directly in equity				(237)	(38)	10		**(265)**	(0)	**(265)**
Net income							551	**551**	4	**555**
Total recognized income and expense for the period				(237)	(38)	10	551	286	4	290
Dividend payment	21						(85)	**(85)**	(1)	**(86)**
Exercised share options	32	0	0					**0**		**0**
Reclassifications of minorities in accordance with IAS 32	20						(6)	**(6)**		**(6)**
Balance at December 31, 2007		**204**	**737**	**(510)**	**(58)**	**(8)**	**2,659**	**3,023**	**11**	**3,034**

Rounding differences may arise in percentages and totals.
The accompanying notes are an integral part of these consolidated financial statements.
1) Reserves for actuarial gains/losses and share option plans.

22 LEASING AND SERVICE ARRANGEMENTS

OPERATING LEASES The Group leases primarily retail stores as well as offices, warehouses and equipment under leases with expiration dates of between one and fifteen years. Rent expenses, which are partly depending on net sales aggregated to € 337 million and € 278 million for the years ending December 31, 2007 and 2006, respectively.

Future minimum lease payments under non-cancellable operating leases are as follows:

MINIMUM LEASE PAYMENTS FOR OPERATING LEASES
€ in millions

	Dec. 31 2007	Dec. 31 2006
Within 1 year	212	171
Between 1 and 5 years	432	397
After 5 years	192	218
Total	**836**	**786**

FINANCE LEASES The Group also leases various premises for administration, warehousing, research and development as well as production, which are classified as finance leases.

The net carrying amount of these assets of € 6 million and € 10 million was included in property, plant and equipment as at December 31, 2007 and 2006, respectively. Interest expenses were € 2 million (2006: € 2 million) and depreciation expenses were € 2 million (2006: € 2 million) for the year ending December 31, 2007.

The minimum lease payments under these contracts over their remaining terms which extend up to 2016 and their net present values are as follows:

MINIMUM LEASE PAYMENTS FOR FINANCE LEASES
€ in millions

	Dec. 31 2007	Dec. 31 2006
Lease payments falling due:		
Within 1 year	2	2
Between 1 and 5 years	3	6
After 5 years	1	2
Total lease payments	**6**	**10**
Less: estimated amount representing interest	1	2
Obligation under finance leases	**5**	**8**
Thereof falling due:		
Within 1 year	2	3
Between 1 and 5 years	2	3
After 5 years	1	2

SERVICE ARRANGEMENTS The Group has outsourced certain logistics and information technology functions, for which it has entered into long-term contracts. Financial commitments under these contracts mature as follows:

FINANCIAL COMMITMENTS FOR SERVICE ARRANGEMENTS
€ in millions

	Dec. 31 2007	Dec. 31 2006
Within 1 year	48	43
Between 1 and 5 years	62	42
After 5 years	—	—
Total	**110**	**85**

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT DECEMBER 31, 2007, ACCORDING TO CATEGORIES OF IAS 39 AND THEIR FAIR VALUES

€ in millions

	Category according to IAS 39	Carrying amount Dec. 31, 2007	Amortized cost	Fair value recognized in equity	Fair value recognized in net income	Measurement according to IAS 17	Fair value Dec. 31, 2007
Assets							
Cash and cash equivalents	n.a.	295	295				295
Short-term financial assets	FAHfT	86			86		86
Accounts receivable	LaR	1,459	1,459				1,459
Other current assets							
Derivatives being part of a hedge	n.a.	12		12			12
Derivatives not being part of a hedge	FAHfT	22			22		22
Other financial assets	LaR	88	88				88
Long-term financial assets							
Available-for-sale financial assets	AfS	92		92			92
Loans	LaR	11	11				11
Other non-current assets							
Derivatives being part of a hedge	n.a.	7		7			7
Derivatives not being part of a hedge	FAHfT	0			0		0
Other financial assets	LaR	23	23				23
Assets classified as held for sale	LaR	4	4				4
Liabilities							
Accounts payable	FLAC	849	849				849
Accrued liabilities and provisions	FLAC	349	349				349
Other current liabilities							
Derivatives being part of a hedge	n.a.	72		72			72
Derivatives not being part of a hedge	FLHfT	17			17		17
Finance lease obligations	n.a.	2				2	2
Other financial liabilities	FLAC	14	14				14
Long-term borrowings							
Bank borrowings incl. commercial paper	FLAC	198	198				198
Private placements	FLAC	1,564	1,564				1,580
Convertible bond	FLAC	384	384				810
Other non-current liabilities							
Derivatives being part of a hedge	n.a.	32		26	6		32
Derivatives not being part of a hedge	FLHfT	10			10		10
Finance lease obligations	n.a.	3				3	3
Other financial liabilities	FLAC	1	1				1
Liabilities classified as held for sale	FLAC	2	2				2
Thereof: aggregated by category according to IAS 39							
Financial Assets at fair value through profit or loss		108					
thereof: designated as such upon initial recognition (Fair Value Option – FVO)		—					
thereof: Held for Trading (FAHfT)		108					
Loans and Receivables (LaR)		1,585					
Available-for-Sale Financial Assets (AfS)		92					
Financial Liabilities Measured at Amortized Cost (FLAC)		3,361					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		27					

CARRYING AMOUNTS OF FINANCIAL INSTRUMENTS AS AT DECEMBER 31, 2006, ACCORDING TO CATEGORIES OF IAS 39 AND THEIR FAIR VALUES

€ in millions

	Category according to IAS 39	Carrying amount Dec. 31, 2006	Amortized cost	Fair value recognized in equity	Fair value recognized in net income	Measurement according to IAS 17	Fair value Dec. 31, 2006
Assets							
Cash and cash equivalents	n.a.	311	311				311
Short-term financial assets	FAHfT	36			36		36
Accounts receivable	LaR	1,415	1,415				1,415
Other current assets							
Derivatives being part of a hedge	n.a.	10		10			10
Derivatives not being part of a hedge	FAHfT	3			3		3
Other financial assets	LaR	57	57				57
Long-term financial assets							
Available-for-sale financial assets	AfS	91		91			91
Loans	LaR	15	15				15
Other non-current assets							
Derivatives being part of a hedge	n.a.	4		2	2		4
Derivatives not being part of a hedge	FAHfT	0			0		0
Other financial assets	LaR	23	23				23
Assets classified as held for sale	LaR	0	0				0
Liabilities							
Accounts payable	FLAC	752	752				752
Accrued liabilities and provisions	FLAC	275	275				275
Other current liabilities							
Derivatives being part of a hedge	n.a.	35		35			35
Derivatives not being part of a hedge	FLHfT	1			1		1
Finance lease obligations	n.a.	3				3	3
Other financial liabilities	FLAC	15	15				15
Long-term borrowings							
Bank borrowings incl. commercial paper	FLAC	419	419				419
Private placements	FLAC	1,784	1,784				1,789
Convertible bond	FLAC	375	375				620
Other non-current liabilities							
Derivatives being part of a hedge	n.a.	13		3	10		13
Derivatives not being part of a hedge	FLHfT	0			0		0
Finance lease obligations	n.a.	5				5	5
Other financial liabilities	FLAC	1	1				1
Liabilities classified as held for sale	FLAC	2	2				2
Thereof: aggregated by category according to IAS 39							
Financial Assets at fair value through profit or loss		39					
thereof: designated as such upon initial recognition (Fair Value Option – FVO)		—					
thereof: Held for Trading (FAHfT)		39					
Loans and Receivables (LaR)		1,510					
Available-for-Sale Financial Assets (AfS)		91					
Financial Liabilities Measured at Amortized Cost (FLAC)		3,623					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		1					

05

Due to the short-term maturities of cash and cash equivalents, accounts receivable and payable as well as other current receivables and payables their fair values approximate their carrying amount.

The fair values of non-current financial assets and liabilities are estimated by discounting expected future cash flows using current interest rates for debt of similar terms and remaining maturities.

Fair values of short-term financial assets measured at "fair value through profit or loss" and long-term financial assets classified as available-for-sale are based on quoted market prices in an active market or are calculated as present values of expected future cash flows.

The fair values of forward contracts and currency options are determined on the basis of the market conditions at the reporting dates. The fair value of a currency option is determined using generally accepted models to calculate option prices. The fair market value of an option is influenced not only by the remaining term of the option but also by further determining factors, such as the actual foreign exchange rate and the volatility of the underlying foreign currency base. The fair values of interest rate options at the reporting date are assessed by generally accepted models, such as the "Markov functional model".

NET GAINS OR (LOSSES) OF FINANCIAL INSTRUMENTS

Recognized in the Consolidated Income Statement, € in millions

	Year ending Dec. 31 2007	2006
Financial assets or financial liabilities at fair value through profit or loss	(1)	(8)
thereof: designated as such upon initial recognition	—	—
thereof: classified as held for trading	(1)	(8)
Loans and receivables	(18)	(8)
Available-for-sale financial assets	—	—
Financial liabilities measured at amortized cost	6	12

Net gains or losses on financial assets or financial liabilities held for trading include the effects from fair value measurements of the derivatives that are not part of a hedging relationship, and changes in the fair value of other financial instruments as well as interest payments which mainly relate to investment funds.

Net gains or losses on loans and receivables comprise mainly impairment losses and reversals.

Net gains or losses on financial liabilities measured at amortized cost include effects from early settlement and reversals of accrued liabilities.

The disclosures required by IFRS 7 Financial Instruments Disclosures paragraphs 31 – 42 ("Nature and Extent of Risks arising from Financial Instruments") can be found in the Group Management Report. see Risk and Opportunity Report, p. 104

FINANCIAL INSTRUMENTS FOR THE HEDGING OF FOREIGN EXCHANGE RISK The adidas Group uses natural hedges and arranges forward contracts, currency options and currency swaps to protect against foreign exchange risk. In 2007, the Group contracted currency options with premiums paid totaling of € 7 million (2006: € 11 million). The effective part of the currency hedges is directly recognized in hedging reserves and the acquisition costs of secured inventories, respectively, and posted into the income statement at the same time as the underlying secured transaction is recorded. An amount of negative € 10 million (2006: € 0 million) for currency options and an amount of negative € 51 million (2006: negative € 22 million) for forward contracts were recorded in hedging reserves. A total amount of € 12 million impacted net income in 2007 (2006: € 27 million).

The time value of the currency options not being part of the hedge in an amount of negative € 9 million (2006: negative € 9 million) was recorded in the income statement in 2007.

The total net amount of US dollar purchases versus other currencies was US $ 3.0 billion and US $ 3.2 billion in the years ending December 31, 2007 and 2006, respectively.

The notional amounts of all outstanding currency hedging instruments, which are mainly related to cash flow hedges, are summarized in the following table:

NOTIONAL AMOUNTS OF ALL CURRENCY HEDGING INSTRUMENTS

€ in millions

	Dec. 31 2007	Dec. 31 2006
Forward contracts	2,317	1,771
Currency options	562	566
Total	**2,879**	**2,337**

The comparatively high amount of forward contracts is primarily due to currency swaps for liquidity management purposes and hedging transactions.

Of the total amount of outstanding hedges, the following contracts related to coverage of the biggest single exposure, the US dollar:

NOTIONAL AMOUNTS OF US DOLLAR HEDGING INSTRUMENTS

€ in millions

	Dec. 31 2007	Dec. 31 2006
Forward contracts	1,885	656
Currency options	562	543
Total	**2,447**	**1,199**

The fair value of all outstanding currency hedging instruments is as follows:

FAIR VALUE

€ in millions

	Dec. 31 2007		Dec. 31 2006	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Forward contracts	11	(79)	7	(26)
Currency options	5	(23)	6	(9)
Total	**16**	**(102)**	**13**	**(35)**

A total negative net fair value of € 61 million (2006: negative € 22 million) for forward contracts related to hedging instruments falling under hedge accounting as per definition of IAS 39 was recorded in hedging reserve. The remaining net negative fair value of € 7 million (2006: positive € 3 million) mainly related to liquidity swaps for cash management purposes was recorded in the income statement. The total fair value of outstanding currency options related to cash flow hedges.

The fair value adjustments of outstanding cash flow hedges for forecasted sales will be reported in the income statement when the forecasted sales transactions are recorded. The vast majority of these transactions are forecasted to occur in 2008. Inventories were adjusted by € 22 million as at December 31, 2007, which will be recognized in the income statement in 2008.

In hedging reserves, an amount of negative € 3 million is included for hedges of net investments in foreign entities. This reserve will remain until the investment in the foreign entity is divested.

In order to determine the fair values of its derivatives that are not publicly traded, the adidas Group uses generally accepted finance-related economic models based on market conditions prevailing at the balance sheet date.

FINANCIAL INSTRUMENTS FOR THE HEDGING OF INTEREST RATE RISK In the last two years the Group has switched concentration from short-term financing to long-term financing, due to increasing interest rates. As a result, the Group is better protected against rising interest rates. As in 2006, no additional interest rate caps were entered into in 2007 and remaining maturing interest rate caps amounting to approximately € 50 million were not renewed. There were no interest rate swaps entered into in 2007.

Interest rate hedges which were outstanding as at December 31, 2007 and 2006, respectively expire as detailed below:

EXPIRATION DATES OF INTEREST RATE HEDGES

€ in millions

	Dec. 31 2007	Dec. 31 2006
Within 1 year	—	50
Between 1 and 3 years	162	19
Between 3 and 5 years	150	184
After 5 years	68	181
Total	**380**	**434**

The above summary for 2007 includes the notional amount of one long-term US dollar interest rate swap in an amount of € 68 million (2006: € 76 million), two long-term cross-currency swaps for an amount of € 33 million (2006: € 29 million) and three interest rate swaps for a total of € 279 million (2006: € 279 million). Both cross-currency swaps and the one long-term US dollar interest rate swap are classified as fair value hedges, while the three interest rate swaps are classified as cash flow hedges.

The interest rate swaps and cross-currency interest rate swaps had a negative fair value of € 10 million (2006: negative € 12 million) and a positive fair value of € 4 million (2006: € 3 million) as at December 31, 2007.

The risks hedged with fair value hedges occur from financing with private placements in US dollars, Japanese yen and Australian dollars amounting to a notional equivalent of € 101 million (2006: € 105 million). The aim of cross-currency swap hedges in Australian dollars and Japanese yen was to turn the financing into euro and retain the financing method. The intent of the US dollar interest rate swap was to obtain variable financing. The total negative € 7 million fair value (2006: negative € 2 million), which was recorded directly in the income statement as incurred, was compensated by positive fair value effects of the hedged items in an amount of € 6 million (2006: € 12 million).

All euro-denominated interest rate swaps qualify as cash flow hedges pursuant to IAS 39. They relate to euro private placements with variable interest rates for a notional amount of € 279 million (2006: € 279 million). The goal of these hedges is to lower exposure to increasing short-term euro interest rates. The negative fair value of € 1 million (2006: € 4 million) was credited in hedging reserves.

24 OTHER OPERATING INCOME AND EXPENSES Operating expenses include expenses for sales, marketing and research and development, as well as for logistics and central finance and administration. In addition, they include depreciation on tangible assets and amortization on intangible assets, with the exception of goodwill amortization and other depreciation and amortization which is included in the cost of sales.

Marketing working budget is the largest component of operating expenses. The marketing working budget consists of promotion and communication spending such as promotion contracts, advertising, retail support, events and other communication activities. However, it does not include marketing overhead expenses. In 2007, marketing working budget accounted for approximately 34 % (2006: 35 %) of the total operating expenses.

Total depreciation and amortization expense for tangible and intangible assets (excluding goodwill) was € 211 million and € 209 million for the years ending December 31, 2007 and 2006, respectively. Thereof, € 7 million and € 16 million were recorded within the cost of sales as they are directly attributable to the production costs of goods sold.

Total other operating income was € 80 million and € 55 million for the years ending December 31, 2007 and 2006, respectively. The other operating income consists of payments in accounts receivable previously written off in the amount of € 1 million (2006: € 3 million), releases of accruals and provisions for an amount of € 20 million (2006: € 16 million), other revenues for an amount of € 38 million (2006: € 35 million) and gains from disposals of fixed assets for an amount of € 21 million (2006: € 1 million).

OPERATING INCOME AND EXPENSES
€ in millions

	Year ending Dec. 31 2007	2006
Marketing working budget	1,378	1,301
Marketing overhead [1]	322	291
Sales force [1]	1,037	904
Logistics [1]	529	491
Research and development [1]	84	98
Central finance and administration expenses	685	619
Total	**4,035**	**3,704**
Thereof:		
Depreciation and amortization	204	193
Other operating expenses	3,911	3,566
Other operating income	80	55

1) Including personnel and administration expenses.

25 COST BY NATURE Expenses are presented by function in the income statement. Supplementary information on the expenses by nature is detailed below.

COST OF MATERIALS The total cost of materials was € 5.153 billion and € 5.470 billion for the years ending December 31, 2007 and 2006, respectively.

PERSONNEL EXPENSES Personnel expenses were as follows:

PERSONNEL EXPENSES
€ in millions

	Year ending Dec. 31 2007	2006
Wages and salaries	1,133	942
Social security contributions	92	92
Pension expense	54	53
Personnel expenses	**1,279**	**1,087**

Personnel expenses which are directly attributable to the production costs of goods are included within the cost of sales.

26 FINANCIAL INCOME / FINANCIAL EXPENSES Financial result consists of the following:

FINANCIAL INCOME
€ in millions

	Year ending Dec. 31 2007	2006
Interest income from financial instruments measured at amortized cost	23	34
Interest income from financial instruments at fair value through profit or loss	4	3
Interest income from non-financial assets	—	—
Net foreign exchange gains	7	2
Fair value gains from available-for-sale investments	—	—
Other	2	—
Financial income	**36**	**39**

FINANCIAL EXPENSES
€ in millions

	Year ending Dec. 31 2007	2006
Interest expense on financial instruments measured at amortized cost	(163)	(182)
Interest expense on financial instruments at fair value through profit or loss	(1)	(1)
Interest expense on provisions and non-financial liabilities	(2)	(1)
Net foreign exchange losses	—	—
Other	(4)	(13)
Financial expenses	**(170)**	**(197)**

Interest income from financial instruments, measured at amortized cost, mainly consists of interest income from bank deposits and loans.

Interest income / expense from financial instruments at fair value through profit or loss mainly includes interest payments from investment funds as well as net interest payments from interest derivatives not being part of a hedging relationship. Unrealized gains / losses from fair value measurement of such financial assets are shown in other financial income or expenses.

Interest expense on financial instruments measured at amortized cost mainly includes interest on borrowings and effects from using the effective interest method.

Interest expense on provisions and non-financial liabilities particularly includes effects from measurement of provisions at present value and interest on non-financial liabilities such as tax payables.

Other financial expenses include impairment losses on other financial assets amounting to € 4 million and € 8 million for the years ending December 31, 2007 and 2006, respectively. Also included in other financial expenses are minority interests, which are not recorded in equity according to IAS 32.

Information regarding the Group's available-for-sale investments, borrowings and financial instruments is also included in these Notes. see Notes 6, 13, 15 and 23

27 INCOME TAXES adidas AG and its German subsidiaries are subject to German corporate and trade taxes.

For the years ending December 31, 2007 and 2006, the statutory corporate income tax rate of 25 % plus a surcharge of 5.5 % thereon is applied to earnings. The municipal trade tax is approximately 15 % of taxable income, which is deductible in the determination of income for corporation tax purposes. The tax rate reduction due to the German Tax Reform 2008 was taken into account for the calculation of the deferred tax assets and liabilities of the German companies in 2007.

For non-German companies, deferred taxes are calculated based on tax rates that have been enacted or substantively enacted by the closing date.

DEFERRED TAX ASSETS AND LIABILITIES Deferred tax assets and liabilities are offset if they relate to the same fiscal authority. The following deferred tax assets and liabilities, determined after appropriate offsetting, are presented on the balance sheet:

DEFERRED TAX ASSETS / LIABILITIES
€ in millions

	Dec. 31 2007	Dec. 31 2006
Deferred tax assets	315	332
Deferred tax liabilities	(450)	(522)
Deferred tax assets, net	**(135)**	**(190)**

The movements of deferred taxes are as follows:

MOVEMENT OF DEFERRED TAXES
€ in millions

	2007	2006
Deferred tax assets, net as at January 1	**(190)**	**153**
Deferred tax (expense) / income	26	(14)
Change in consolidated companies [1]	—	(347)
Change in deferred taxes attributable to effective portion of qualifying hedging instruments recorded in equity see Note 23	11	2
Currency translation differences	25	17
Change in deferred taxes attributable to actuarial gains and losses recorded in equity see Note 18	(7)	(1)
Deferred tax assets, net as at December 31	**(135)**	**(190)**

1) Relates to the acquisition of Reebok International Ltd. (USA) and its subsidiaries for the year ending December 31, 2006. see Note 4

Gross Group deferred tax assets and liabilities before valuation allowances and appropriate off-settings are attributable to the items detailed in the table below:

DEFERRED TAXES

€ in millions

	Dec. 31 2007	Dec. 31 2006
Non-current assets	75	58
Current assets	112	117
Accrued liabilities and provisions	143	136
Accumulated tax loss carry-forwards	203	156
	533	467
Valuation allowances	(71)	(67)
Deferred tax assets	**462**	**400**
Non-current assets	420	500
Current assets	47	37
Accrued liabilities and provisions	130	53
Deferred tax liabilities	**597**	**590**
Deferred tax assets, net	**(135)**	**(190)**

As a result of the acquisition of Reebok International Ltd. (USA) and its subsidiaries in 2006 that was accounted for under the purchase method see Note 4, deferred tax liabilities were recorded as the difference between the carrying amount and the tax basis of acquired assets.

Group deferred tax assets recognized for actual existing and unused accumulated tax loss carry-forwards amounted to € 203 million for the year ending December 31, 2007 and mainly relate to the US tax group.

Deferred tax assets are recognized only to the extent that the realization of the related benefit is probable. Valuation allowances are established where this criterion is not met, based on the past performance and the prospects of the respective business for the foreseeable future.

Valuation allowances, which relate to deferred tax assets of companies whose realization of the related tax benefits is not probable, increased on a currency-neutral basis by € 4 million to € 71 million for the year ending December 31, 2007. These amounts mainly relate to unused foreign tax credits of the US tax group, which expire in a relatively short period and cannot be carried forward indefinitely. Remaining valuation allowances relate to deferred tax assets of companies operating in certain emerging markets, since the realization of the related benefit is not considered probable.

The Group does not recognize deferred tax liabilities for unremitted earnings of non-German subsidiaries to the extent that they are expected to be permanently invested in international operations. These earnings, the amount of which cannot be practicably computed, could become subject to additional tax if they were remitted as dividends or if the Group were to sell its share-holdings in the subsidiaries.

TAX EXPENSES Tax expenses are split as follows:

INCOME TAX EXPENSES

€ in millions

	Year ending Dec. 31 2007	2006
Current tax expenses	286	213
Deferred tax expenses / (income)	(26)	14
Income tax expenses	**260**	**227**

The effective tax rate of the Group differs from an assumed tax rate of 40 % as follows:

TAX RATE RECONCILIATION

	Year ending Dec. 31 2007		Year ending Dec. 31 2006	
	€ in millions	in %	€ in millions	in %
Expected income tax expenses	326	40.0	289	40.0
Tax rate differentials	(122)	(15.0)	(109)	(15.1)
Other non-deductible expenses	57	7.0	24	3.3
Losses for which benefits were not recognizable and changes in valuation allowances	8	1.0	15	2.0
Changes in tax rates	(19)	(2.4)	—	—
Other, net	2	0.2	2	0.3
	252	30.8	221	30.5
Withholding tax expenses	8	1.0	6	0.9
Income tax expenses	**260**	**31.8**	**227**	**31.4**

For 2006, other non-deductible expenses include a tax benefit of € 21 million related to the favorable resolution of international tax disputes for prior years.

In 2007, tax rate changes reflect changes enacted in German and non-German tax rates which were utilized for the calculation of the deferred tax assets and liabilities. The total change relates mainly to a UK tax rate reduction effective in 2008.

28 EARNINGS PER SHARE Basic earnings per share are calculated by dividing the net income attributable to shareholders by the weighted average number of shares outstanding during the year.

Dilutive potential shares arose under the Management Share Option Plan (MSOP) of adidas AG, which was implemented in 1999 see Note 32. As the required performance criteria for the exercise of the stock options of all tranches of the share option plan have been fulfilled, dilutive potential shares impact the diluted earnings per share calculation.

It is also necessary to include dilutive potential shares arising from the convertible bond issuance in October 2003 in the calculation of diluted earnings per share as at December 31, 2007 and 2006, respectively, as the required conversion criteria were fulfilled at the balance sheet date see Note 15. As a result, the convertible bond is assumed to have been converted into ordinary shares and the net income is adjusted to eliminate the interest expense less the tax effect.

EARNINGS PER SHARE

	2007	Year ending Dec. 31 2006
Net income attributable to shareholders (€ in millions)	551	483
Weighted average number of shares	203,594,975	203,386,104
Basic earnings per share (in €)	**2.71**	**2.37**
Net income attributable to shareholders (€ in millions)	551	483
Interest expense on convertible bond, net of taxes (€ in millions)	12	12
Net income used to determine diluted earnings per share (€ in millions)	**563**	**495**
Weighted average number of shares	203,594,975	203,386,104
Weighted share options	187,887	328,308
Weighted assumed conversion convertible bond	15,684,315	15,685,110
Weighted average number of shares for diluted earnings per share	**219,467,177**	**219,399,522**
Diluted earnings per share (in €)	**2.57**	**2.25**

29 SEGMENTAL INFORMATION The Group operates predominately in one industry segment – the design, wholesale and marketing of athletic and sports lifestyle products. The Group is currently managed by brands.

Certain Group functions are centralized and an allocation of these functions to specific segments is not considered to be meaningful. This includes functions such as central treasury, worldwide sourcing as well as other headquarter departments. Assets, liabilities, income and expenses relating to these corporate functions are presented in the HQ/Consolidation column together with other non-allocable items and intersegment eliminations.

The Reebok segment includes the brands Reebok, Reebok-CCM Hockey and Rockport. The Greg Norman license, which was acquired with the Reebok business and subsequently sold in November 2006, was allocated to the TaylorMade-adidas Golf segment. In 2007, the remaining retail activities were allocated to the Reebok segment. Both the NBA and Liverpool licensed businesses were transferred to brand adidas in the first half of 2006.

Information about the Group's segments in accordance with the management approach is presented on the following page.

There are no intersegment sales between the brands. Net sales to third parties are shown in the geographic market in which the revenues are realized. The global sourcing function is included in the HQ/Consolidation column. Transactions between the segments are based on the dealing-at-arm's-length principle.

Segment assets include all operating assets and comprise mainly accounts receivable, inventory as well as property, plant and equipment and intangible assets. Segment liabilities comprise operating liabilities and consist principally of trade and other payables as well as accrued liabilities and provisions. Non-allocable items including financial assets or assets and liabilities relating to income taxes and borrowings, are included in the HQ/Consolidation column.

Capital expenditure, amortization and depreciation relate to segment assets; the acquisition of goodwill and the inception of finance leases do not affect capital expenditure.

PRIMARY SEGMENTAL INFORMATION BY BRAND

€ in millions

	adidas		Reebok		TaylorMade-adidas Golf		HQ / Consolidation		adidas Group	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Net sales to third parties	7,113	6,626	2,333	2,473	804	856	49	129	10,299	10,084
Gross profit	3,370	3,059	902	865	360	376	250	195	4,882	4,495
in % of net sales	47.4 %	46.2 %	38.7 %	35.0 %	44.7 %	43.9 %	—	—	47.4 %	44.6 %
Operating profit	920	788	109	86	65	73	(145)	(66)	949	881
in % of net sales	12.9 %	11.9 %	4.7 %	3.5 %	8.1 %	8.5 %	—	—	9.2 %	8.7 %
Assets	3,329	3,211	2,913	3,217	629	656	1,454	1,295	8,325	8,379
Liabilities	900	752	421	477	106	106	3,865	4,208	5,292	5,543
Capital expenditure	150	135	57	72	12	13	70	57	289	277
Amortization and depreciation	104	91	60	53	12	13	25	25	201	182
Impairment	2	11	1	—	—	—	—	—	3	11

SECONDARY SEGMENTAL INFORMATION BY REGION

€ in millions

	Europe		North America		Asia	
	2007	2006	2007	2006	2007	2006
Net sales to third parties	4,369	4,162	2,929	3,234	2,254	2,020
Assets	1,819	1,808	1,489	1,564	772	719
Capital expenditure	105	84	34	49	49	74

	Latin America		HQ / Consolidation		adidas Group	
	2007	2006	2007	2006	2007	2006
Net sales to third parties	657	499	89	169	10,299	10,084
Assets	285	217	3,960	4,071	8,325	8,379
Capital expenditure	10	7	91	63	289	277

Region Europe also includes Middle East and Africa, Region Asia also includes the Pacific region.

30 ADDITIONAL CASH FLOW INFORMATION

In 2007 the line item "Acquisition of subsidiaries and other business units net of cash acquired" from the consolidated statement of cash flows includes the acquisition of Mitchell & Ness as part of an asset deal. see Note 4

In 2006, this line item includes the acquisition of Reebok International Ltd. see Note 4

31 COMMITMENTS AND CONTINGENCIES

OTHER FINANCIAL COMMITMENTS The Group has other financial commitments for promotion and advertising contracts, which mature as follows:

FINANCIAL COMMITMENTS FOR PROMOTION AND ADVERTISING
€ in millions

	Dec. 31 2007	Dec. 31 2006
Within 1 year	443	364
Between 1 and 5 years	1,134	970
After 5 years	176	218
Total	**1,753**	**1,552**

Commitments with respect to advertising and promotion maturing after five years have remaining terms of up to 15 years from December 31, 2007.

Information regarding commitments under lease and service contracts is also included in these Notes. see Note 22

LITIGATION The Group is currently engaged in various lawsuits resulting from the normal course of business, mainly in connection with license and distribution agreements as well as competition issues. The risks regarding these lawsuits are covered by provisions when a reliable estimate of the amount of the obligation can be made see Note 16. In the opinion of Management, the ultimate liabilities resulting from such claims will not materially affect the consolidated financial position of the Group.

32 EQUITY COMPENSATION BENEFITS

MANAGEMENT SHARE OPTION PLAN (MSOP) OF ADIDAS AG Under the Management Share Option Plan (MSOP) adopted by the shareholders of adidas AG on May 20, 1999, and amended by resolution of the Annual General Meeting on May 8, 2002, and on May 13, 2004, the Executive Board was authorized to issue non-transferable stock options for up to 1,373,350 no-par-value bearer shares to members of the Executive Board of adidas AG as well as to managing directors / senior vice presidents of its related companies and to other executives of adidas AG and its related companies until August 27, 2004. The granting of stock options took place in tranches not exceeding 25 % of the total volume for each fiscal year.

A two-year vesting period and a term of approximately seven years upon their respective issue applies for the stock options.

MANAGEMENT SHARE OPTION PLAN (MSOP)

		Tranche I (1999)		Tranche II (2000)		Tranche III (2001)		Tranche IV (2002)		Tranche V (2003)	
	Share price in €	Number	Exercise price in €	Number	Exercise price in €	Number	Exercise price in €	Number	Exercise price in €	Number	Exercise price in €
Originally issued		266,550		335,100		342,850		340,850		88,000	
Outstanding as at Jan. 1, 2006		**61,150**	**153.96**	**10,250**	**2.56**	**17,900**	**2.56**	**50,945**	**38.76**	**23,700**	**2.56**
Forfeited during the period		1,450	107.14	400	4.00	400	4.00	1,350	26.84	0	4.00
Exercised during the period											
May 2006 [1]	149.20	32,200	107.14	1,150	4.00	2,850	4.00	10,320	4.00	10,150	4.00
Aug. 2006 [1]	146.52	0	—	0	—	1,750	4.00	4,250	32.68	4,000	4.00
Nov. 2006 [1]	149.84	0	—	650	4.00	750	4.00	4,400	43.84	1,750	4.00
Expired during the period		27,500	107.14	0	—	0	—	0	—	0	—
Outstanding as at Dec. 31, 2006		**0**	**—**	**8,050**	**4.00**	**12,150**	**4.00**	**30,625**	**43.84**	**7,800**	**4.00**
Exercisable as at Dec. 31, 2006		0	—	8,050	4.00	12,150	4.00	30,625	43.84	7,800	4.00
Outstanding as at Jan. 1, 2007		**0**	**—**	**8,050**	**4.00**	**12,150**	**4.00**	**30,625**	**43.84**	**7,800**	**4.00**
Forfeited during the period		0	—	0	—	300	4.00	150	4.00	1,000	4.00
Exercised during the period											
May 2007 [1]	183.24	0	—	3,900	4.00	2,100	4.00	7,600	4.00	900	4.00
Aug. 2007 [1]	172.36	0	—	0	—	400	4.00	575	4.00	0	—
Nov. 2007 [1]	188.88	0	—	0	—	700	4.00	3,300	4.00	0	—
Expired during the period		0	—	4,150	4.00	0	—	0	—	0	—
Outstanding as at Dec. 31, 2007		**0**	**—**	**0**	**—**	**8,650**	**4.00**	**19,000**	**4.00**	**5,900**	**4.00**
Exercisable as at Dec. 31, 2007		0	—	0	—	8,650	4.00	19,000	4.00	5,900	4.00

1) Due to the share split effective May 2006, one option is equivalent to four shares.

The remaining contractual lives for stock options outstanding at the end of the period are presented as follows: Tranche III (2001) until July 2008, Tranche IV (2002) until July 2009 and Tranche V (2003) until July 2010.

For stock options outstanding at the end of the period it is not possible to disclose the range of exercise prices because they are dependent on future share price development.

No stock options were issued during the year under review.

Stock options may only be exercised subject to the attainment of at least one of the following performance objectives:

-- (1) *Absolute Performance:* During the period between the issuance and exercise of the stock options, the stock market price for the adidas AG share – calculated upon the basis of the total shareholder return approach – has increased by an annual average rate of at least 8 %.

-- (2) *Relative Performance:* During the same period, the stock market price for the adidas AG share must have developed by an annual average of 1 % more favorably than the stock market prices of a basket of global competitors of the adidas Group and in absolute terms may not have fallen.

The stock options may only be exercised against payment of the exercise price. The exercise price corresponds to the arithmetical mean of the closing price of the adidas AG share over the last 20 trading days of the respective exercise period, less a discount, based on the extent to which the share price at exercise exceeded the absolute and relative performance hurdles outlined above. In every case, the exercise price shall be at least the lowest issue price as stated in § 9 section 1 of the German Stock Corporation Act (AktG), currently € 1.00 (i.e. € 4.00 per option).

Option terms and conditions stipulate that the stock options may be used for existing common shares in lieu of new shares from the contingent capital, or in the place of common shares the discount is paid in cash.

The new shares participate in profits from the beginning of the year in which they are issued.

33 OTHER INFORMATION

EMPLOYEES The average numbers of employees are as follows:

EMPLOYEES

	Year ending Dec. 31 2007	2006
Own retail	11,180	6,790
Sales	4,065	5,527
Logistics	4,550	4,000
Marketing	2,842	2,552
Central functions and administration	2,929	2,619
Production	1,910	1,847
Research and development	973	1,014
Information technology	769	718
Total	29,218	25,067

ACCOUNTANT SERVICE FEES Following the formation of KPMG Europe LLP effective October 1, 2007, KPMG LLP (UK) is an affiliated company of KPMG Germany as defined under § 271 section 2 HGB. The disclosure requirement for audit and accounting services fees provided by KPMG LLP (UK) relate to services rendered after September 30, 2007.

In 2007, adidas AG recorded € 1.2 million (2006: € 0.5 million) as expense for the professional service fee for the auditor of the annual and consolidated financial statements.

Expenses for tax consultancy services provided by the auditor, for other confirmation services provided by the auditor and for other services provided by the auditor amounted to € 0.1 million (2006: € 0.3 million), € 0.0 million (2006: € 0.3 million) and € 0.5 million (2006: € 0.0 million), respectively.

wREMUNERATION OF THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD OF ADIDAS AG

SUPERVISORY BOARD Pursuant to the Articles of Association, Supervisory Board members' fixed annual payment amounted to € 0.3 million (2006: € 0.3 million). Furthermore, € 0.2 million in 2007 and € 0.5 million in 2006 was paid due to project-related fixed-term advisory contracts to one member of the Supervisory Board in 2007 and two members of the Supervisory Board in 2006, respectively. Total compensation of the Supervisory Board in 2007 thus amounted to € 0.5 million (2006: € 0.8 million).

No members of the Supervisory Board were granted loans in 2007.

EXECUTIVE BOARD In 2007, the overall compensation of the members of the Executive Board totaled € 11.1 million (2006: € 9.4 million).

In 2007, former members of the Executive Board received pension payments totaling € 1.7 million (2006: € 1.9 million).

Pension provisions for pension obligations relating to former members of the Executive Board amount to € 37.6 million (2006: € 42.1 million) in total.

No members of the Executive Board were granted loans in 2007.

Under the Management Share Option Plan (MSOP) of adidas AG, members of the Executive Board held non-transferable stock options for 0 and 2,800 shares of adidas AG as at December 31, 2007 and 2006, respectively. In addition, former members of the Executive Board held non-transferable stock options on 0 and 1,300 shares of adidas AG as at December 31, 2007 and 2006, respectively. Members of the Executive Board have not received any stock options since 2003. In 2007, current and former members of the Executive Board exercised 4,100 stock options (2006: 12,100). Details of the Management Share Option Plan are also included in these Notes. see Note 32

Further information on disclosures according to § 314 section 1 no. 6a HGB (German commercial law) is provided in the Compensation Report. see Compensation Report, p. 030

34 INFORMATION RELATING TO THE GERMAN CORPORATE GOVERNANCE CODE

INFORMATION PURSUANT TO § 161 GERMAN STOCK CORPORATION ACT (AKTG) On February 11, 2008, the Executive Board and Supervisory Board of adidas AG issued the updated declaration of conformity in accordance with § 161 of the Stock Corporation Act (AktG). The full text of the Declaration of Compliance is available on the Group's corporate website.

35 EVENTS AFTER THE BALANCE SHEET DATE

GROUP-SPECIFIC SUBSEQUENT EVENTS Effective January 2008, the adidas Group acquired additional shares of its subsidiary in Greece, adidas Hellas A. E., Thessaloniki.

Effective January 3, 2008, adidas Canada acquired 100 % of the shares of Saxon Athletic Manufacturing Inc. for a purchase price in the amount of CAD 4.6 million. Based in Brantford / Ontario (Canada), Saxon Athletic is a design, development, marketing and manufacturing company for team uniforms worn by professional and amateur teams throughout North America. The purchase price allocation is not finalized so far.

On January 29, 2008, adidas AG announced the launch of a share buyback program. Treasury shares of up to 5 % of the Company's stock (up to 10,182,248 shares) with an aggregate value of up to € 420 million (excluding incidental purchasing costs) shall be repurchased, exclusively via the stock exchange. adidas AG intends to cancel the repurchased shares, thus reducing its stock capital.

Effective February 11, 2008, TaylorMade-adidas Golf divested the Maxfli brand. The divested business accounted for approximately 1 % of TaylorMade-adidas Golf sales in 2007.

DATE OF AUTHORIZATION FOR ISSUE The Executive Board of adidas AG approved the consolidated financial statements for submission to the Supervisory Board on February 15, 2008. It is the Supervisory Board's task to examine the consolidated financial statements and give their approval and authorization for issue.

Herzogenaurach, February 15, 2008
The Executive Board of adidas AG

STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS AND FINANCIAL ASSETS

(Attachment I)

€ in millions

	Goodwill	Trademarks	Software, patents and concessions	**Total intangible assets**	Land and buildings	Technical equipment and machinery
Acquisition cost						
January 1, 2006	**436**	**15**	**242**	**693**	**298**	**83**
Currency effect	(88)	(122)	(26)	**(236)**	(30)	(10)
Additions	3	—	75	**78**	50	8
Increase in companies consolidated	1,165	1,561	181	**2,907**	188	37
Transfers to assets held for sale	—	—	—	**—**	(29)	—
Decrease in companies consolidated	—	—	—	**—**	—	—
Transfers	—	—	4	**4**	12	8
Disposals	—	—	(29)	**(29)**	(5)	(8)
December 31, 2006 / January 1, 2007	**1,516**	**1,454**	**447**	**3,417**	**484**	**118**
Currency effect	(80)	(156)	(29)	**(265)**	(31)	(10)
Additions	—	—	59	**59**	24	21
Increase in companies consolidated	—	—	—	**—**	—	—
Transfers to assets held for sale	—	(7)	(1)	**(7)**	(20)	(3)
Decrease in companies consolidated	—	—	—	**—**	—	—
Transfers	—	—	—	**—**	3	8
Disposals	—	—	(35)	**(35)**	(30)	(19)
December 31, 2007	**1,436**	**1,291**	**441**	**3,169**	**430**	**115**
Accumulated depreciation / amortization						
January 1, 2006	**—**	**—**	**166**	**166**	**99**	**54**
Currency effect	—	—	(10)	**(10)**	(7)	(7)
Additions	—	—	69	**69**	26	16
Impairment	—	—	—	**—**	2	—
Write-ups	—	—	—	**—**	—	—
Increase in companies consolidated	—	—	—	**—**	—	—
Transfers to assets held for sale	—	—	—	**—**	(2)	—
Decrease in companies consolidated	—	—	—	**—**	—	—
Transfers	—	—	—	**—**	(9)	—
Disposals	—	—	(1)	**(1)**	(5)	(8)
December 31, 2006 / January 1, 2007	**—**	**—**	**224**	**224**	**104**	**55**
Currency effect	—	—	(15)	**(15)**	(9)	(8)
Additions	—	—	64	**64**	22	14
Impairment	—	—	—	**—**	1	—
Write-ups	—	—	—	**—**	—	—
Increase in companies consolidated	—	—	—	**—**	—	—
Transfers to assets held for sale	—	—	(1)	**(1)**	(10)	(2)
Decrease in companies consolidated	—	—	—	**—**	—	—
Transfers	—	—	—	**—**	—	—
Disposals	—	—	(25)	**(25)**	(16)	(15)
December 31, 2007	**—**	**—**	**247**	**247**	**92**	**44**
Net carrying amount						
December 31, 2005	436	15	76	**527**	199	29
December 31, 2006	1,516	1,454	223	**3,193**	380	63
December 31, 2007	**1,436**	**1,291**	**194**	**2,922**	**338**	**71**

Rounding differences may arise in percentages and totals.

Other equipment, furniture and fittings	Construction in progress	**Total tangible assets**	Shares in affiliated companies	Participations	Other financial assets	**Total financial assets**
443	40	864	—	77	52	129
(33)	(3)	(76)	—	(1)	—	(1)
114	46	218	—	—	5	5
32	3	260	—	4	—	4
(4)	—	(33)	—	—	—	—
(2)	—	(2)	—	—	—	—
46	(66)	—	—	(80)	77	(3)
(29)	(2)	(44)	—	—	(5)	(5)
567	18	1,187	—	—	129	129
(38)	(2)	(81)	—	—	(2)	(2)
127	57	230	—	—	6	6
—	—	—	—	—	—	—
(7)	—	(30)	—	—	—	—
—	—	—	—	—	—	—
17	(28)	—	—	—	—	—
(37)	(3)	(89)	—	—	(3)	(3)
629	42	1,216	—	—	130	130
287	—	440	—	—	15	15
(23)	—	(37)	—	—	—	—
87	—	129	—	—	—	—
9	—	11	—	—	8	8
—	—	—	—	—	—	—
—	—	—	—	—	—	—
(2)	—	(4)	—	—	—	—
(2)	—	(2)	—	—	—	—
9	—	—	—	—	—	—
(26)	—	(39)	—	—	—	—
339	—	498	—	—	23	23
(30)	—	(47)	—	—	—	—
109	—	145	—	—	—	—
2	—	3	—	—	4	4
(1)	—	(1)	—	—	—	—
—	—	—	—	—	—	—
(7)	—	(19)	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	—	—	—
(34)	—	(65)	—	—	—	—
378	—	514	—	—	27	27
156	40	424	—	77	37	114
228	18	689	—	—	106	106
251	42	702	—	—	103	103

05

SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH

(Attachment II)

as of December 31, 2007

Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[8]	in %
1 GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG	Herzogenaurach (Germany)	EUR	896	directly	90
2 GEV Grundstücks-Beteiligungsgesellschaft Herzogenaurach mbH	Herzogenaurach (Germany)	EUR	29	directly	100
3 adidas Versicherungs-Vermittlungs GmbH[13]	Herzogenaurach (Germany)	EUR	26	directly	100
4 adidas Beteiligungsgesellschaft mbH[13]	Herzogenaurach (Germany)	EUR	354,103	directly	100
5 Immobilieninvest und Betriebsgesellschaft Herzo-Base Verwaltungs GmbH	Herzogenaurach (Germany)	EUR	27	directly	100
6 Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG	Herzogenaurach (Germany)	EUR	2,661	directly	100
Europe (incl. Africa and Middle East)					
7 adidas sport gmbh	Cham (Switzerland)	CHF	25,570	directly	100
8 Sarragan AG	Cham (Switzerland)	CHF	2,123	directly	100
9 adidas Austria GmbH	Klagenfurt (Austria)	EUR	17,971	7	4.11
				directly	95.89
10 adidas Holding S.A.	Metz-Tessy (France)	EUR	323,851	57	100
11 adidas France S.a.r.l.	Landersheim (France)	EUR	71,538	10	100
12 adidas International B.V.	Amsterdam (Netherlands)	EUR	3,704,240	11	6.03
				directly	93.97
13 adidas International Trading B.V.	Amsterdam (Netherlands)	EUR	653,554	12	100
14 adidas International Marketing B.V.	Amsterdam (Netherlands)	EUR	176,590	12	100
15 adidas International Finance B.V.	Amsterdam (Netherlands)	EUR	4,996	12	100
16 adidas Benelux B.V.	Amsterdam (Netherlands)	EUR	11,637	directly	100
17 adidas Belgium N.V.	Brussels (Belgium)	EUR	9,215	16	100
18 adidas (UK) Ltd.[1]	Stockport (Great Britain)	GBP	18,315	57	100
19 adidas (ILKLEY) Ltd.[1][7]	Stockport (Great Britain)	GBP	—	18	100
20 Larasport (U.K.) Ltd.[1][7]	Stockport (Great Britain)	GBP	—	18	100
21 Sarragan (U.K.) Ltd.[1][7]	Stockport (Great Britain)	GBP	—	18	100
22 adidas Trefoil Trading (U.K.) Ltd.[1][7]	Stockport (Great Britain)	GBP	—	21	100
23 Three Stripes Ltd.[1][7]	Stockport (Great Britain)	GBP	—	19	50
				18	50
24 Taylor Made Golf Ltd.	Basingstoke (Great Britain)	GBP	(4,856)	12	100
25 adidas (Ireland) Ltd.	Dublin (Ireland)	EUR	14,397	12	100
26 adidas International Re Ltd.	Dublin (Ireland)	EUR	6,874	12	100
27 adidas Espana S.A.	Zaragoza (Spain)	EUR	38,870	4	100
28 adidas Italy S.p.A	Monza (Italy)	EUR	88,979	12	100
29 adidas Portugal S.A.	Lisbon (Portugal)	EUR	1,449	12	100
30 adidas Norge AS	Lillestrom (Norway)	NOK	58,545	directly	100

1) Sub-group adidas UK
2) Sub-group Reebok International Ltd.
3) Sub-group adidas Sourcing
4) Sub-group India
5) Sub-group Mexico, adidas
6) Sub-group Mexico, Reebok
7) Companies with no active business
8) The number refers to the number of the company.
9) Sub-group Onfield
10) Sub-group Reebok-CCM Hockey, Inc. (formerly: The Hockey Company)
11) Sub-group Sports Holdings Corporation
12) Sub-group Reebok International Limited
13) Profit and loss transfer agreement

SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH

(Attachment II)

as of December 31, 2007

	Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[8]	in %
31	adidas Sverige AB	Stockholm (Sweden)	SEK	75,511	directly	100
32	adidas Suomi Oy	Helsinki (Finland)	EUR	2,938	12	100
33	adidas Danmark A/S	Them (Denmark)	DKK	12,960	12	100
34	adidas CR s.r.o.	Prague (Czech Republic)	CZK	9,900	directly	100
35	adidas Budapest Kft.	Budapest (Hungary)	HUF	1,030,237	directly	85
36	adidas Bulgaria EAD	Sofia (Bulgaria)	BGN	9,815	directly	100
37	adidas Ltd.	Moscow (Russia)	USD	233,331	9	100
38	adidas Poland Sp. z o. o.	Warsaw (Poland)	PLN	68,603	directly	100
39	adidas Romania S.R.L.	Bukarest (Romania)	RON	19,125	12	100
40	adidas Baltics SIA	Riga (Latvia)	EUR	936	12	100
41	adidas Slovakia s.r.o.	Bratislava (Slovak Republic)	SKK	198,744	directly	100
42	adidas Trgovina d.o.o .	Ljubljana (Slovenia)	EUR	1,015	directly	100
43	SC adidas Ukraine	Kiev (Ukraine)	USD	45,057	directly	100
44	adidas Hellas A.E.	Thessaloniki (Greece)	EUR	5,192	directly	72.5
45	adidas Spor Malzemeleri Satis ve Pazarlama A.S.	Istanbul (Turkey)	TRY	89,591	12	100
46	a-RET Tekstil ve Deri Ürünleri Tic. A.S.	Istanbul (Turkey)	TRY	4,916	13	100
47	adidas Emerging Market L.L.C.	Dubai (United Arab Emirates)	USD	43,890	indirectly	51
					11	49
48	adidas Emerging Markets FZE	Dubai (United Arab Emirates)	USD	272	12	100
49	adidas Imports & Exports Ltd.	Cairo (Egypt)	USD	5,862	51	100
50	adidas Sporting Goods Ltd.	Cairo (Egypt)	USD	13,224	12	90
					13	10
51	adidas Egypt Ltd.[7]	Cairo (Egypt)	USD	(1,832)	directly	100
52	adidas Israel Ltd.	Tel Aviv (Israel)	ILS	1,916	directly	100
53	adidas (South Africa) (Pty) Ltd.	Cape Town (South Africa)	ZAR	132,067	directly	100
54	adidas (Cyprus) Limited	Nicosia (Cyprus)	CYP	1,543	directly	100
55	Rockport (Europe) B.V.	Rotterdam (Netherlands)	USD	5,533	98	100
56	Reebok Finance Limited[7] [12]	Bolton (Great Britain)	GBP	—	97	100
57	Reebok International Limited[12]	Bolton (Great Britain)	GBP	679,247	97	34.9
					12	65.1
58	Reebok Spain S.A.	Alicante (Spain)	EUR	37,634	97	75
59	American Sports & Leisure (cz) s.r.o	Prague (Czech Republic)	CZK	7,332	97	100
60	Reebok Poland S.A.	Warsaw (Poland)	PLN	66,466	97	100
61	RBK Holdings Limited[12]	Bolton (Great Britain)	GBP	—	117	11
					97	89

1) Sub-group adidas UK
2) Sub-group Reebok International Ltd.
3) Sub-group adidas Sourcing
4) Sub-group India
5) Sub-group Mexico, adidas
6) Sub-group Mexico, Reebok
7) Companies with no active business
8) The number refers to the number of the company.
9) Sub-group Onfield
10) Sub-group Reebok-CCM Hockey, Inc. (formerly: The Hockey Company)
11) Sub-group Sports Holdings Corporation
12) Sub-group Reebok International Limited
13) Profit and loss transfer agreement

SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH

(Attachment II)

as of December 31, 2007

Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[8]	in %
62 Reebok International Finance B.V.	Rotterdam (Netherlands)	USD	1,278	97	100
63 Reebok Sports Limited	Bolton (Great Britain)	USD	42,638	57	100
64 J.W. Foster & Sons (Athletic Shoes) Limited[7][12]	Bolton (Great Britain)	GBP	—	57	100
65 The Rockport Company Limited[7][12]	Bolton (Great Britain)	GBP	—	57	100
66 Reebok Eastern Trading Limited[7]	Bolton (Great Britain)	USD	3,112	57	100
67 Reebok Pensions Management Limited[12]	Bolton (Great Britain)	GBP	—	57	100
68 Reebok Europe Holdings	Bolton (Great Britain)	GBP	52,658	57	100
69 Reebok Austria GmbH	Bergheim (Austria)	EUR	6,724	68	99
				63	1
70 ASL American Sports and Leisure Vertriebs GmbH	Bergheim (Austria)	EUR	996	69	100
71 Reebok Italia Srl	Monza (Italy)	EUR	6,996	28	100
72 Reebok Europe B.V.	Rotterdam (Netherlands)	EUR	15,403	68	100
73 Reebok Nederland (Retail) B.V.	Leusden (Netherlands)	EUR	(1,100)	72	100
74 Reebok Ireland Limited	Dublin (Ireland)	EUR	8,091	25	100
75 Reebok France S.A.	Buc (France)	EUR	7,960	68	100
76 Reebok France Retail SARL	Buc (France)	EUR	206	75	100
77 Reebok Belgium SA	Brussels (Belgium)	EUR	3,302	68	100
78 Reebok Deutschland GmbH	Herzogenaurach (Germany)	EUR	19,854	97	25
				68	75
79 ASL American Sports and Leisure Vertriebs GmbH	Herzogenaurach (Germany)	EUR	1,933	78	100
80 Reebok Portugal SA	Povoa de Santo Adriao (Portugal)	EUR	22,212	68	100
81 Reebok-CCM Hockey GmbH (formerly: Sport Maska GmbH)	Heimstetten/Kirchheim (Germany)	EUR	2,596	103	100
82 Nordic Hockey Company AB[11]	Malung (Sweden)	SEK	—	104	100
83 Reebok Jofa AB	Malung (Sweden)	SEK	138,403	82	100
84 Reebok Jofa AS	Fredrikstad (Norway)	NOK	2,803	82	100
85 Reebok Finland OY	Forssa (Finland)	EUR	20,491	82	100
86 adidas LLP	Almaty (Republic of Kazakhstan)	USD	1,532	directly	100
North America					
87 adidas North America, Inc.	Portland, Oregon (USA)	USD	4,274,150	12	100
88 adidas America, Inc.	Portland, Oregon (USA)	USD	33,947	87	100
89 adidas Promotional Retail Operations, Inc.	Portland, Oregon (USA)	USD	24,615	87	100
90 adidas Sales, Inc.	Portland, Oregon (USA)	USD	82,894	87	100
91 adidas Village Corporation	Portland, Oregon (USA)	USD	12,979	87	100
92 adidas Interactive, Inc.	Portland, Oregon (USA)	USD	15,653	87	100

1) Sub-group adidas UK
2) Sub-group Reebok International Ltd.
3) Sub-group adidas Sourcing
4) Sub-group India
5) Sub-group Mexico, adidas
6) Sub-group Mexico, Reebok
7) Companies with no active business
8) The number refers to the number of the company.
9) Sub-group Onfield
10) Sub-group Reebok-CCM Hockey, Inc. (formerly: The Hockey Company)
11) Sub-group Sports Holdings Corporation
12) Sub-group Reebok International Limited
13) Profit and loss transfer agreement

SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH

(Attachment II)

as of December 31, 2007

	Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[8]	in %
93	adidas International, Inc.	Portland, Oregon (USA)	USD	30,101	87	100
94	adidas Team, Inc.	Portland, Oregon (USA)	USD	155	87	100
95	Taylor Made Golf Co., Inc.	Carlsbad, California (USA)	USD	43,184	87	100
96	adidas Canada Ltd.	Concord, Ontario (Canada)	CAD	54,640	directly	100
97	Reebok International Ltd.[2]	Canton, Massachusetts (USA)	USD	(876,049)	87	100
98	The Rockport Company, LLC	Delaware (USA)	USD	236,099	97	100
99	RC Investments Ltd.	Aurora (Canada)	CAD	2,160	97	100
100	Reebok Canada Inc.	Montreal (Canada)	CAD	45,109	97	100
101	The Reebok Worldwide Trading Company, LLC	Canton, Massachusetts (USA)	USD	10,223	97	100
102	Reebok-CCM Hockey, Inc. (formerly: The Hockey Company)[10]	Delaware (USA)	USD	152,645	97	100
103	Sports Holdings Corp.[11]	Delaware (USA)	USD	(18,333)	102	100
104	WAP Holdings Inc.[11]	Delaware (USA)	USD	—	103	100
105	Reebok-CCM Hockey U.S., Inc. (formerly: Maska US, Inc.)	Vermont (USA)	USD	10,475	103	36
					102	64
106	Sport Maska Inc.	New Brunswick (Canada)	CAD	66,407	102	100
107	SLM Trademark Acquisition Corp.[7][10]	Delaware (USA)	USD	—	102	100
108	SLM Trademark Acquisition Canada Corporation[7][10]	New Brunswick (Canada)	CAD	—	107	100
109	CCM Holdings (1983) Inc.[10]	Montreal (Canada)	CAD	—	108	100
110	Consumer Infomarketing, Inc.[7][10]	Delaware (USA)	USD	—	102	100
111	Smedley Industries, Inc.[7][10]	Delaware (USA)	USD	—	102	100
112	Toy Factory, Inc.[7][10]	New Jersey (USA)	USD	—	111	100
113	Reebok Aviation, LLC[7]	Delaware (USA)	USD	13,183	97	100
114	Reebok CHC, Inc.[2][7]	Massachusetts (USA)	USD	—	97	100
115	RFC Inc.[7]	New York (USA)	USD	18	97	100
116	Reebok International Securities Corp.[2][7]	Massachusetts (USA)	USD	—	97	100
117	Reebok Securities Holdings LLC[2]	Massachusetts (USA)	USD	—	97	100
118	Sports Licensed Division of the adidas Group, LLC (formerly: Group Athletica LLC)	Delaware (USA)	USD	103,256	117	1
					97	99
119	Onfield Apparel Group, LLC[9]	Delaware (USA)	USD	—	120	1
					97	99
120	Reebok Onfield LLC[9]	Delaware (USA)	USD	—	97	100
121	RBK Thailand Inc.[2]	Canton (USA)	THB	394	97	100

1) Sub-group adidas UK
2) Sub-group Reebok International Ltd.
3) Sub-group adidas Sourcing
4) Sub-group India
5) Sub-group Mexico, adidas
6) Sub-group Mexico, Reebok
7) Companies with no active business
8) The number refers to the number of the company.
9) Sub-group Onfield
10) Sub-group Reebok-CCM Hockey, Inc. (formerly: The Hockey Company)
11) Sub-group Sports Holdings Corporation
12) Sub-group Reebok International Limited
13) Profit and loss transfer agreement

SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH

(Attachment II)

as of December 31, 2007

	Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[8]	in %
	Asia					
122	adidas Sourcing Ltd.[3]	Hong Kong (China)	USD	82,741	13	100
123	adidas Services Limited	Hong Kong (China)	USD	3,724	12	100
124	adidas Hong Kong Ltd.	Hong Kong (China)	HKD	184,224	directly	100
125	adidas (Suzhou) Co. Ltd.	Suzhou (China)	CNY	988,045	4	100
126	adidas Sports (China) Limited	Suzhou (China)	CNY	626,442	4	100
127	adidas (China) Ltd.	Shanghai (China)	CNY	120,164	12	100
128	adidas Japan K.K.	Tokyo (Japan)	JPY	21,157,274	57	100
129	Taylor Made Golf Co., Ltd.	Tokyo (Japan)	JPY	7,455,867	57	100
130	adidas Korea Ltd.	Seoul (Korea)	KRW	46,533,000	directly	100
131	adidas Korea Technical Services Ltd.[3]	Pusan (Korea)	KRW	—	122	100
132	Taylor Made Korea Ltd.	Seoul (Korea)	KRW	19,745,438	directly	100
133	adidas India Private Ltd.[4]	New Delhi (India)	INR	(549,678)	directly	99
					12	1
134	adidas India Marketing Private Ltd.[4]	New Delhi (India)	INR	—	133	91.4
					12	8.6
135	P.T. adidas Indonesia	Jakarta (Indonesia)	IDR	4,669,594	directly	1
					12	99
136	adidas (Malaysia) Sdn. Bhd.	Kuala Lumpur (Malaysia)	MYR	24,065	12	40
					directly	60
137	adidas Philippines Inc.	Manila (Philippines)	PHP	136,566	directly	100
138	adidas Singapore Pte. Ltd.	(Singapore)	SGD	18,443	directly	100
139	adidas Taiwan Limited	Taipei (Taiwan)	TWD	315,505	12	100
140	adidas Holding (Thailand) Co. Ltd.	Bangkok (Thailand)	THB	20,653	indirectly	51
					directly	49
141	adidas (Thailand) Co. Ltd.	Bangkok (Thailand)	THB	548,746	140	50
					directly	50
142	adidas Australia Pty. Ltd.	Mulgrave (Australia)	AUD	23,424	12	100
143	adidas New Zealand Ltd.	Auckland (New Zealand)	NZD	6,939	directly	100
144	adidas Technical Services Private Limited	New Dehli (India)	USD	93	122	100
145	Reebok Korea Ltd.	Seoul (Korea)	KRW	19,361,157	57	100
146	Reebok Japan Inc.	Tokyo (Japan)	JPY	(668,993)	57	100
147	RIL Shanghai Ltd.	Shanghai (China)	CNY	21,953	57	100
148	Reebok India Company	New Dehli (India)	INR	629,546	156	93.15
149	Smedley (H.K.) Ltd.[7][10]	Hong Kong (China)	HKD	—	111	100

1) Sub-group adidas UK
2) Sub-group Reebok International Ltd.
3) Sub-group adidas Sourcing
4) Sub-group India
5) Sub-group Mexico, adidas
6) Sub-group Mexico, Reebok
7) Companies with no active business
8) The number refers to the number of the company.
9) Sub-group Onfield
10) Sub-group Reebok-CCM Hockey, Inc. (formerly: The Hockey Company)
11) Sub-group Sports Holdings Corporation
12) Sub-group Reebok International Limited
13) Profit and loss transfer agreement

SHAREHOLDINGS OF ADIDAS AG, HERZOGENAURACH **(Attachment II)**

as of December 31, 2007

Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[8]	in %
150 Reebok Trading (Far East) Ltd.	Hong Kong (China)	USD	54,649	97	100
151 RIL Securities Ltd.	Hong Kong (China)	USD	1,000	150	100
152 Reebok (China) Services Limited	Hong Kong (China)	USD	7,566	150	100
153 Zhuhai adidas Technical Services Ltd. (formerly: Zhuhai Reebok Sporting Products Design Consultancy Ltd.)	Zhuhai (China)	USD	1,016	122	100
154 RIL Taiwan Services Ltd.	Hong Kong (China)	USD	1,366	150	100
155 RIL Indonesia Services Limited	Hong Kong (China)	USD	1,917	150	100
156 Reebok (Mauritius) Company Limited	(Mauritius)	USD	2,220	101	1
				97	99
Latin America					
157 adidas Argentina S.A.	Buenos Aires (Argentina)	ARS	133,264	4	5
				12	95
158 adidas do Brasil Ltda.	Sao Paulo (Brazil)	BRL	196,209	4	100
159 ASPA do Brasil Ltda.[3]	Sao Paulo (Brazil)	BRL	—	122	100
160 adidas Chile Ltda.	Santiago de Chile (Chile)	CLP	21,864,045	3	1
				directly	99
161 adidas Colombia Ltda.	Cali (Colombia)	COP	28,844,694	directly	100
162 adidas de Mexico S.A. de C.V.[5]	Mexico City (Mexico)	MXN	160,656	directly	100
163 adidas Industrial S.A. de C.V.[5]	Mexico City (Mexico)	MXN	—	directly	100
164 adidas Latin America S.A.	Panama City (Panama)	USD	(3,773)	directly	100
165 Concept Sport S.A.	Panama City (Panama)	USD	109	12	100
166 3 Stripes S.A. (adidas Uruguay)[7]	Montevideo (Uruguay)	UYU	(436)	directly	100
167 adidas Corporation de Venezuela, S.A.[7]	Caracas (Venezuela)	VEB	(17,344)	directly	100
168 Rockport do Brasil Ltda.[7]	Bairro Centro (Brazil)	USD	—	98	100
169 Reebok de Mexico, S.A. de C.V.[6]	Neucalpan de Juarez (Mexico)	MXN	178,255	97	100
170 Amserv, S.A. de C.V.[6]	Neucalpan de Juarez (Mexico)	MXN	—	169	100
171 Vector Servicios, S.A. de C.V.[6]	Neucalpan de Juarez (Mexico)	MXN	—	169	100

1) Sub-group adidas UK
2) Sub-group Reebok International Ltd.
3) Sub-group adidas Sourcing
4) Sub-group India
5) Sub-group Mexico, adidas
6) Sub-group Mexico, Reebok
7) Companies with no active business
8) The number refers to the number of the company.
9) Sub-group Onfield
10) Sub-group Reebok-CCM Hockey, Inc. (formerly: The Hockey Company)
11) Sub-group Sports Holdings Corporation
12) Sub-group Reebok International Limited
13) Profit and loss transfer agreement

ADIDAS GROUP SEGMENTAL INFORMATION: TEN-YEAR OVERVIEW

€ in millions

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Brands										
adidas										
Net sales	**7,113**	6,626	5,861	5,174	4,950	5,105	4,825	4,672	4,427	4,316
Gross profit	**3,370**	3,059	2,654	2,284	2,008	2,004	1,845	1,907	1,827	1,818
Gross margin	**47.4 %**	46.2 %	45.3 %	44.1 %	40.6 %	39.2 %	38.2 %	40.8 %	41.1 %	42.1 %
Operating profit [1]	**920**	788	693	564	365	343	352	391	431	412
Operating margin [1]	**12.9 %**	11.9 %	11.8 %	10.9 %	7.4 %	6.7 %	7.3 %	8.3 %	9.6 %	9.5 %
Operating assets	**3,329**	3,211	2,536	2,089	2,172	2,294	1,954	2,286	1,987	1,730
Reebok [2]										
Net sales	**2,333**	2,473	—	—	—	—	—	—	—	—
Gross profit	**902**	865	—	—	—	—	—	—	—	—
Gross margin	**38.7 %**	35.0 %	—	—	—	—	—	—	—	—
Operating profit	**109**	86	—	—	—	—	—	—	—	—
Operating margin	**4.7 %**	3.5 %	—	—	—	—	—	—	—	—
Operating assets	**2,913**	3,217	—	—	—	—	—	—	—	—
TaylorMade-adidas Golf [3]										
Net sales	**804**	856	709	633	637	707	545	441	327	263
Gross profit	**360**	376	312	298	290	345	281	221	160	118
Gross margin	**44.7 %**	43.9 %	44.0 %	47.0 %	45.5 %	48.8 %	51.5 %	49.5 %	48.4 %	44.9 %
Operating profit [1]	**65**	73	50	48	67	74	63	44	30	20
Operating margin [1]	**8.1 %**	8.5 %	7.1 %	7.5 %	10.6 %	10.5 %	11.5 %	10.0 %	9.2 %	7.6 %
Operating assets	**629**	656	692	619	391	433	316	219	156	99

ADIDAS GROUP SEGMENTAL INFORMATION: TEN-YEAR OVERVIEW

€ in millions

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Regions 4) 5)										
Europe										
Net sales	**4,369**	4,162	3,166	3,068	3,365	3,200	3,066	2,860	2,723	2,774
North America										
Net sales	**2,929**	3,234	1,561	1,332	1,562	1,960	1,818	1,906	1,826	1,784
Asia										
Net sales	**2,254**	2,020	1,523	1,192	1,116	1,166	1,010	875	663	383
Latin America										
Net sales	**657**	499	319	224	179	163	178	171	126	112

1) Figures prior to 2004 exclude royalty and commission income and goodwill amortization.
2) Consolidated in adidas Group from February 1, 2006 onwards.
3) Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.
4) 2004 and 2005 reflect continuing operations as a result of the divestiture of the Salomon business segment.
5) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

	2007	2006[1]	2005	2004	2003	2002	2001	2000	1999	1998[2]
Income Statement Data (€ in millions)										
Net sales[3]	**10,299**	10,084	6,636	5,860	6,267	6,523	6,112	5,835	5,354	5,065
Gross profit[3]	**4,882**	4,495	3,197	2,813	2,814	2,819	2,601	2,528	2,352	2,124
Royalty and commission income[3]	**102**	90	47	42	42	46	42	43	35	45
Operating expenses[3]	**4,035**	3,704	2,537	2,236	2,324	2,343	2,126	2,091	1,870	1,698
Operating profit[3] [4]	**949**	881	707	584	490	477	475	437	482	416
Financial result[3] [5]	**(135)**	(158)	(52)	(59)	(49)	(87)	(102)	(94)	(84)	(115)
Income before taxes[3] [5]	**815**	723	655	526	438	390	376	347	398	319
Income taxes[3]	**260**	227	221	193	167	148	147	140	153	105
Minority interests[3] [5]	**(4)**	(13)	(8)	(7)	(11)	(14)	(21)	(25)	(18)	(9)
Net income attributable to shareholders[6]	**551**	483	383	314	260	229	208	182	228	205
Income Statement Ratios										
Gross margin[3]	**47.4%**	44.6%	48.2%	48.0%	44.9%	43.2%	42.6%	43.3%	43.9%	41.9%
Operating expenses as a percentage of net sales[3]	**39.2%**	36.7%	38.2%	38.2%	37.1%	35.9%	34.8%	35.8%	34.9%	33.5%
Operating margin[3] [4]	**9.2%**	8.7%	10.7%	10.0%	7.8%	7.3%	7.8%	7.5%	9.0%	8.2%
Interest coverage[3]	**6.8**	5.9	18.4	10.2	8.4	6.4	4.9	4.6	6.1	4.8
Effective tax rate[3]	**31.8%**	31.4%	33.7%	36.7%	38.0%	37.9%	39.0%	40.3%	38.4%	33.0%
Net income attributable to shareholders as a percentage of net sales[6]	**5.4%**	4.8%	5.8%	5.4%	4.2%	3.5%	3.4%	3.1%	4.3%	4.0%
Balance Sheet Data (€ in millions)										
Total assets[5]	**8,325**	8,379	5,750	4,434	4,188	4,261	4,183	4,018	3,587	3,206
Inventories	**1,629**	1,607	1,230	1,155	1,164	1,190	1,273	1,294	1,045	975
Receivables and other current assets	**2,049**	1,913	1,551	1,425	1,335	1,560	1,520	1,387	1,234	1,026
Working capital[5]	**1,708**	1,733	2,644	1,336	1,433	1,445	1,485	1,417	1,096	(327)
Net total borrowings	**1,766**	2,231	(551)	665	1,018	1,498	1,679	1,791	1,591	1,655
Shareholders' equity[5]	**3,023**	2,828	2,684	1,544	1,285	1,081	1,015	815	680	463

	2007	2006[1]	2005	2004	2003	2002	2001	2000	1999	1998[2]
Balance Sheet Ratios										
Financial leverage[5]	58.4 %	78.9 %	(20.5 %)	43.1 %	79.2 %	138.5 %	165.5 %	219.6 %	234.0 %	357.2 %
Equity ratio[5]	36.3 %	33.8 %	46.7 %	34.8 %	30.7 %	25.4 %	24.3 %	20.3 %	19.0 %	14.4 %
Equity-to-fixed-assets ratio[5]	72.2 %	63.5 %	194.0 %	110.4 %	91.1 %	75.4 %	77.8 %	66.2 %	54.9 %	40.2 %
Asset coverage I[5]	140.5 %	138.7 %	284.1 %	194.1 %	197.6 %	196.9 %	209.3 %	207.7 %	183.4 %	68.3 %
Asset coverage II[5]	101.2 %	102.0 %	150.4 %	106.3 %	108.3 %	107.6 %	105.9 %	101.3 %	99.5 %	37.0 %
Fixed asset intensity of investments	50.3 %	53.2 %	24.1 %	31.6 %	33.7 %	33.7 %	31.2 %	30.7 %	34.5 %	36.0 %
Current asset intensity of investments	49.7 %	46.8 %	75.9 %	68.4 %	66.3 %	66.3 %	68.8 %	69.3 %	65.5 %	64.0 %
Liquidity I[5]	15.7 %	15.8 %	92.0 %	26.8 %	20.8 %	5.5 %	6.1 %	7.7 %	5.5 %	2.2 %
Liquidity II[5]	75.7 %	80.4 %	148.0 %	88.4 %	100.8 %	99.1 %	96.0 %	90.4 %	88.0 %	35.9 %
Liquidity III[5]	142.8 %	153.7 %	219.4 %	156.4 %	187.4 %	185.3 %	187.4 %	185.0 %	171.5 %	76.8 %
Working capital turnover[5]	6.0	5.8	2.6	4.4	4.4	4.5	4.1	4.1	4.9	(15.5)
Return on equity[5] [6]	18.2 %	17.1 %	14.3 %	20.4 %	20.2 %	21.1 %	20.5 %	22.3 %	33.5 %	44.2 %
Return on capital employed[5] [6]	20.2 %	17.6 %	49.3 %	27.5 %	22.1 %	16.8 %	16.7 %	17.0 %	20.7 %	20.5 %
Data Per Share[7]										
Share price at year-end (in €)	51.26	37.73	40.00	29.69	22.58	20.58	21.08	16.50	18.58	23.78
Basic earnings[6] (in €)	2.71	2.37	2.05	1.72	1.43	1.26	1.15	1.00	1.26	1.13
Diluted earnings[6] (in €)	2.57	2.25	1.93	1.64	1.43	1.26	1.15	1.00	1.26	1.13
Price / earnings ratio at year-end	20.0	16.8	20.7	18.1	15.8	16.3	18.3	16.5	14.8	20.1
Market capitalization at year-end (€ in millions)	10,438	7,679	8,122	5,446	4,104	3,738	3,823	2,993	3,381	4,123
Operating cash flow (in €)	3.83	3.74	1.88	3.17	3.58	2.94	2.12	(0.06)	1.81	0.66
Dividend (in €)	0.50[8]	0.42	0.33	0.33	0.25	0.25	0.23	0.23	0.23	0.21
Dividend payout ratio (in %)	15.5	17.7	17.2	18.9	17.5	19.8	20.0	22.9	18.3	18.6
Number of outstanding shares at year-end (in thousands)	203.629	203.537	203.047	183.436	181.816	181.692	181.396	181.396	181.396	181.396
Employees										
Number of employees at year-end[3]	31,344	26,376	15,935	14,254	15,686	14,716	13,941	13,362	12,829	12,036
Personnel expenses[3] (€ in millions)	1,221	1,087	706	637	709	758	695	630	580	513

1) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.
2) Consolidated financial statements for 1998 include the Salomon group for the first time.
3) 2004 and 2005 reflect continuing operations as a result of the divestiture of the Salomon business segment.
4) Operating profit figures prior to 2004 exclude royalty and commission income and goodwill amortization.
5) 2003 and 2004 figures have been restated due to application of IAS 32 / IAS 39 and amendment to IAS 19.
6) Includes income from continuing and discontinued operations. In 1998 before special effect of € 369 million for acquired in-process research and development – expensed.
7) Figures adjusted for 1:4 share split conducted on June 6, 2006.
8) Subject to Annual General Meeting approval.

GLOSSARY

AMERICAN DEPOSITARY RECEIPT (ADR) US-traded negotiable certificate of a foreign-based company held by a US bank that entitles the holder to all dividends and rights of the underlying stock. ADRs provide a way for Americans to invest in foreign-based companies by buying their shares in the USA instead of through an overseas exchange.

ASSET-BACKED SECURITIES (ABS) Securities (bonds or notes) backed by loan receivables, accounts receivable or other quantifiable assets.

ASSET COVERAGE I & II The extent to which a company's non-current assets cover its debt obligations. They are expressed as a percentage and calculated as follows:
Asset coverage I (%) = (equity + non-current liabilities) / non-current assets.
Asset coverage II (%) = (equity + non-current liabilities) / (non-current assets + inventories).

ATHLETIC SPECIALTY A largely mall-based retail distribution concept in North America that focuses primarily on selling sports and sports lifestyle products to consumers.

BACKLOGS Also called order backlogs. The value of orders received for future delivery. At adidas and Reebok, most orders are received six to nine months in advance, depending on the season. This information is used as an indicator of future sales performance.

BASIC EARNINGS PER SHARE (BASIC EPS) Performance indicator used to gauge a company's earnings per share, based on the number of shares outstanding (excluding stock options, as well as options and conversion rights related to a convertible bond).
Basic EPS = net income / weighted average number of shares outstanding during the year.
see also Diluted Earnings Per Share

BETA FACTOR Indicates a stock's relative risk. A beta coefficient of more than one indicates that the stock has a higher risk than the overall market. Conversely, a beta coefficient of less than one indicates a lower risk.

BODY MAPPING Aligning Clima fabric and construction technologies with an athlete's physiological zones of heat and sweat production, to optimize dryness and thermal comfort during sport.

BOUNCE™ Three-dimensional energy management system, consisting of several pieces that can be placed under the forefoot and / or heel. The pieces are tuned to a particular need such as cushion and guidance for optimal performance.

BRANDED APPAREL Apparel products which visibly display specific symbols, trademarks or other references to the supplier of the product.

CAPITAL EXPENDITURE Total cash expenditure (excluding acquisitions and finance leases), net of any recoverable taxes (e.g. Value Added Tax – VAT) for the purchase, lease or construction of assets.

CLASSICS Products designed in an authentic heritage style, targeting sports lifestyle consumers who seek trendsetting streetwear with authentic origins.

CLEARANCE SALES Revenues generated outside the course of normal business terms, arising from commercial decisions by management to clear excess stock usually through specific channels and at a significant discount.

CLIMA adidas apparel system encompassing the ClimaCool®, ClimaLite®, ClimaWarm® and ClimaProof® technologies. ClimaCool® is an integrated system of technologies that work together to regulate the athlete's body temperature. ClimaCool® is also utilized as a cooling system in footwear. ClimaLite® fabric pulls sweat away from the skin to the outer fabric face for quick evaporation, enhancing the body's natural temperature regulation. ClimaWarm® is lightweight, breathable insulation that keeps the athlete dry and comfortable in cold weather conditions. ClimaProof® is breathable weather protection that keeps wind, rain and snow out while allowing heat and sweat to escape through evaporation.

CO-BRANDED STORES adidas or Reebok stores that are co-branded together with a partner, for example a sports league such as the NHL or NBA (e.g. NBA Concept Shop in Istanbul, Turkey).

COMMERCIAL PAPER Tradable unsecured promissory notes issued for the purpose of short-term financing. A commercial paper is issued on an ongoing, revolving basis with maturities typically between seven days and 12 months or more.

CONCESSION CORNERS Retail space that is fully operated by one brand within the adidas Group. This distribution channel mainly exists in Asian markets, where no other established channels of distribution exist.

CONVERTIBLE BOND Corporate bond that can be exchanged for a specific number of shares of a company's common stock. Convertible bonds tend to have lower interest rates than non-convertibles because they also accrue value as the price of the underlying stock rises. In this way, convertible bonds reflect a combination of the benefits of stocks and those of bonds.

CORPORATE GOVERNANCE Distribution of rights and responsibilities among the primary stakeholders in a company, in particular shareholders, the Executive Board and the Supervisory Board.

COST OF SALES Costs of sourcing and manufacturing products. This figure includes costs for raw materials plus costs of production, freight, customs and delivery to the adidas Group's sales organizations.

CREDIT SPREAD Risk premium which represents the yield difference between risk-free government bonds and corporate bonds with the same duration. A potential investor demands an additional yield (risk premium = credit spread) for the higher risk of default with corporate bonds versus government bonds.

CURRENCY EXPOSURE The adidas Group's reporting and consolidation currency is the euro. Since the Group produces and sells its products worldwide, the company is exposed to several currencies, especially US dollar, Japanese yen and British pound. In order to minimize the risk from increasing / declining exchange rates versus the euro, the adidas Group hedges itself against the major currencies. see also Hedging

CURRENCY-NEUTRAL Financial figures translated at prior-year exchange rates. This indicates increases or decreases to reported figures by eliminating variances arising from currency translation, thus reflecting the underlying business performance.

CURRENCY OPTION see Option

CURRENT ASSET INTENSITY OF INVESTMENTS Percentage of total assets tied up in current assets.
Current asset intensity of investments = current assets / total assets.

CUSTOMER FLOW MANAGEMENT™ A widely used initiative of managing the flow of people and related information from entry to a retailer's point-of-sale or specific service area. The aim is to optimize the consumer's shopping experience and increase shop sales.

DAYS OF SALES OUTSTANDING (DSO) Average time of receipt of outstanding payments from customers.

DEMAND-DRIVEN SUPPLY CHAIN Management of up- and downstream relationships between suppliers and customers to deliver the best value to the customer at the least cost to the supply chain as a whole. A clear focus of the concept is this alignment of the supply chain to the customers' needs, bridging the gap between optimal customer relationship management and the company's supply chain management. see also Supply Chain

DILUTED EARNINGS PER SHARE (DILUTED EPS) Performance indicator used to gauge a company's earnings per share, assuming that all stock options, options and conversion rights related to a convertible bond are exercised, which would result in an increase of the number of shares outstanding.
Diluted EPS = (net income + interest expense on convertible bonds net of tax) / (weighted average number of shares outstanding during the year + weighted share options + shares from assumed conversion of convertible bonds).

DIRECTIONAL ACCOUNTS High-profile boutiques and metropolitan retailers that target trend-setting sports lifestyle consumers.

D & O LIABILITY INSURANCE Directors and Officers (D & O) liability insurance. Protects directors and officers from liability and litigation from actions against them, claiming wrongdoing in connection to the company's business.

EARNINGS PER SHARE (EPS) Performance indicator that expresses a company's net income in relation to the number of ordinary shares issued.
Earnings per share = net income / weighted average number of shares outstanding during the year.

EBITDA Earnings before interest, taxes, depreciation and amortization.

EMERGING MARKETS Developing countries showing potential for growth in both size and importance in the future. For the adidas Group, emerging markets are the developing countries of Asia, Eastern Europe, Latin America and Africa.

EQUITY RATIO Shows the role of shareholders' equity within the overall financing structure of a company.
Equity ratio = shareholder's equity / total assets.

EQUITY-TO-FIXED-ASSET RATIO Defines the percentage of non-current assets financed by equity.
Equity-to-fixed-asset ratio = equity / non-current assets.

FAIR VALUE Amount at which assets are traded fairly between business partners. Fair value is often identical to market price.

FAMILY FOOTWEAR CHANNEL Primarily North American retail distribution channel, catering for affordable footwear across all age groups.

FINANCE LEASE Method of acquiring an asset that involves a series of rental payments extending over the expected lifetime of the asset.

FINANCIAL COVENANTS A promise in a debt instrument, or any other formal debt agreement, that certain activities will or will not be carried out.

FINANCIAL LEVERAGE Ratio reflects the role of borrowings within the financing structure of a company.
Financial leverage = net total borrowings / shareholders' equity.

FORMOTION™ Apparel and footwear technology that enhances the natural movement of sport for greater comfort, fit and control while athletes are in motion.

FORWARD CONTRACT Agreement to exchange amounts of one currency for another currency at an agreed fixed rate at a future date.

FRANCHISING Franchising is a form of business by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealers (franchisees). The franchisee offers assistance in organizing, training, merchandising, marketing and managing in return for a monetary consideration.

FREE CASH FLOW Cash that is generated by a company's operating activities after the deduction of capital expenditure and other cash expenses such as taxes and interest from the operating profit.
Free cash flow = operating profit + depreciation and amortization (incl. goodwill) +/– changes in operating working capital – capital expenditures +/- non-operating components.

GERMAN CO-DETERMINATION ACT German Mitbestimmungsgesetz (MitbestG). This act governs the form of co-determination of employees in corporations employing more than 2,000 employees. It stipulates, among other things, that such a corporation's Supervisory Board must be composed of an equal number of employees and shareholder representatives.

GNC (GREG NORMAN COLLECTION) Golf brand, acquired as part of the Reebok acquisition on January 31, 2006. The adidas Group announced the divestiture of the Greg Norman Collection wholesale business on November 21, 2006. Prior to that, the business was consolidated in the TaylorMade-adidas Golf segment.

GOODWILL Intangible asset that quantifies the price that a buyer of a company has paid for the reputation, know-how and market position of the acquired company. Goodwill is the excess of the amount paid over the fair value of the net assets acquired at the purchase date.

GREEN GRASS RETAILERS Golf distribution channel. Small golf specialty shops typically located at a golf course.

GROSS DOMESTIC PRODUCT (GDP) Market value of all finished goods and services produced within a country in a given period of time.
GDP = consumption + investment + government spending + (exports – imports).

GROSS MARGIN Gross profit as a percentage of net sales.
Gross margin = (gross profit / net sales) x 100.

GROSS PROFIT Difference between net sales and the cost of sales.
Gross profit = net sales - cost of sales.

HARDWARE / HARD GOODS Product category which comprises sports equipment that is used rather than worn by the athlete, such as bags, balls, golf clubs and hockey sticks.

HEDGING A strategy used to minimize exposure to changes in prices, interest rates or exchange rates by means of derivative financial instruments (options, swaps, forward contracts, etc.).
see also Natural Hedges

HIGH-END DEPARTMENT STORES Retail format which places emphasis on shopping experience, selling high- to mid-price products from several merchandise lines under the same roof.

IN-HOUSE BANK Internally and centrally managed cash liquidity within the adidas network of subsidiaries. Organization and implementation through the adidas Group's Treasury department.

INITIAL PUBLIC OFFERING (IPO) First placement of a corporation's common shares on an organized market.

INSTITUTIONAL INVESTOR Investors such as investment companies, mutual funds, brokerages, insurance companies, pension funds, investment banks and endowment funds. They are financially sophisticated, with a greater knowledge of investment vehicles and risks, and have the means to make large investments.

INTEREST COVERAGE Indicates the ability of a company to cover net interest expenses with income before net interest and taxes.
Interest coverage = income before interest and tax / interest.

INTEREST RATE CAP Option contract which places an upper limit on a floating interest rate. The writer of the cap is required to pay the holder of the cap the difference between the floating rate and the reference rate when that reference rate is exceeded. There is a premium to be paid by the buyer of such a contract as the market price for the potential pay-out.

INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) Independent, privately-funded cooperation of professional associations dealing with matters of financial accounting and setting and promoting the IFRS (formerly IAS).

INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) Accounting body which rules on controversial accounting issues. Its interpretations are approved by the International Accounting Standards Board (IASB) and, once adopted, are binding on all International Financial Reporting Standards (IFRS) users.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) Reporting standards (formerly called IAS) which have been adopted by the International Accounting Standards Board (IASB). The objective is to achieve uniformity and transparency in the accounting principles that are used by businesses and other organizations for financial reporting around the world.

INVESTMENTS see Capital Expenditure

JOINT VENTURES Contractual agreement joining together two or more parties for the purpose of executing a particular business undertaking.

KEY ACCOUNTS Wholesalers or retailers which are primary customers and account for a large percentage of sales.

KINETICFIT Fit system that accommodates the changes in size and shape of an athlete's foot as it moves. From impact through toe-off, the foot can change up to half of a shoe size. KineticFit construction makes use of a series of engineered stretch panels positioned in key areas of the shoe.

LICENSED APPAREL Apparel products, which are produced and marketed under a license agreement with a sports organization (e. g. FIFA, UEFA, IOC), sports league (e. g. NFL, NBA), professional team (e. g. Real Madrid, Liverpool) or university (e. g. UCLA, Notre Dame). If visible, the supplier's branding is secondary.

LIEN The right to take and hold or sell the asset of a debtor as security or payment for a debt.

LIQUIDITY RATIOS I-III Measures the extent to which a company can quickly liquidate assets to cover short-term liabilities.
Liquidity I: ((sum of cash + short-term financial assets) / current liabilities) x 100.
Liquidity II: ((sum of cash + short-term financial assets + accounts receivable) / current liabilities) x 100.
Liquidity III: ((sum of cash + short-term financial assets + accounts receivable + inventories) / current liabilities) x 100.

MALL Refers to a building or set of buildings that contain a variety of retail units and independent shops with interconnecting walkways, enabling customers to walk from unit to unit under one roof.

MARKET CAPITALIZATION Total market value of all outstanding shares.
Market Capitalization = number of outstanding shares x current market price.

MARKET RISK PREMIUM Extra return that the overall market or a particular stock must provide over the risk-free rate to compensate an investor for taking a relatively higher risk.
Market risk premium = market risk – risk-free rate.

MARKETING WORKING BUDGET Promotion and communication spending including sponsorship contracts with teams and individual athletes, as well as advertising, retail support, events and other communication activities, but excluding marketing overhead expenses.

METALWOODS Golf clubs (drivers and fairway woods) which are constructed from steel and/or titanium alloys. The name also pays homage to persimmon wood, which was originally used in the creation of these products. This is the largest product category in terms of sales in the golf market, as well as for TaylorMade-adidas Golf.

MINORITY INTERESTS Part of net income which is not attributable to the reporting company. Outside ownership interests in subsidiaries that are consolidated with the parent company for financial reporting purposes.

MONO-BRANDED STORES adidas, Reebok or Rockport branded stores not operated or owned by the adidas Group but by franchise partners. This concept is used especially in the emerging markets, such as China, benefiting from local expertise of the respective franchise partners.
see also Franchising

MOTION ANALYSIS TECHNOLOGY (MATT™) The technology gathers vital swing information and statistics using multiple high-speed cameras. MATT distills that information to create a three-dimensional computer-animated image of a player's swing viewable from every angle. The technology is typically used for club fitting, swing analysis, biomechanics research and also in the development process for new golf clubs.

MOVABLE WEIGHT TECHNOLOGY™ (MWT™) Gives the golfer the power to adjust the clubhead's center of gravity by changing the configuration of up to four movable weights, which promotes changes to the shot's direction, height, spin and distance.

NATURAL HEDGES Offset of currency risks that occurs naturally as a result of a company's normal operations, without the use of derivatives. For example, revenue received in a foreign currency and used to pay known commitments in the same foreign currency.

NBA (NATIONAL BASKETBALL ASSOCIATION) Premier professional men's basketball league in the USA, comprising 30 teams.

NET BORROWINGS Portion of gross borrowings not covered by the sum of cash and short-term financial assets. If a negative figure is shown, this indicates a net cash position.
Net borrowings = short-term borrowings + long-term borrowings – cash – short-term financial assets.

NHL (NATIONAL HOCKEY LEAGUE) Premier professional men's ice hockey league in North America, comprising 30 teams from the USA and Canada.

OPERATING EXPENSES Expenses which are not directly attributable to the products or services sold. Operating expenses are expenses for sales, marketing overheads and marketing working budget, research and development, general and administrative costs as well as depreciation of non-production assets.

OPERATING LEASE Method of leasing assets over periods less than the expected lifetime of those assets. An operating lease is accounted for by the lessee without showing an asset or a liability on his balance sheet. Periodic payments are accounted for by the lessee as operating expenses for the period.

OPERATING MARGIN Operating profit as a percentage of net sales. Measure of a company's profitability after cost of sales and operating expenses. Best indicator of the profitability of operating activities.
Operating margin = (operating profit/net sales) x 100.

OPERATING OVERHEADS Expenses which are not directly attributable to the products or services sold such as costs for sales, marketing overheads, logistics, research and development, as well as general and administrative costs.

OPERATING PROFIT Profit from operating activities after cost of sales and operating expenses.
Operating profit = gross profit + royalty and commission income – marketing working budget – operating overheads.

OPERATING WORKING CAPITAL Company's short-term disposable capital which is used to finance its day-to-day business. In comparison to working capital, operating working capital does not include non-operational items such as cash, financial assets and taxes. see also Working Capital
Operating working capital = accounts receivable + inventories – accounts payable.

OPTION Financial instrument which ensures the right to purchase (call option) or to sell (put option) a particular asset (e.g. shares or foreign exchange) at a predetermined price (strike price) on or before a specific date.

ORDER BACKLOGS see Backlogs

OTHER OPERATING EXPENSES (AND INCOME) Operating expenses (and income) for sales, marketing, research and development, as well as for logistics and central finance and administration. Also includes amortization of goodwill and trademarks.

OVER-THE-COUNTER MARKET (OTC MARKET) When a traded stock is not listed on a stock exchange. In such cases, brokers negotiate directly with one another over computer networks and by phone.

OWN-RETAIL ACTIVITIES Sales directly generated through a store operated by a brand segment within the adidas Group. Own retail includes adidas Concept Stores (Sport Performance and Sport Style) and concession corners as well as factory outlets and e-commerce for the adidas, Reebok and Rockport brands.

PGA TOUR Major US men's professional golf tour, featuring 49 golf tournaments.

PRICE-EARNINGS RATIO (P/E RATIO) A company's share price divided by its current or future diluted earnings per share. The P/E ratio is used by investors as a fundamental measure of the attractiveness of a particular security versus other securities or the overall market. It is usually more useful to compare P/E ratios of one company to other companies in a similar industry. In general, a high P/E ratio suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E.

PRICE POINTS Specific selling prices, normally using "psychological" numbers, for example a product price of USD 9.99 instead of USD 10.

PRIVATE PLACEMENT Placement of securities directly to institutional investors, such as banks, mutual funds, insurance companies, pension funds, and foundations.

PRODUCT LICENSEES Companies that are authorized to use the name of a brand or company to manufacture and distribute products. For adidas, these products primarily include sports watches, sports eyewear, toiletries and perfume, for Reebok fitness equipment and for TaylorMade-adidas Golf bags and gloves.

PROMOTION PARTNERSHIPS Partnerships with events, associations, leagues, clubs and individual athletes. In exchange for the services of promoting the adidas Group, the party is provided with cash and/or promotional material.

PROMOTIONAL EXPENDITURE Expenses related to promotion partnerships.

PURCHASE PRICE ALLOCATION (PPA) Stipulated by IFRS regulations. Allocation of the purchase price paid for an acquisition according to the fair values assigned to acquired assets and liabilities.

RECORD DATE Date by which a shareholder must own a company's shares in order to be able to register for participation in the Annual General Meeting of such company. According to German law, the record date is twenty-one days before the Annual General Meeting.

REGIONS The adidas Group segments its worldwide business into four regions: Europe, Asia, North America and Latin America. Whereas North America and Latin America match the actual geographical classification, Europe also includes Africa and the Middle East, and Asia additionally comprises the Pacific region, Australia and New Zealand.

RETAIL INVESTOR Individual who purchases securities for him-/herself, as opposed to an institutional investor.

RETURN ON CAPITAL EMPLOYED (ROCE) Measure of the returns that a company is realizing from its capital.
ROCE = (income before taxes + financial result + extraordinary income)/(average of shareholders' equity + minority interests + total net borrowings).

RETURN ON EQUITY (ROE) Indicator of company profitability related to the shareholders' financing.
ROE = net income/shareholders' equity.

RISK-FREE RATE Rate of return to be expected on a risk-less investment, e.g. federal bonds.

RSS (REALLY SIMPLE SYNDICATION) Web feed format for delivering regularly changing web content. The format is used to allow people to stay informed by automatically retrieving the latest content from the website of choice.

SEASON At the adidas Group, we typically design and produce two major collections per year – a Fall/Winter and a Spring/Summer collection. Hence, we divide our business into a Fall/Winter and a Spring/Summer season accordingly.

SECOND TIER SUPPLIER Also tier-two supplier. Supplier who provides the adidas Group with materials and components to be used in the production of finished products, but does not manufacture products.

SEGMENT Also Business Segment. Units within a company that have profit and loss responsibility. The adidas Group is currently divided into four major business segments: adidas, Reebok, TaylorMade-adidas Golf and HQ/Consolidation.

SEGMENTAL REPORTING Information regarding the financial position and results of operations in individual brands (segments) and regions. This gives an indication of developments in the individual segments and their contribution to the Group's results.

SELL-THROUGH An indicator of how fast retailers are selling a particular product to the consumer.

SHAREHOLDER VALUE A management concept that focuses strategic and operational decision-making on steadily increasing a company's value for shareholders.

SHOP-IN-SHOP adidas, Reebok or Rockport area within a larger store. The concept may be operated by the store or the adidas Group depending on individual arrangements. The goal of this distribution method is to give consumers a similar experience to an own-retail environment albeit on a smaller scale.

SIGNATURE COLLECTION Product collection which carries the name and/or visuals relating to a top athlete, e.g. David Beckham football boot, Tracy McGrady basketball shoe, Sidney Crosby hockey stick.

SKU (STOCK KEEPING UNIT) A unique identification for end product that can be ordered from a supplier. At the adidas Group a specific article in a specific size and color is considered to be an SKU.

SOURCING Process of managing external suppliers in order to commercialize, produce and deliver final products to customers.

SPORT FUSION Footwear and apparel products mixing performance-oriented features and casual styles.

SPORTING GOODS CHANNEL Sports retail store, offering a very broad product range, which usually covers apparel, footwear and hardware in a wide range of sports categories. Compared to sport specialty shops, stores are bigger with approx. 40,000 to 50,000 square feet.

SPORT SPECIALTY Retail shop, specializing in sports products only and offering a very deep product range (often in a limited number of sports categories) rather than a broad one. The size of these shops is typically about 2,500 to 10,000 square feet.

STAKEHOLDERS All parties that have a direct or indirect interest in a company's performance and results. For the adidas Group, this includes credit providers, shareholders, consumers, retailers, distributors, licensees, supply chain business partners, employees, international sports bodies, non-governmental organizations, the media, etc.

SUPPLY CHAIN Refers to the system and organization from product sourcing through to end customer delivery.

SWAPS A derivative in which two counterparties agree to exchange one stream of cash flows against another stream.

SYNERGIES Additional savings or revenue growth when one combined enterprise is created from two or more separate parts.

TAX RATE Indicates the tax rate paid by a company. Calculated by dividing taxes actually paid by income before taxes.

TECHFIT™ POWERWEB Technology in adidas compression apparel which improves joint alignment and muscle balance, the link between key muscle groups to maximize power generation. Through strategically placed TPU (thermoplastic urethane) POWERBANDs, key body parts are linked together, further enhancing posture and athletic performance.

THE PUMP™ Custom-fit footwear technology. The foot is surrounded with an adjustable, form-fitting air chamber. Inflating the chamber by pumping the Pump Ball causes it to form to the shape of the foot.

THIRD TIER SUPPLIER Also tier-three supplier. Supplier who provides the adidas Group's second tier suppliers with raw material products (e.g. polymers, compounds) used in materials and components. see also Second Tier Supplier

TOP-DOWN, BOTTOM-UP Specific concept for information and knowledge processing. Information and empowerment of management decisions is delegated from top to bottom in a first step. After going into more detail on the bottom level, the final information/decision is transported back to the top.

TORSION® SYSTEM Footwear technology comprising a lightweight arch support in the sole, allowing the fore- and rearfoot to move independently for better surface adaptation and stability.

UEFA EURO 2008™ European Football Championship, which will take place in Austria and Switzerland from June 7 to 29, 2008.

VOC (VOLATILE ORGANIC COMPOUNDS) Solvents that can cause breathing and health problems. VOCs are by-products of the shoe manufacturing process. Due to health concerns, the adidas Group has set a clear goal to steadily reduce the usage of these compounds in the production process.

WEIGHTED AVERAGE COST OF CAPITAL (WACC) Calculation of the cost of capital according to the debt/equity structure, utilizing a weighted average cost of capital (WACC) formula. The cost of equity is typically computed utilizing a risk-free rate, market risk premium and a beta factor. The cost of debt is calculated through the risk-free rate, credit spread and average tax rate.
see also Beta Factor and Market Risk Premium

WORLD CLASS BUYER PROGRAM Program launched in 2006, which aims to maximize purchasing leverage across our brands. It comprises, for example, the consolidation of volumes across our first and second tier suppliers as well as the adoption of best costing practices.

WORKING CAPITAL A company's short-term disposable capital used to finance the day-to-day operations. see also Operating Working Capital
Working capital = total current assets – total current liabilities.

WORKING CAPITAL TURNOVER Shows how often a working capital item was used in and replaced by the generation of sales in the period under review. The ratio shows how long working capital is tied up and thus is an indicator of the volume of capital needed to generate sales. The higher the ratio, the more positive it is deemed to be.
Working capital turnover = net sales/working capital.

WTO (WORLD TRADE ORGANIZATION) International organization founded to supervise and liberalize international trade, located in Geneva, Switzerland.

INDEX

FINANCIAL CALENDAR 2008

- March 5 -
2007 Full Year Results
Analyst and press conferences in Herzogenaurach, Germany
Press release,
conference call and webcast

- May 6 -
First Quarter 2008 Results
Press release,
conference call and webcast

- May 8 -
Annual General Meeting in Fürth (Bavaria), Germany
Webcast

- May 9 -
Dividend paid
(subject to Annual General Meeting approval)

- August 5 -
First Half 2008 Results
Press release,
conference call and webcast

- November 6 -
Nine Months 2008 Results
Press release,
conference call and webcast

CONTACT

ADIDAS AG
Adi-Dassler-Str. 1, 91074 Herzogenaurach, Germany
Tel: + 49 (0) 91 32 84 - 0, Fax: + 49 (0) 91 32 84 - 22 41
www.adidas-Group.com

INVESTOR RELATIONS
Tel: + 49 (0) 91 32 84 - 29 20 / 21 87, Fax: + 49 (0) 91 32 84 - 31 27
e-mail: investor.relations@adidas-Group.com
www.adidas-Group.com/investors

adidas Group is a member of DAI (German Share Institute),
DIRK (German Investor Relations Association)
and NIRI (National Investor Relations Institute, USA).

This report is also available in German.
For further adidas Group publications, please see
our corporate website.

CONCEPT AND DESIGN
häfelinger + wagner design, Munich