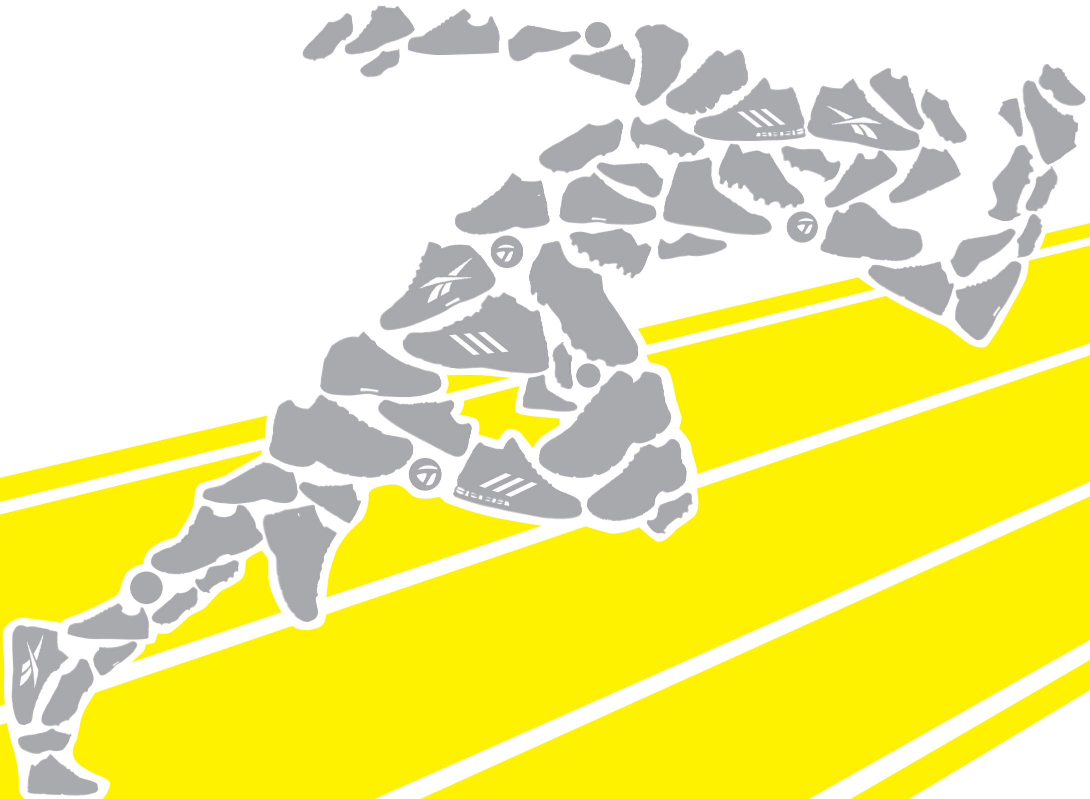
adidas GROUP

Our game plan



Annual Report 2008

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: football, running, training, basketball and Originals.

Inspired by its roots in sports and women's fitness, Reebok is a global brand that is committed to developing innovative products which will allow Reebok to own Women's Fitness, challenge Men's Sport and revive Classics. The Reebok segment also comprises the brands Reebok-CCM Hockey and Rockport.

TaylorMade-adidas Golf is a leader in the industry and the number one metalwood supplier. It focuses on consumers who seek the most innovative, performance-enhancing golf equipment available, including technologically superior clubs, balls, footwear and apparel. TaylorMade-adidas Golf markets products under the brand names TaylorMade, adidas Golf and Ashworth.

adidas

	2008	2007	Change
Net sales € in millions	7,821	7,113	10%
Gross profit € in millions	3,802	3,370	13%
Gross margin	48.6%	47.4%	1.2pp
Operating profit € in millions	1,098	920	19%
Operating margin	14.0%	12.9%	1.1pp
Number of employees	23,202	18,678	24.2%

Reebok

	2008	2007	Change
Net sales € in millions	2,148	2,333	(8%)
Gross profit € in millions	795	902	(12%)
Gross margin	37.0%	38.7%	(1.7pp)
Operating profit € in millions	(7)	109	(106%)
Operating margin	(0.3%)	4.7%	(5.0pp)
Number of employees	8,189	6,751	21.3%

TaylorMade-adidas Golf

	2008	2007	Change
Net sales € in millions	812	804	1%
Gross profit € in millions	359	360	(0%)
Gross margin	44.3%	44.7%	(0.5pp)
Operating profit € in millions	78	65	20%
Operating margin	9.6%	8.1%	1.5pp
Number of employees	1,852	1,393	33.0%

Rounding differences may arise in percentages and totals.

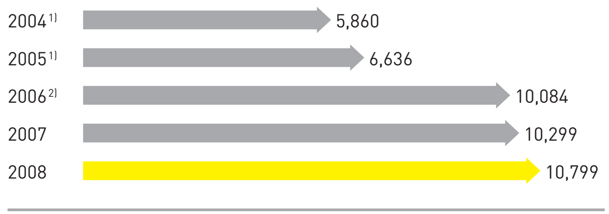
Financial Highlights 2008

Financial highlights (IFRS)

	2008	2007	Change
Operating highlights (€ in millions)			
Net sales	10,799	10,299	4.9%
EBITDA	1,277	1,165	9.7%
Operating profit	1,070	949	12.7%
Net income attributable to shareholders	642	551	16.4%
Key ratios (%)			
Gross margin	48.7%	47.4%	1.3pp
Other operating expenses as a percentage of net sales	40.5%	40.0%	0.6pp
Operating margin	9.9%	9.2%	0.7pp
Effective tax rate	28.8%	31.8%	(3.0pp)
Net income attributable to shareholders as a percentage of net sales	5.9%	5.4%	0.6pp
Operating working capital as a percentage of net sales	24.5%	25.2%	(0.7pp)
Equity ratio	35.5%	36.3%	(0.8pp)
Financial leverage	64.6%	58.4%	6.2pp
Return on equity	18.9%	18.2%	0.7pp
Balance sheet and cash flow data (€ in millions)			
Total assets	9,533	8,325	14.5%
Inventories	1,995	1,629	22.5%
Receivables and other current assets	2,523	2,048	23.2%
Working capital	1,290	1,522	(15.3%)
Net borrowings	2,189	1,766	24.0%
Shareholders' equity	3,386	3,023	12.0%
Capital expenditure	380	289	31.6%
Net cash provided by operating activities	497	780	(36.3%)
Per share of common stock (€)			
Basic earnings	3.25	2.71	19.9%
Diluted earnings	3.07	2.57	19.6%
Operating cash flow	2.52	3.83	(34.3%)
Dividend	0.50 3)	0.50	0.0%
Share price at year-end	27.14	51.26	(47.1%)
Other (at year-end)			
Number of employees	38,982	31,344	24.4%
Number of shares outstanding	193,515,512	203,628,960	(5.0%)
Average number of shares	197,562,346	203,594,975	(3.0%)

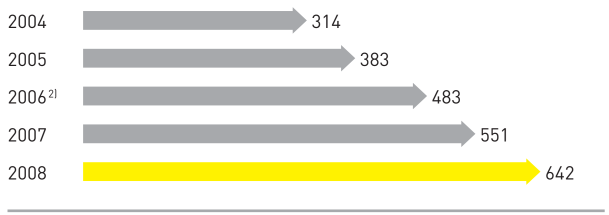
Net sales

€ in millions



Net income attributable to shareholders

€ in millions



Rounding differences may arise in percentages and totals.

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.

3) Subject to Annual General Meeting approval.

Targets 2008	Results 2008	Outlook 2009
High-single-digit currency-neutral sales growth	Net sales reach € 10.8 billion; Group currency-neutral sales grow 9%	Low- to mid-single-digit currency-neutral sales decline
Bring major new concepts, technology evolutions and revolutions to market	Major 2008 product launches: — adidas F50 TUNIT™ football boot, new technologies in adiSTAR® and adiZero™ running shoe families, men's TECHFIT PowerWEB, miCoach training system — Reebok Premier Verona KFS running shoe, Premier SmoothFit™ Cushion, Freestyle Cities collection — Rockport Rockport Signature Series — TaylorMade-adidas Golf Tour Burner® TP driver, r7® CGB MAX Limited driver, my TP ball, TOUR360 LTD shoe	Bring major new concepts, technology evolutions and revolutions to market
Currency-neutral sales to grow at all brands and in all regions except North America	Currency-neutral sales increase 14% at adidas, grow 7% at TaylorMade-adidas Golf but decrease 2% at Reebok; currency-neutral sales grow in all regions except North America	On a currency-neutral basis: — low- to mid-single-digit sales decline for adidas segment — at least stable sales for Reebok segment — low-single-digit sales increase at TaylorMade-adidas Golf
Increase gross margin to a level between 47.5 and 48.0%	Gross margin: 48.7%	Gross margin decline
Operating margin to be at least 9.5%	Operating margin: 9.9%	Operating margin decline
Further reduce operating working capital as a percentage of sales	Operating working capital as a percentage of sales further reduced to 24.5%	Reduce operating working capital as a percentage of sales
Capital expenditure range € 300 million – € 400 million	Capital expenditure: € 380 million	Capital expenditure range € 300 million – € 400 million
Maintain or further reduce net borrowings despite share buyback	Net borrowings increased to € 2.189 billion; year-end financial leverage: 64.6%	Reduce net borrowings
Net income to grow at least 15%	Highest ever net income attributable to shareholders at € 642 million (+16%)	Net income decline
Further increase shareholder value	Share buyback programme in an amount of € 409 million completed in October; unchanged dividend of € 0.50 per share; adidas AG share price declines 47%	Further increase shareholder value

We live sport like no other company. And we strive to be the global leader in the sporting goods industry. That's our goal. We know our strengths. We know where to attack. We have a dynamic team. We share values such as performance, passion, integrity and diversity. And we have lots of energy. Our next moves are planned. Our tactics are set. We're ready to go to the next round. And we have a strategy:

Our game plan

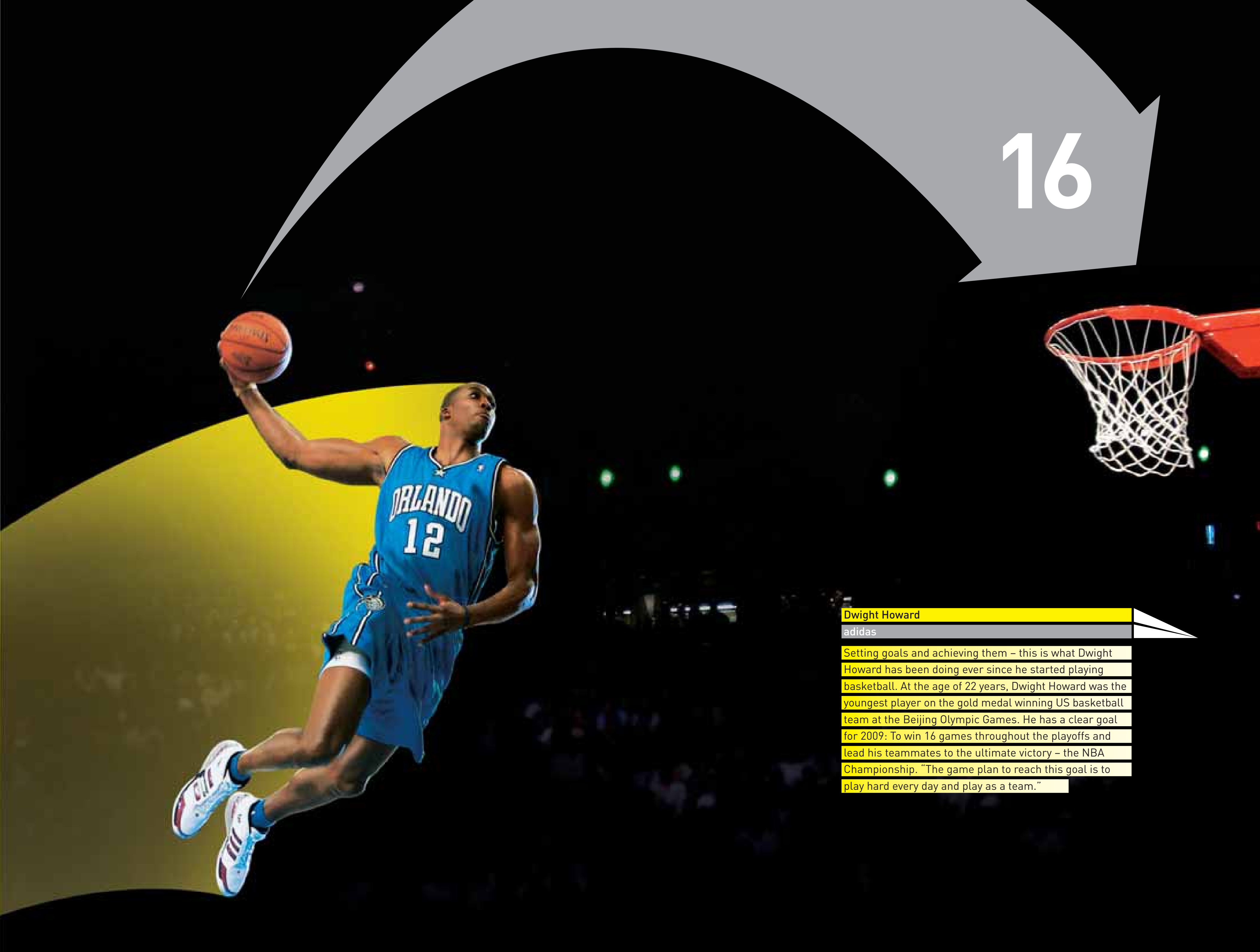
Growth

adidas Group

A signal of brand strength. New perspectives without moving too far from the core. Sport has no boundaries.

>35%

Emerging markets > 35% of sales Core to our growth strategy is increasing our exposure to high-growth emerging markets. Our industry is truly global. Sport and a sporting lifestyle are part of everyday lives. With an unrivalled product portfolio and leadership in product innovation and design, we strive to connect to consumers in all corners of the world. This is our game plan for reaching more than 35% of sales in the emerging markets.



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Dwight Howard

adidas

Setting goals and achieving them – this is what Dwight Howard has been doing ever since he started playing basketball. At the age of 22 years, Dwight Howard was the youngest player on the gold medal winning US basketball team at the Beijing Olympic Games. He has a clear goal for 2009: To win 16 games throughout the playoffs and lead his teammates to the ultimate victory – the NBA Championship. "The game plan to reach this goal is to play hard every day and play as a team."

Lewis Hamilton

Reebok

Lewis Hamilton is an extraordinary Formula One driver – 2008 was his year: He became the youngest ever Formula One World Champion. His performance is extreme and his goal very clear: To stay No. 1, defending his World Championship title in 2009 and beyond. His game plan to get there is drafted already: "Train in a disciplined way, concentrate on physical fitness and deal with pressure proficiently."

Distribution

adidas Group

The first moment of truth. Brand statement. Right product. Right store.
Right time. Closest to the consumer.

>35%

Controlled space > 35% of sales Controlled space is becoming one of our most dynamic business models. Encompassing own-retail stores, e-commerce and retail space management such as shop-in-shops – expanding these initiatives is a key component of providing the highest level of customer service to our retail partners and deepening our connection with the consumer. Our goal is to have at least 35% of our sales in controlled space. And our game plan will take us there.

Stay No. 1

Sergio Garcia

TaylorMade-adidas Golf

Sergio Garcia became the first European-born player in more than a decade to attain the No. 2 position in the World Golf Ranking. His swing made him famous. His precision is legendary. His goal for 2009? To win a Major, one of the four most prestigious annual tournaments in professional golf. And he will get there by following his game plan: "Hit the right shot at the right time, focus on my skills and use them to their full capacity."

Profitability

adidas Group

The ultimate measure of corporate performance. Separating quality from quantity. Taking the right opportunities. Reducing complexity. Uniting our team.

Win a

Major

>11%

Operating margin >11% Improving our operating margin is a cornerstone to increasing shareholder value. It is a significant opportunity for our Group and at the heart of our strategic planning. While following the most value-enhancing growth opportunities, we also engage in comprehensive programmes to become a more streamlined and efficient organisation. This is the game plan that will lead us to an operating margin of at least 11%.

Financial strength

adidas Group

The resources for realising our vision. Efficient and diverse. Withstanding the elements. Currency to execute.

Regain No. 1

< 50 %

Financial leverage < 50% Only through a strong balance sheet can we build our business for the future and achieve our potential. We continually strive to improve the efficiency of our business cycle. We scope our investments in line with the priorities of our strategic plan. We seek diversity in our capital structure to achieve superior returns to our stakeholders. We will reduce our financial leverage to under 50% by following our game plan.

Ana Ivanovic

adidas

Ana Ivanovic has always had big dreams. The 21-year-old, winner of the 2008 Roland Garros title, believes that making dreams come true is a mixture of desire, spirit and hard work. Her two biggest goals for the foreseeable future are to win another Grand Slam tournament and regain the World No. 1 ranking. "I try to focus on improving my game and fitness every day. This is my game plan."

We are driven by our passion for sports. And have been for more than 60 years. Our Group is defined by enthusiasm, ambition and persistence. Like every athlete, we set ourselves ambitious goals and give our all to achieve them. We've made this experience our own. Strong brands, innovative products, timeless designs and ground-breaking technologies are the key to our success. And so is our strategy:

Our game plan

1

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Interview with the CEO

In 2008, the adidas Group delivered a strong financial performance. Positive momentum in the adidas and TaylorMade-adidas Golf segments propelled the Group to a 9% currency-neutral sales increase and 20% earnings per share growth. 2009, however, will be a challenging year. Nevertheless, the adidas Group is sticking to its "game plan". With strong market positions around the globe and a full pipeline of exciting new brand initiatives, the Group is ready to take advantage of the opportunities these difficult times present.

Herbert Hainer
CEO and Chairman of the Executive Board

In the following interview, Herbert Hainer, adidas Group CEO and Chairman, reviews 2008 and discusses the Group's strategic and financial outlook.

Herbert, the adidas Group reported a significant earnings increase in 2008. What were the key operational and financial highlights for you in 2008?

When I look back at any year, there are two important factors I always examine to evaluate our Group's performance. Did we take our opportunities and have we shaped our business for the future? I am proud to report that the adidas Group did both of those things in 2008, setting new financial records along the way.

We missed no opportunity to reinforce brand image and underline the performance credentials of our brands, which can be clearly attested by powerful performances at key sporting events. We raised standards throughout all facets of our organisation, from concept creation right through to marketing and supply chain execution. We continued to make forward-looking investments, and spent almost €400 million expanding our controlled space activities, consolidating warehousing and upgrading our IT infrastructure. We brought talented people on board, to strengthen our workforce. These measures highlight our consistency in building the right platform to support our strategic goals.

Our financial results speak for themselves. Group currency-neutral sales grew 9%.The strength of our product offering drove gross margin to a new all-time record level of 48.7%. As a result, the Group's operating margin improved considerably to 9.9%. And net income increased 16%, representing double-digit earnings growth for the eighth consecutive year. As a result of our share buyback programme, earnings per share jumped 20%. This record performance is clearly a testament to the underlying strengths of our business model – being global, diversified and consumer-focused.

Last year's major sporting events were followed by billions of viewers all around the world. You had high expectations – did you achieve your goals?

We approach major sporting events with the same goals as the athletes who take part – bring your best game to the competition and strive for personal bests. And that's exactly what I believe we did in 2008. We clearly dominated the world's largest sporting events – the UEFA EURO 2008™ and the Beijing 2008 Olympic Games.

The European Football Championship offered us the perfect stage to highlight our position as the leader in the football category. And what more can you ask for than an all-adidas final between Spain and Germany? Eye-catching marketing activities outside the stadiums gave fans and footballers on every level first-hand experience that we live and breathe football. We successfully launched and commercialised an entire new line of footwear and apparel – adiPure. In its first year alone, this line has flourished and already notched up over half a million pairs in sales. Leveraging events like this and our unrivalled commitment to innovation has allowed us to grow adidas' football business over 50% in a mere four years. And I can assure you, with the 2010 FIFA World Cup™ on the horizon, the best is still to come.

At the Olympic Games, we brought home the message that adidas is the true Olympic brand. Our award-winning campaign 'Together in 2008 – Impossible is Nothing' captured the spirit of the Olympic Games and united the Chinese people, the great event and our brand. During the Games, we provided first-class service and exciting products to more than 3,000 athletes in 27 out of the 28 Olympic sports, making us the most visible brand around the event. As a result, we today have a very close connection with the Chinese consumer. This I am sure will have a long-term positive effect on our brand image in the Chinese market, helping us sustain market leadership in one of the world's most exciting economies.

Looking at the adidas brand development, you already talked about the major sporting events. But that can't be the full story. What else drove the brand's performance in 2008?

Every year we set ambitious targets for the adidas brand and major events are just one part of that. In 2008, the brand shifted up a gear and our results reflect the broad-based strength we enjoy today across all categories. Sales grew by 14% currency-neutral and the adidas gross margin marked an all-time high at 48.6%, while operating margin increased to a record 14.0%. adidas is all about performance and helping consumers to achieve their own personal "impossible" goals. We bring this to life every day by launching key product innovations such as the new generation of adiZero™ running shoes or our high-performance TECHFIT™ apparel initiatives. And the result is clear. In addition to football, adidas' other key performance categories running, training and basketball scored double-digit rate sales increases in 2008. And our Sport Style division also finished the year up 10% currency-neutral, as our products continue to generate a buzz in the sports-inspired lifestyle market.

adidas has made good progress in recent years. Can you explain what the brand will focus on to keep momentum going?

Over the last four years, adidas sales have advanced at an average currency-neutral growth rate of 13%. That figure alone illustrates the desirability of the brand and the bond we have built with consumers all over the world. In 2009, although adidas may be celebrating its 60th anniversary, I can assure you this great brand is nowhere near retirement age. We are in the midst of a step change in our industry. The age of personalisation will radically transform what it means to be a consumer goods company. We will focus even more on the consumer – acknowledging that today's world is neither about mass products nor mass marketing anymore. It is about building relationships with the individual. By understanding consumers' buying habits, their fitness level, their motivations for doing sport, their goals for the season or the next race, or even the next party – we can create more meaningful products, services and experiences that build a lasting impression beyond product, price and promotion. Programmes like miCoach, mi Performance, miTeam and mi Originals, or collections like the adidas SLVR Label and adidas Style Essentials already make us the standout leader in this respect. With this in mind, I have no doubt that our consumers and retail partners will continue to embrace adidas like no other brand. And we have the right formula to create long-lasting momentum for the brand also for the next sixty years.

Reebok did not deliver on your initial expectations for 2008 and your guidance is for a stable sales development in 2009. What have you changed in the past 12 months that gives you this confidence?

2008 was a challenging year for Reebok and I am disappointed not to be able to show the financial improvements we anticipated at the beginning of the year. Although we continued to make progress expanding the brand in international markets, declines in particular in the USA, UK and Japan led to a currency-neutral sales decrease of 2%. While tough conditions in these markets burdened Reebok's performance, we have to acknowledge that our clean-up efforts of old Reebok products have taken longer than we originally expected. But the Reebok brand is moving in the right direction.

After several years of hard work and refining our business in Europe and Latin America we are able to move forward with the implementation of joint operating structures for adidas and Reebok in these markets. This organisational format which is proving so successful in Asia and Russia will ensure we actively leverage the Group's strengths with customers and in back-office functions. We also fine-tuned Reebok's global brand priorities. As I told you last year, our biggest test is to make the Reebok brand more relevant for consumers. In this respect Reebok has developed a clear roadmap for its key businesses going forward: Own Women's Fitness, Challenge Men's Sport and Revive Classics. And here I believe we are now in a position to really show the consumer what Reebok is all about. Take for example our new partnership with Cirque du Soleil. Together, we have just launched a truly groundbreaking and game-changing initiative "JUKARI Fit to Fly™". This is an entirely new workout experience, inspired by the imaginative, theatrical and physically demanding artistry of Cirque du Soleil. On the product front, there is also a striking improvement in our 2009 collections. As you know, innovation and design are critical for capturing consumer attention. Products must stand out. And therefore innovation must be something tangible and unique and easy to understand. Products such as the EasyTone™ and SelectRide™ fit that category.

With all this in mind, I can only see the quality of the Reebok business improving in 2009. However, let's make no mistake: The year ahead will not be easy. We still need to deal with some issues, in particular maintaining our discipline in getting distribution for the brand right. But I am confident that our dedication and passion will take us another step further in 2009.

TaylorMade-adidas Golf was very resilient in a tough golf market. Will you be able to continue this performance in 2009?

Looking back at the year 2008, we cannot ignore the magnitude of TaylorMade-adidas Golf's success. Sales increased 7% currency-neutral, while most of our major competitors suffered declines. TaylorMade-adidas Golf's progress proves an important point – there is always room to grow even in difficult times. During the year, we extended our market leadership in the critical metalwoods category in each of our main markets. In North America, we lead our closest competitor now by more than ten percentage points thanks to the phenomenal launch of the Burner® and Tour Burner® drivers. In 2008, we have also made solid gains in categories like balls and putters with the highly successful launch of our TP Tour ball and the Spider family of putters which have simultaneously led to a jump in gross margin in these categories.

I do believe the golf industry will be bumpy in 2009. Nevertheless, there is still plenty of opportunity to gain market and mind share. In 2009, TaylorMade will continue to leverage the terrific success of the Burner® golf club line with the launch of new Burner® irons. Our new revolutionary R9™ driver has already become the number one played driver on the European Tour in a few short weeks. With the acquisition of Ashworth, we have supplemented our existing high-tech performance-infused adidas Golf apparel with an authentic golf lifestyle brand. That makes us the undisputed market leader in golf apparel globally. I'm equally excited about the additions we have made to our already impressive list of PGA Tour Staff professionals. We have signed seventeen new players for 2009, providing the ultimate validation for our company's products. With all these great initiatives and the full support of the adidas Group, TaylorMade-adidas Golf is firmly on its way to becoming the number one golf company in the world.

Are there any particular measures you will take to deal with the current macro-economic difficulties?

Staying competitive during this difficult period is of the utmost importance. And this is a time when we must act responsibly for the good of all our stakeholders. We alone cannot remedy the failings of the financial markets nor is this our goal. But this downturn provides a reminder that in every environment – good and bad – we should be constantly challenging ourselves to find ways to make our business stronger.

With a Group our size, becoming faster, leaner and more efficient is paramount and we are always looking for ways to create new efficiencies. Therefore, we already are a step ahead of the field in this time of crisis. As I mentioned before, we have implemented a joint operating model for adidas and Reebok in Europe and Latin America. Also at brand adidas, a year ago we introduced a comprehensive programme to reduce complexity and increase efficiency in the marketing organisation. Across the Group, we have quickly taken some very decisive measures to improve our cost base such as cutting back on travel expenses and external consultants, and implementing a hiring freeze. At the beginning of this year we also reduced our workforce at Reebok and TaylorMade in the US and announced a restructuring of Reebok's operation in the UK.

But we will not cost-cut our way out of this crisis. I believe the real winners of this crisis will be the ones who remain consistent with their long-term strategies and don't get too caught up in short-termism. Our focus in 2009 will therefore be a two-way approach: Strictly reduce all types of costs that do not contribute directly to our business success, while on the other hand investing in our future success. Own retail and controlled space roll-out remain top of the list. We will invest in new long-term promotion partnerships. We will continue to invest in infrastructure projects to create future synergies. With these investments and a tight rein on costs, our position when the economic environment rebounds will be even stronger.

How do you see 2009 shaping up from a financial point of view for the entire Group?

Entering 2009, the market is clearly challenging. There is so much interdependence between economies these days that the effects of economic slowdown will be felt everywhere and not just in isolated regions like we have seen in the past. Therefore, the impact this is going to have on consumers and our retail partners alike is difficult to judge today. Nobody can tell how severely rising unemployment rates and lower consumer confidence will affect private consumption but it is clear the consumer will be spending less in 2009.

In light of these factors, we forecast full year sales to decrease at a low- to mid-single-digit rate on a currency-neutral basis. Gross margin will be under pressure given the promotional retailer landscape in mature markets as well as expected higher sourcing costs in particular in the first half of the year. While we will be very disciplined in managing our operating cost base, earnings per share will decline this year. The magnitude of the decline will to a large extent depend on how currencies move over the year. Currencies such as the Russian ruble, the British pound and several currencies in Latin America have significantly depreciated against the euro. I personally see this as our biggest risk in 2009.

Nevertheless, I am convinced our Group enters this period stronger than ever and we are doing all the right things to keep our company on its long-term growth path. We have the resources and the energy to tackle the challenges that come. And don't forget the 2010 FIFA World Cup™ is just around the corner – an event that plays to the very strengths of our Group and which will already start positively impacting our business later this year.

You have been quoted as saying the sporting goods industry is more resilient than other consumer segments in macroeconomic downturns. What are the reasons for that and how do you see the adidas Group positioned in this respect?

I believe our industry and our Group in particular have a good chance to decouple from at least some of the negative macroeconomic trends. Sport is part of the fabric of society – right from the professional athlete to the Sunday sports fan.

Individuals and governments place increasing importance on health and fitness. Sport participation rates will continue to grow particularly in the emerging markets as personal wealth increases. In addition, we address young consumers – a target audience that is less susceptible to economic downturns as they do not suffer the financial constraints of, for example, mortgages or car leases. And don't forget we are talking about fairly low-ticket items relative to many other consumer goods segments.

Within our industry, we enjoy a leading position with a well-balanced and extensive product offering spanning performance and lifestyle. Today, no matter on which playing field – there is no doubt our Group leads the industry when it comes to innovation, design and service. We are present in all major sports categories. We have a partnership portfolio that is second to none. And we are following a controlled space strategy that will ensure we stay right in front of the consumer. Although we cannot control the macro environment or currencies, we are in control of our business. And that is why we will continue to execute our "game plan" to build a long-term growth company for the benefit of all our stakeholders.

Herbert, thank you for this interview.


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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 function 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

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 Labour Director. Robin J. Stalker is married and lives near Herzogenaurach. **➡ 2nd position from left**

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**

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, 2008 was another very important year for the adidas Group. Major sports events such as the European Football Championship and the Olympic Games again drove the adidas brand to excellent levels of performance. TaylorMade-adidas Golf was again able to increase its revenues in a difficult golf market. At Reebok, key measures were initiated to revitalise the brand. But 2008 was also a year of major challenges, particularly in light of the global economic and financial crisis. The adidas Group delivered very good results in this difficult environment, confirming the successful implementation of the Group's strategic plan.

Dr. Hans Friderichs
Chairman of the Supervisory Board

Supervision and advice in dialogue with the Executive Board

In 2008, we, as the Supervisory Board, carefully and regularly monitored the Group's management and supported the Executive Board in 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 business 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, granting our approval insofar as was necessary and, in our opinion, in the best interest of the Group after detailed consultation and examination. Our Supervisory Board members again had no conflicts of interest in 2008.

We held five Supervisory Board meetings in 2008. Furthermore, 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 AG Wirtschaftsprüfungsgesellschaft (formerly: KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft), Frankfurt am Main (KPMG), attended four of our five meetings. In addition, Dr. Friderichs, Chairman of the Supervisory Board, also maintained regular contact with the Executive Board, in particular with the Executive Board Chairman, between the Supervisory Board meetings, discussing strategy and keeping himself informed on the course of business and important events.

Main topics covered and examined by the Supervisory Board

The development of sales and earnings as well as the financial position of the Group and the development of the individual brand segments were presented to us in detail by the Executive Board and subsequently discussed jointly 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 compliance of the Executive Board's management in carrying out its duties.

In our meeting held in the form of a conference call on January 29, 2008, we discussed and resolved upon the implementation of a share buyback programme based upon the authorisation granted by the Annual General Meeting on May 10, 2007, to repurchase adidas AG shares totalling up to 5% of the company's stock capital.

The main topic on the agenda of the March 4, 2008 financial statements meeting was the review of the consolidated financial statements and the adidas AG annual financial statements as well as the respective Management Reports for the year ending on December 31, 2007, as certified by KPMG. The Supervisory Board also reviewed the Executive Board's proposal regarding the appropriation of retained earnings. Following initial Audit Committee examination and consultation, we 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. Additionally, we discussed the proposed resolutions to be put to the 2008 Annual General Meeting. Following the recommendation of the Audit Committee, we resolved to propose to the Annual General Meeting that KPMG be appointed as auditor of the 2008 consolidated financial statements and the adidas AG annual financial statements and, if applicable, to examine the interim financial statements. 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 business development of the Group with regard to the ongoing revitalisation process in the Reebok segment and the current status of the share buyback programme that we had approved in January. We also kept ourselves informed on key aspects of personnel development and training as well as the adidas Group's performance-oriented compensation concept.

The main focus of our May 7, 2008 meeting was the first quarter 2008 financial results as presented by the Executive Board. We also discussed the business development of the Reebok segment as well as the initiatives planned to improve market penetration. Additionally, we dealt in detail with the results of the efficiency examination regarding the work of the Supervisory Board conducted in the period December 2007 to February 2008. At this meeting, we also amended our Rules of Procedure with regard to the formation and tasks of a Nomination Committee and appointed the members of this committee.

At our August 4, 2008 Supervisory Board meeting, discussions focused on the report for the first half year and the anticipated development of business for the remainder of 2008. We also reviewed the audit points and priorities agreed between the Audit Committee and KPMG for the audit of the consolidated financial statements and the adidas AG annual financial statements for 2008. In addition, we discussed possible measures to expand the Group's brand portfolio and established the "Strategic Equity Investment Committee" ad hoc. A further agenda item of this meeting was the expansion of the tasks of the Audit Committee in connection with the anticipated introduction of the German Accounting Law Modernisation Act (Bilanzrechtsmodernisierungsgesetz – BilMoG) and the provisions of the German Corporate Governance Code. We approved the corresponding amendments to the Rules of Procedure for the Supervisory Board and resolved upon the Rules of Procedure for the Audit Committee.

At our Supervisory Board meeting held on November 5, 2008, discussions centred on the report for the first nine months of the year presented by the Executive Board and the outlook for the remainder of 2008. We also reviewed an internal corporate restructuring measure in the context of the Reebok integration and discussed in depth the budget and investment plan for the adidas Group, considering various scenarios for 2009. We indicated our agreement in principle with the budget and investment plan. As some clarification was still required with respect to several issues raised at our meeting, we delegated powers of final budget authorisation to the Steering Committee, as explained in the following report from the committees. Additionally, we dealt with the new provisions and stipulations of the German Corporate Governance Code and decided that in future the Supervisory Board as a whole will examine and resolve upon the Executive Board compensation system, including all integral contractual elements, prepared by the General Committee.

Resolutions of fundamental importance passed outside of our regular meetings related to the presentation of an updated Declaration of Compliance with regard to the recommendations of the German Corporate Governance Code on February 11, 2008, as well as the cancellation of shares, thus reducing the stock capital, in connection with the share buyback programme resolved upon in January 2008.

Report from the committees

In order to perform our tasks in an efficient manner, we have five Supervisory Board standing committees. We also established the project-related "Strategic Equity Investment Committee" ad hoc see Supervisory Board, p. 025. The standing committees prepare specific topics and resolutions to be dealt with by the Supervisory Board as a whole. In individual cases, 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 on 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 summarised as follows:

— The Steering Committee, which is authorised to pass resolutions on behalf of the Supervisory Board in particularly urgent cases, met twice in the year under review. In October 2008, the Steering Committee approved the acquisition of Ashworth, Inc. This makes TaylorMade-adidas Golf the world's leading golf apparel company. In November 2008, after discussing in detail the potential impact of the global economic and financial crisis on the 2009 budget, the Steering Committee granted its final authorisation of the budget and investment plan for 2009.

— The General Committee met three times in 2008. The main topics were the system and level of Executive Board compensation as well as the preparation of new structures for Executive Board employment contracts.

— The Audit Committee met five times in 2008. The auditor and the Chief Financial Officer were always in attendance. Committee members examined in detail the consolidated financial statements and the adidas AG annual financial statements for 2007, the auditor's reports as well as the first half year report and quarterly financial reports for 2008. The auditor reported to the committee members in detail on its auditing activities and results. Furthermore, the Audit Committee prepared the Supervisory Board proposal for the Annual General Meeting recommending the appointment of the auditor for 2008 and obtained the auditor's declaration of independence. Together with the auditor, the Audit Committee also established the priority topics for the audit of the consolidated financial statements and the adidas AG annual financial statements for 2008 and resolved upon the audit assignment including the auditor's fee. In addition, the Audit Committee prepared the decisions of the Supervisory Board relating to corporate governance topics, in particular the Supervisory Board's decision concerning the declaration on the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG). Together with the Chief Financial Officer, the Audit Committee discussed in detail the budget and investment planning for 2009, taking into account the economic and financial crisis. Furthermore, the committee dealt intensively with the structures of compliance management as well as the internal control and risk management systems and the effectiveness of these systems. The Audit Committee also reviewed the Internal Audit report on its auditing activities within the Group and the methodology in 2008 as well as plans for 2009. The Audit Committee Chairman always reported to the Supervisory Board on the results of all its committee meetings at the subsequent meeting of the entire Supervisory Board.

— The Nomination Committee established in May 2008 met for the first time in November. In addition to organisational aspects of its future work, the committee discussed the current composition of the Supervisory Board and defined requirements for the future composition of the shareholders' representatives with regard to the required competencies and qualifications. At the beginning of 2009, the committee prepared the proposals for the election of the shareholders' representatives to be made to the Annual General Meeting of adidas AG on May 7, 2009.

— The Mediation Committee again had no reason to meet in 2008.

— In August 2008, the Strategic Equity Investment Committee established ad hoc granted its approval to the acquisition of Textronics, Inc. with a view to the further development of the Group's product offering.

Declaration of Compliance and effective corporate governance

The subject of corporate governance is very important to the Supervisory Board. We discussed the implementation of the changes in the German Corporate Governance Code, as amended on June 6, 2008, with the Executive Board, both at Supervisory Board and at Audit Committee meetings. The Supervisory Board also resolved upon the updated Rules of Procedure for the Supervisory Board and the Rules of Procedure for the Audit Committee. Furthermore, we decided to comment not only on the recommendations of the German Corporate Governance Code but, on a voluntary basis, also on the suggestions. We report on corporate governance at adidas together with the Executive Board in the see Corporate Governance Report, p. 026. On February 11, 2009, together with the Executive Board, we issued an updated Declaration of Compliance with the German Corporate Governance Code in accordance with § 161 AktG. This declaration was made permanently available on the same day on the corporate website at www.adidas-Group.com/corporate_governance.

Detailed examination and discussion of the 2008 consolidated financial statements and the adidas AG annual financial statements

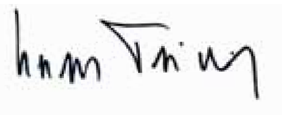
KPMG audited the consolidated financial statements and the Group Management Report prepared in accordance with § 315a German Commercial Code (Handelsgesetzbuch – HGB) in compliance with IFRS and issued an unqualified opinion thereon. The auditor also approved without qualification the 2008 annual financial statements and the Management Report of adidas AG prepared in accordance with HGB requirements.

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 February 27, 2009. At our meeting on March 3, 2009, the adidas AG 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 2008 priority topics as agreed with the Audit Committee. These included in particular the regularity of the adidas AG 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 in the Notes to the Group's financial statements. The auditor was available for questions and the provision of supplementary information. Having examined the consolidated financial statements and the adidas AG annual financial statements as well as 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 dividend policy with the Executive Board and, in light of the financial position of adidas AG as well as shareholder and capital market expectations, we approved the proposal regarding the appropriation of retained earnings.

Expression of thanks

At the conclusion of our five-year term in office, which expires at the end of the Annual General Meeting on May 7, 2009, 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.

For the Supervisory Board



Dr. Hans Friderichs
Chairman

March 2009

Supervisory Board

Dr. Hans Friderichs

Chairman

Former Federal Minister, Mainz, Germany

— Chairman of the Supervisory Board, allit AG Kunststofftechnik, Bad Kreuznach, Germany

Fritz Kammerer [1]

Deputy Chairman

— Chairman of the Central Works Council, adidas AG

Igor Landau

Deputy Chairman

Former Chief Executive Officer of Aventis S. A., Paris, France

— Member of the Supervisory Board, Allianz SE, 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 [1]

Senior Manager Quality Analysis & Reporting, Global Operations, adidas AG

Dr. iur. Manfred Gentz

Chairman of the Administrative Board, Zurich Financial Services S. A., Zurich, Switzerland

— Chairman [2] 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

Member of the Executive Board, Dresdner Bank AG, Frankfurt am Main, Germany [3]

— Member of the Supervisory Board, Premiere AG, Unterföhring, Germany

Roland Nosko [1]

Trade Union Official, IG BCE Trade Union, Headquarter Nuremberg, Nuremberg, Germany

— Member of the Supervisory Board, CeramTec AG, Plochingen, Germany

Hans Ruprecht [1]

Sales Director Customer Service, Area Central West, adidas AG

Willi Schwerdtle

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

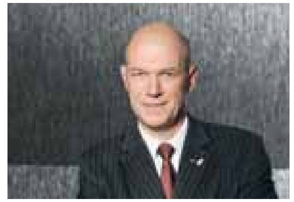
Heidi Thaler-Veh [1]

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 [1]

Trade Union Official, IG BCE Trade Union, Headquarter Hanover, Hanover, Germany

— Member of the Supervisory Board, Wohnungsbaugesellschaft mbH Glückauf, Lünen, Germany

Standing Committees

Steering Committee Dr. Hans Friderichs (Chairman), Fritz Kammerer, Igor Landau

General Committee Dr. Hans Friderichs (Chairman), Fritz Kammerer, Igor Landau, Klaus Weiß

Audit Committee Dr. iur. Manfred Gentz (Chairman), Dr. Hans Friderichs, Hans Ruprecht, Klaus Weiß

Mediation Committee Dr. Hans Friderichs, Fritz Kammerer, Igor Landau, Roland Nosko

Nomination Committee Dr. Hans Friderichs (Chairman), Igor Landau, Christian Tourres

Other Committees

"Strategic Equity Investment Committee" Dr. Hans Friderichs (Chairman), Igor Landau, Sabine Bauer, Roland Nosko

1) Employee representative.

2) As of December 9, 2008; formerly Member of the Supervisory Board.

3) Until January 12, 2009, thereafter General Manager SB Asset Management GmbH, Kronberg, Germany.

Corporate Governance Report

Our actions have always been determined by the principles of responsible management and company control. Good and transparent corporate governance provides for responsible, value-oriented performance and supervisory functions of the company. It is an important condition in order to maintain and strengthen the confidence placed in adidas AG by our shareholders, financial markets, business partners, employees as well as the public. Key parameters of our corporate governance activities in 2008 were the further development of the good relationship with our shareholders, efficient cooperation between the Executive Board and the Supervisory Board as well as the responsible handling of risks and opportunities and statutory and Group-internal regulations. We consider corporate governance as a continuing process and will also continue to follow future developments attentively.

Dual board system

In accordance with statutory provisions, adidas AG has a dual board system, which assigns management functions to the Executive Board and supervisory functions to the Supervisory Board. These two boards are strictly separated in terms of membership as well as competencies.

Management by the Executive Board

Our Executive Board consists of four members see Executive Board, p. 018. It is responsible for managing the company, developing the Group's strategic orientation, agreeing this with the Supervisory Board and ensuring its implementation. In doing so, it is bound to the company's interests and obliged to achieve a sustainable increase in company value. Its Rules of Procedure regulate the specified scope of work of the Board, especially the responsibility of the Executive Board members for particular business units, the matters reserved to the Executive Board as a whole and the modalities for resolutions. The Rules of Procedure for the Executive Board can be found on our corporate website at **www.adidas-Group.com**.

Supervision and consulting by the Supervisory Board

In accordance with the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG), our Supervisory Board consists of six shareholder representatives and six employee representatives see Supervisory Board, p. 025. The Supervisory Board oversees and advises the Executive Board in terms of management. Fundamental business decisions require approval by the Supervisory Board. In very urgent cases, the Supervisory Board can also pass a resolution by way of written circular vote. In addition, it appoints the members of the Executive Board.

The term of office of the current Supervisory Board expires with the end of the Annual General Meeting on May 7, 2009, which will resolve upon the ratification of the actions of the Supervisory Board for the financial year 2008. Pursuant to MitbestG regulations, the election of the employee representatives will be held already in March 2009, whereas the shareholder representatives will be individually elected at the Annual General Meeting in 2009.

Increased efficiency ensured by Supervisory Board committees

In order to perform its tasks in a most efficient manner, our Supervisory Board has formed five permanent expert committees see Rules of Procedure for the Supervisory Board **www.adidas-Group.com**. The chairmen of these committees report regularly to the entire Supervisory Board.

— The Steering Committee, which consists of the Supervisory Board Chairman and his two deputies, discusses major issues, prepares resolutions and is authorised in particularly urgent cases to pass resolutions on behalf 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. Since November 2008, the Supervisory Board as a whole has been responsible for resolving upon the Executive Board compensation system including all integral contractual elements, upon proposal by the General Committee, as well as for its regular review.

— The co-determined Audit Committee, which also comprises four members, deals primarily with accounting, risk management and compliance issues. It discusses the efficiency of the internal control system as well as the risk management system and is regularly informed on the work undertaken by Internal Audit. In addition, it assesses and supervises the auditor's independence and determines audit priorities. The Audit Committee examines the consolidated financial statements and the adidas AG financial statements including the Management Reports. It also 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 exact tasks of the Audit Committee are regulated by the Rules of Procedure, which were resolved upon by the entire Supervisory Board in the year under review.

— The co-determined four-member Mediation Committee, formed in accordance with § 27 section 3 MitbestG, 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.

— The Nomination Committee, newly formed in 2008, comprises three members. It is the only Supervisory Board committee consisting exclusively of shareholder representatives. It submits recommendations to the Supervisory Board for the proposal of suitable candidates to the Annual General Meeting. When drawing up proposals for the election to the Supervisory Board, care is taken to ensure that candidates, chosen on an international level, have the required knowledge, abilities and professional experience.

In addition, the co-determined "Strategic Equity Investment Committee" with four members was established ad hoc in 2008 in connection with the examination of two company acquisitions see Supervisory Board Report, p. 020.

The activities of the Supervisory Board and its committees in 2008 are described in detail in the Supervisory Board Report see Supervisory Board Report, p. 020. For an overview of the Supervisory Board and committee members see Supervisory Board, p. 025.

Responsible cooperation between Executive Board and Supervisory Board

Our Executive Board and Supervisory Board exercise good corporate governance through responsible and transparent management and control of the Group and the shared goal to enhance company value. The Executive Board informs the Supervisory Board frequently, expeditiously and comprehensively on the Group's strategy, planning, business development and risk management as well as fundamental compliance issues. The Chairmen of our Executive Board and Supervisory Board also maintain frequent contact between meetings. 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. Furthermore, the Executive Board must obtain the Supervisory Board's approval for the budget including the annual capital expenditure and financial plan.

Compliance in the adidas Group

For us, compliance stands for the conformity of our actions with statutory provisions and regulations as well as ethical and moral principles to which our company is subject or to which we have committed ourselves voluntarily. With the Code of Conduct and our Global Policy Manual, we have established guidelines in order to support us in achieving this goal. They are regularly reviewed and enhanced and contain in particular regulations for law-compliant dealings with business partners and third parties in order to avoid conflicts of interest, regulations relating to the handling of data and information as well as regulations regarding environmental protection and safety. In this context, Internal Audit examines the internal controls of the Group's subsidiaries in accordance with a schedule agreed upon with the Executive Board. The Supervisory Board is informed regularly on the activities of Internal Audit. Furthermore, the insider committee, which consists of representatives of various business units, reviews particular issues with regard to ad hoc relevance and hence enables lawful handling of insider information within the company. All persons who work for the company and who have access to insider information as a result of their function are added to an insider list after having been instructed on their obligations deriving from insider law. In addition, our Code of Conduct regulates the handling of complaints and notifications regarding possible compliance infringements, which can be reported via a whistleblower hotline as well as to the local Compliance Officer.

Transparency creates trust

It is our goal to provide all institutional investors, private shareholders, financial analysts, employees and the interested public with the same information at the same time, in both English and German, by regular, open and up-to-date communication, and to thus create the greatest possible transparency. As an always up-to-date publication platform, we primarily use our website www.adidas-Group.com for this purpose. There we publish all press releases and ad hoc announcements, financial reports, information on our analyst conferences and press conferences on financial results, our Annual General Meeting and our financial calendar. Throughout Europe, we publish, inter alia, notifications on Directors' Dealings, on changes in the percentage of voting rights as well as all corporate information subject to disclosure requirements. Through our Investor Relations activities, we are also in close contact with our shareholders see Our Share, p. 038.

Annual General Meeting and services for shareholders

The Annual General Meeting is a platform for dialogue between our shareholders and the Executive Board and Supervisory Board. It is also the forum for shareholders to exercise their voting rights. All shareholders are informed quickly, comprehensively and effectively, prior to and during the Annual General Meeting. On our website www.adidas-Group.com we publish all documents and information on the Annual General Meeting, such as the current Annual Report and the Agenda. We facilitate the exercise of voting rights for our shareholders by enabling them to authorise a proxy of their choice or a proxy appointed by the company. The proxy is bound to the shareholders' instructions, which can be given prior to or during the Annual General Meeting until the end of the general debate also via electronic media (8.7% of the stock capital voted via the Internet in 2008). Proxy solicitation carried out prior to the Annual General Meeting and our Internet service have led to yet another considerable increase in the attendance rate. In 2008, 53% of the capital with voting rights was present at the Annual General Meeting. This is an increase of 9 percentage points compared to the previous year.

All shareholders can follow the Annual General Meeting live and in full length online, as included in the suggestion of the German Corporate Governance Code. In addition, we are available for answering questions of our shareholders by phone or electronically. At our next Annual General Meeting, taking place on May 7, 2009 in Fuerth (Bavaria), we will again provide our shareholders with the best possible service.

Directors' Dealings in 2008

Pursuant to § 15a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) Executive Board and Supervisory Board members, other key executives as well as persons in close relationship with them are obliged to disclose the purchase or sale of adidas AG shares or related financial instruments (Directors' Dealings) if the value of the transactions in the financial year reaches or exceeds € 5,000. In 2008, we received six Directors' Dealings notifications relating to adidas AG shares (ISIN DE0005003404), which were published at www.adidas-Group.com/directors_dealings.

Directors' Dealings in 2008

Frankfurt am Main, Date	Name	Position	Type of transaction	Number of shares	Price in €	Transaction volume in €
March 7	Herbert Hainer	Executive Board	Purchase	2,500	40.00	100,000.00
May 8	Christian Tourres	Supervisory Board	Sale	100,000	44.08611	4,408,611.00
August 25	Fritz Kammerer	Supervisory Board	Purchase	256	38.97	9,976.32
November 10	Robin J. Stalker	Executive Board	Purchase	3,600	28.43	102,348.00
November 13	Herbert Hainer	Executive Board	Purchase	4,000	24.92	99,680.00
December 23	Fritz Kammerer	Supervisory Board	Purchase	190	26.18	4,974.20

Share ownership of the Executive Board and Supervisory Board

All members of our Executive Board and Supervisory Board have decided to disclose their direct and indirect ownership of shares in adidas AG for the first time. Hence, we comply with a further recommendation of the German Corporate Governance Code.

At the end of the financial year 2008, the entire number of shares held by the members of the Executive Board of adidas AG amounted to less then 1% of the shares issued by the company.

At the same time, the members of the Supervisory Board owned 2.38% of the shares issued by the company.

Accounting and annual audit

The annual consolidated financial statements and the interim financial reports of the adidas Group are prepared by the Executive Board in accordance with the principles of the International Financial Reporting Standards (IFRS). The statutory annual financial statements of adidas AG relevant for the distribution of dividends are prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB). The annual accounts are audited and adopted by the Supervisory Board.

KPMG AG Wirtschaftsprüfungsgesellschaft (formerly: KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft), Frankfurt am Main, was appointed as auditor for the consolidated financial statements and the adidas AG annual financial statements for 2008 by the Annual General Meeting after the Supervisory Board had confirmed the independence of the auditor.

Recommendations and suggestions of the German Corporate Governance Code fulfilled to a large extent

In the year under review, the Executive Board and Supervisory Board were informed regularly by our Corporate Governance Officer on the latest corporate governance developments and devoted particular attention to fulfilling the provisions of the German Corporate Governance Code (Code), especially the latest provisions of June 6, 2008. As a result of these consultations, the Executive Board and Supervisory Board issued an updated Declaration of Compliance on February 11, 2009, pursuant to § 161 of the German Stock Corporation Act (Aktiengesetz – AktG). The exact wording together with all past Declarations of Compliance can be found at and downloaded from www.adidas-Group.com/corporate_governance.

Until August 8, 2008, the Declaration refers to the Code as amended on June 14, 2007 and subsequently to the Code as currently applicable. All recommendations of the Code have been and are fulfilled to a large extent. We deviate from the recommendations with regard to a few points only:

— Section 3.8 of the Code recommends including an appropriate deductible in the directors' and officers' (D&O) liability insurance concluded by the company for the Executive Board and Supervisory Board. The D&O liability insurance policy for our Executive Board and Supervisory Board members does not provide for a deductible as this is not common practice outside of Germany. In addition, it is a group insurance for a large number of executives in Germany and abroad for which a differentiation between Executive Board and Supervisory Board members and other executives does not seem appropriate.

— Section 4.2.3 of the Code recommends that a severance payment cap for the premature termination of the contract without serious cause be agreed when concluding employment contracts with the Executive Board. The contracts that are currently to be newly concluded do not provide for a formal severance payment cap due to the three-year term of the contract. We believe that the contract term agreed already offers sufficient protection from inappropriate severance payments.

— Section 5.4.1 of the Code recommends setting an age limit for Supervisory Board members. We do not set an age limit for Supervisory Board members as this is, in our opinion, an unnecessary limitation of the rights of our shareholders and employees when electing their representatives to the Supervisory Board.

— Section 5.4.6 of the Code recommends that Supervisory Board members receive performance-oriented compensation in addition to their fixed compensation. The members of our Supervisory Board do not receive any performance-oriented compensation in order to allow for the independent supervisory functions of the Supervisory Board.

Our Executive Board and Supervisory Board have decided to comment not only on the deviations from the recommendations of the Code but, in addition, also on the non-binding suggestions. At present, adidas AG complies with the suggestions of the Code with one exception: Pursuant to section 3.6 of the Code, Supervisory Board meetings should be prepared separately by the Supervisory Board members representing the shareholders and by those representing the employees. The members of our Supervisory Board do not meet for such preparation meetings as standard practice but only if required.

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 summarise the principles relevant for determining the compensation of our Executive Board and outline the structure and level of Executive Board and Supervisory Board compensation. Furthermore, this report contains information on benefits which the members of our Executive Board will receive if they resign from office or retire.

Executive Board compensation

The structure of the compensation system of our Executive Board as well as the respective amount of the Executive Board compensation was deliberated upon and set by the co-determined General Committee of the Supervisory Board. Since November 2008, it has been the entire Supervisory Board's responsibility to resolve upon and regularly review the Executive Board's compensation system including all integral contractual elements as proposed by the General Committee see Supervisory Board Report, p. 020.

Performance-oriented Executive Board compensation

The performance-oriented compensation of our Executive Board, which includes fixed and variable elements, consists of the following components:

— non-performance-related compensation component,
— performance-related compensation component,
— compensation component with long-term incentive effect.

The individual components are structured as follows:

— The non-performance-related compensation component (fixed salary) includes a fixed annual salary, which is paid in twelve monthly instalments, as well as benefits such as the private use of a company car, the payment of insurance premiums and, in exceptional cases, an adjustment amount paid to equalise tax treatment of personal income between the USA and Germany.

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

— As a compensation component with a long-term incentive effect containing risk elements, our Executive Board members receive compensation from the Long-Term Incentive Plan 2006/2008 (LTIP Bonus). Payment of the LTIP Bonus will be effected following the approval of the consolidated financial statements for the period ending on December 31, 2008. Calculation of the payment amount is based on the cumulative increase in income before taxes (IBT) in the three-year period from 2006 to 2008, measured against the IBT result for the financial year 2005. If the cumulative increase achieved in the three-year period is below a defined target corridor, no LTIP Bonus payment is due. If the earnings increase is within the target corridor, the plan provides for payment of between 90% and a maximum of 150% of the basis amount defined individually for each Executive Board member. Hence, there is a cap on the maximum amount of the LTIP Bonus. Additionally, payments between 135% and 150% of the basis amount are dependent on the achievement of a defined percentage increase in IBT in the financial year 2008 compared to 2007. It is intended to introduce a new version of the Long-Term Incentive Plan in 2009, containing essentially comparable components.

A share-based compensation component from a management share option plan does not exist since the members of our Executive Board exercised all option rights resulting from the Management Share Option Plan (MSOP) in the financial year 2007. A new share option plan was neither resolved upon by the Annual General Meeting in 2008 nor is such a resolution planned for the Annual General Meeting in May 2009.

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.

Executive Board total compensation in 2008

€ in thousands

	Non-performance-related compensation components		Performance-related compensation component	Compensation component with long-term incentive effect	Total
	Fixed annual salary	Other benefits	Performance Bonus	LTIP Bonus 2006/2008	
Herbert Hainer (CEO and Chairman)	1,250	26	1,680	480	3,436
Glenn Bennett [1]	408	13	612	240	1,273
Robin J. Stalker	500	11	680	240	1,431
Erich Stamminger	700	106 [2]	1,230	240	2,276
Total	**2,858**	**156**	**4,202**	**1,200**	**8,416**

1) In accordance with Glenn Bennett's contract, the following compensation components were granted in US dollars: fixed annual salary $ 600,000, other benefits $ 19,000, Performance Bonus $ 900,000. An exchange rate of 1.4702 $/€ (annual average rate 2008) was used as the basis for calculation.
2) Also contains a tax adjustment due to different tax rates in Germany and the USA.

Executive Board total compensation in 2007

€ in thousands

	Non-performance-related compensation components		Performance-related compensation component	Compensation component with long-term incentive effect	Total
	Fixed annual salary	Other benefits	Performance Bonus	LTIP Bonus 2006/2008 [1]	
Herbert Hainer (CEO and Chairman)	1,120	23	1,680	1,360	4,183 [2]
Glenn Bennett [3]	438	238 [4]	657	680	2,013
Robin J. Stalker	500	11	680	680	1,871
Erich Stamminger	600	35	1,230	680	2,545
Total	**2,658**	**307**	**4,247**	**3,400**	**10,612** [2]

1) Payment of this bonus is made upon achievement of LTIP targets and after approval of the consolidated financial statements for the period ending on December 31, 2008.
2) Due to the adoption of DRS17, the amounts do not include the amount of € 515,000, which equals the compensation resulting from the exercise of share options within the scope of the MSOP.
3) 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.
4) Also contains a tax adjustment due to different tax rates in Germany and the USA.

Appropriate Executive Board compensation

The overall compensation paid to our Executive Board in the financial year 2008 amounted to € 8.416 million (2007: € 10.612 million). The Supervisory Board considers the variable compensation components to be structured in such a way that they form a considerable incentive to our Executive Board members and thus enduringly support value-oriented management. All compensation elements are appropriate both individually and in total. Criteria for the appropriateness of compensation are the tasks and contribution of the respective Executive Board member to the Group's success, his individual performance as well as that of the entire Executive Board. In addition, the Group's size and global orientation as well as its economic situation and prospects are taken into consideration.

Pension commitments

There are individual contractual pension commitments for the members of our Executive Board. Upon reaching the age of 65, the individual pension commitments provide for a retirement pension and, in case of resignation from active office due to occupational incapacity or disability, they provide for a disability pension. Furthermore, a widow's pension is paid upon the death of a former member of the Executive Board.

— Retirement pension: The pension allowance of an Executive Board member is calculated as a percentage of the pensionable income, which currently equals the fixed annual salary. Starting from a base amount totalling 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 [2] 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 dynamisation of current pension payments is made in accordance with German law.

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

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

2) Herbert Hainer and Erich Stamminger were both first appointed on April 1, 1997. Robin J. Stalker was first appointed on January 1, 2001. For Glenn Bennett, instead of his first appointment date (April 1, 1997), January 1, 2000, is used for the calculation of his pension entitlements. His base amount totals 20% of the pension entitlement.

Pension fund and pension trust fund cover pension entitlements

In 2008, a total contribution of € 545,219 was made for all active Executive Board members into an external pension trust fund. For future pension entitlements of our Executive Board members, adidas AG has established pension reserves. In the Consolidated Balance Sheet drawn up in accordance with IFRS, 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.

Commitments to Executive Board members upon end of tenure

In the event of adidas AG deciding not to renew the employment contract although the Executive Board member would be willing to continue his function as Executive Board member under the existing conditions, the respective Executive Board member receives an individually agreed severance payment in the amount of 100%[3] of the fixed annual salary. Individual contracts providing for severance payments in case of premature termination of their employment agreements have not been concluded with the members of the Executive Board. If an Executive Board member dies during his term of office, his spouse will receive a one-time payment amounting to 25% of his fixed annual salary.

A post-contractual competition prohibition period of six months has been agreed upon with the Executive Board member Glenn Bennett according to which adidas AG is obliged to pay compensation of 100% of the fixed annual salary.

No loans granted to Executive Board members

As in the years before, the members of the Executive Board did not receive any loans or advance payments of future compensation components from adidas AG in 2008.

Miscellaneous

Our Executive Board members do not receive any additional compensation for mandates held within the adidas Group.

In the event of claims raised against members of the Executive Board for indemnification of losses incurred in connection with their managerial acts and omissions, the adidas Group's directors' and officers' group liability insurance covers the personal liability of the Executive Board members but does not provide for a deductible see Corporate Governance Report, p. 026.

Pension payments to former Executive Board members

In the financial year 2008, pension payments to former Executive Board members amounted to € 1.735 million (2007: € 1.727 million). Total pension provisions for pension entitlements of this group of persons amount to € 36.422 million (2007: € 37.576 million).

3) For Robin J. Stalker the severance payment amounts to 50% of the fixed annual salary.

Payments to the pension trust fund

€ in thousands

	2008	2007
Herbert Hainer (CEO and Chairman)	240	240
Glenn Bennett	82	82
Robin J. Stalker	120	120
Erich Stamminger	103	103
Total	**545**	**545**

Costs for accrued pension entitlements of Executive Board members [1]

€ in thousands

	2008	2007
Herbert Hainer (CEO and Chairman)	173	215
Glenn Bennett	52	68
Robin J. Stalker	126	161
Erich Stamminger	77	96
Total	**428**	**540**

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

Supervisory Board compensation

Compensation redefined as of 2008

Effective as of the financial year 2008, there has been a change in structure of the Supervisory Board compensation. The compensation is now linked to the size of the Group and to the more intense supervisory tasks. Furthermore, the members of the Supervisory Board now receive additional compensation for membership in particular committees and for the chairmanship of these committees. Due to these changes, the total compensation of the Supervisory Board rose to € 860,000 in 2008 (2007: € 294,000).

The compensation of the Supervisory Board members consists of a fixed annual payment amounting to € 40,000 for each member. Three times this amount is paid to the Chairman and twice this amount is paid to each Deputy Chairman. Furthermore, members of particular Supervisory Board committees (e.g. General Committee and Audit Committee) receive additional compensation. The chairman of a committee receives an additional annual allowance of € 40,000, while the Chairman of the Audit Committee receives an allowance of € 60,000. Every other committee member receives an allowance of € 20,000 (€ 40,000 for members of the Audit Committee). The members of the Steering Committee, the Mediation Committee, the Nomination Committee and committees which are established ad hoc do not receive additional compensation. If a Supervisory Board member is in more than one committee, the member receives only compensation for his/her task in the committee with the highest compensation. The Supervisory Board members are reimbursed for all expenses incurred in connection with their mandates as well as for the VAT payable on their compensation, insofar as they can charge for it separately and do so.

No loans to Supervisory Board members

As in the years before, the members of the Supervisory Board did not receive any loans or advance payments from adidas AG in 2008.

Miscellaneous

In the event of claims raised against members of the Supervisory Board for indemnification of losses incurred in connection with their acts and omissions, the adidas Group's directors' and officers' group liability insurance covers the personal liability of the Supervisory Board members but does not provide for a deductible.

Supervisory Board members' compensation

in €

	2008	2007
Dr. Hans Friderichs (Chairman of the Supervisory Board, Chairman of the General Committee, Member of the Audit Committee)	160,000	33,046
Igor Landau (Deputy Chairman of the Supervisory Board, Member of the General Committee)	100,000	22,546
Fritz Kammerer (Deputy Chairman of the Supervisory Board, Member of the General Committee)	100,000	31,500
Sabine Bauer	40,000	21,000
Dr. Manfred Gentz (Chairman of the Audit Committee)	100,000	21,000
Dr. Stefan Jentzsch	40,000	3,092 [1]
Roland Nosko	40,000	21,000
Hans Ruprecht (Member of the Audit Committee)	80,000	21,000
Willi Schwerdtle	40,000	21,000
Heidi Thaler-Veh	40,000	21,000
Christian Tourres	40,000	21,000
Klaus Weiß (Member of the General Committee, Member of the Audit Committee)	80,000	21,000
Total	**860,000**	**294,000 [2]**

1) Member of the adidas AG Supervisory Board since November 7, 2007.
2) Includes the compensation of Henri Filho who retired as member and Chairman of the Supervisory Board on November 7, 2007.

Operational and Sporting Highlights 2008


01

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02


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First quarter

14.01. Picture 01 adidas and AC Milan announce the extension of their sponsorship deal until the end of 2017. With the new agreement, adidas and AC Milan continue their strong partnership that started in 1998. **27.01.** adidas sponsored athlete Novak Djokovic wins the Australian Open. **30.01.** Picture 02 adidas and Diesel present their landmark product collaboration "adidas Originals Denim by Diesel" marking the kick-off of their multi-year collaboration. **03.02.** Picture 03 Reebok sponsored New York Giants quarterback Eli Manning wins the Super Bowl Most Valuable Player trophy, just one year after his brother Peyton Manning. **06.02.** adidas opens its first Y-3 flagship store in New York. **11.02.** adidas and numerous international football stars unveil the F50 TUNIT™ in Barcelona, Spain. This unique boot is the third generation of the successful F50 concept. **15.02.** adidas sponsors the 2008 NBA All-Star Weekend in New Orleans.

21.02. Celebrating fun, ambitious, real women from around the world, Reebok launches the Freestyle World Tour Collection. **04.03.** Picture 04 TaylorMade-adidas Golf introduces the Tour Burner® driver. **06.03.** Picture 05 adidas and Samsung launch miCoach, a revolutionary training system which collects athletes' personal data and turns it into individual training plans. **18.03.** Reebok and Dick's Sporting Goods announce a new apparel partnership via shop-in-shops throughout all Dick's stores in the USA. **25.03.** Reebok launches its global marketing campaign "Your Move", which aims to evolve Reebok's positioning as the brand that celebrates individuality. **30.03.** adidas has three of the top four No. 1 seeded teams in the Final Four of the NCAA March Madness, including the winning team of the University of Kansas Jayhawks.

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Second quarter

02.04. adidas and the Ajax Amsterdam football club announce the extension of their sponsorship deal until 2019. **18.04.** adidas opens a Performance Centre and an Originals Store in Roppongi Hills, Tokyo. TaylorMade-adidas Golf also opens a new store in the same building complex on the same day. **19.04.** Picture 06 TaylorMade-adidas Golf presents its new Tour Burner® campaign featuring the most important characteristics of its top metalwood. **22.04.** adidas launches the football campaign "Dream Big", in which the world's biggest football stars meet the world's smallest football teams. **25.04.** Reebok launches its new website www.reebok.com. **17.05.** Reebok sponsors the 25th "Avon Running" women's run in Berlin with over 13,000 participants. **20.05.** Picture 07 Reebok's running shoe "Premier SmoothFit™ Cushion" is awarded the Plus X seal for innovation by the Plus X Award, Europe's biggest technology contest. **28.05.** Reebok announces that three future NFL players, Joe Flacco, Kenny Phillips and Dan Connor, have signed multi-year endorsement agreements.

28.05. adidas launches mi Originals, a customisation tool that offers consumers the chance to design their own individual lifestyle products. **07.06.** The European Football Championship kicks off in Basel, Switzerland. With Germany, France, Spain, Romania and Greece, adidas sponsors a total of five teams at UEFA EURO 2008™. **07.06.** adidas sponsored athlete Ana Ivanovic wins the French Open. **10.06.** Nearly 40 analysts and investors join the Group's CFO Robin J. Stalker and Investor Relations team for an Investor Field Trip to China. Store and factory visits as well as extensive presentations outline the Group's strategy in Asia. **17.06.** Picture 08 The Boston Celtics with adidas superstar Kevin Garnett win the NBA Finals. **29.06.** Picture 09 With Spain and Germany, adidas has two teams competing head-to-head for the European Championship title. Spain wins this three-striped Final.

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Third quarter

01.07. TaylorMade-adidas Golf equipment once again contributes prominently to victories at major golf tournaments. The winners of the Buick Open, Commerce Bank Championship and the US Women's Open all rely on TaylorMade-adidas Golf. **01.07.** Picture 10 Reebok and driving ace Lewis Hamilton announce a multi-year partnership and at the same time unveil Reebok's new SmoothFit™ training and apparel range. **05.07.** Picture 11 The world's biggest adidas store opens in Beijing, China, taking the retail experience to a new level. **06.08.** Picture 12 TaylorMade launches www.myTPball.com, a programme that gives golfers the opportunity to design and order their own golf balls. **08.08.** Picture 13 The Beijing 2008 Olympic Games begin. As the Official Sportswear Partner adidas celebrates its Olympic heritage and underlines its leading position in the fastest-growing sportswear market in the world. In total, more than 3,000 athletes compete in adidas products and adidas provides products for 27 out of the 28 Olympic sports.

17.08. adidas swimmer Britta Steffen wins her second Gold Medal and sets another Olympic record. **29.08.** Reebok Hockey announces its partnership with the National Hockey League (NHL) for the 2008 NHL Premiere Series in Europe and unveils its 2009 global hockey product line. **03.09.** The adidas Group annual report "United by Sport" is awarded "Best Annual Report 2008" by "manager magazin". **04.09.** The new homepage www.adidas.com highlights different campaigns and products and offers an individualisable appearance for every country. **08.09.** adidas and the Russian Football Union (RFU) announce a long-term partnership under which adidas supplies all RFU national teams. **20.09.** Picture 14 adidas Originals, Y-3 and adidas by Stella McCartney present their spring / summer '09 collections during the Fashion Week in Milan, New York and London, respectively. **28.09.** Picture 15 adidas sponsors the 35th Berlin Marathon where Haile Gebrselassie again breaks his own world record.

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Fourth quarter

13.10. TaylorMade-adidas Golf enters into a definitive agreement to acquire all of the outstanding shares of Ashworth, Inc. and successfully completes the tender offer on November 18, 2008. **22.10.** Picture 16 adidas launches its global basketball campaign "NBA Tested. Brotherhood Ready". This campaign features NBA All-Stars such as Gilbert Arenas, Dwight Howard, Tracy McGrady, Tim Duncan and Kevin Garnett. **31.10.** Picture 17 With new products, initiatives and the support of extreme climbers Alexander and Thomas Huber, adidas kicks off the new outdoor season. **03.11.** Reebok unveils a giant portrait of Formula One Champion Lewis Hamilton by the iconic London landmark of Tower Bridge to celebrate the sporting star's fantastic year. **10.11.** Picture 18 TaylorMade-adidas Golf Tour Staff professional Sergio Garcia wins the HSBC Champions event in Shanghai and moves up to number two in the Official World Golf Ranking. **12.11.** adidas Running is internationally recognised by the world's leading running magazine Runner's World, winning two awards at their year-end summit in New York.

19.11. Picture 19 Reebok launches its first ever pop-up store "Reebok Flash" in New York. Around 3,000 feet of gallery space create an incredible retail installation featuring selected Reebok products. **24.11.** adidas and the International Association of Athletics Federations (IAAF) formally announce an 11-year partnership granting adidas the worldwide sponsorship rights for all IAAF World Athletics Series events until 2019. **25.11.** Picture 20 Celebrating the 60th anniversary of the iconic adidas brand, adidas unveils "60 Years of Soles and Stripes", its largest global brand campaign ever for adidas Originals. **28.11.** adidas and the New Zealand Rugby Union (NZRU) announce the extension of their long-term sponsorship contract until 2019. **08.12.** adidas and United Kingdom Athletics (UKA) announce the extension of their partnership for the next five years. **16.12.** Reebok announces a new long-term partnership with the Russian football club CSKA Moscow. **29.12.** Picture 21 adidas sponsored David Beckham joins AC Milan for his loan spell with the Italian club.

Our Share

In 2008, the development of international stock markets and the adidas AG share was profoundly impacted by the crisis in the financial sector and the spillover effects on the global economy. Significant losses in the financial industry, recessionary fears, inflationary pressure, record oil prices and rapid currency movements contributed to highly volatile financial markets during the year. In tandem with the negative trends on international stock markets, the adidas AG share declined 47% in 2008. Given the strong 2008 operational performance and Management's confidence in the strength of the Group's financial position and long-term strategy, we intend to propose an unchanged dividend per share at our 2009 Annual General Meeting.

adidas AG share price development mirrors weak international stock markets

After having significantly outperformed the DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index in 2007, the adidas AG share could not sustain this positive momentum and declined in tandem with international stock markets in 2008. The adidas AG share price decreased by 47% over the course of the year. Our share underperformed the DAX-30 as well as the MSCI World Textiles, Apparel & Luxury Goods Index which decreased 40% and 42%, respectively. All major international stock indices including the DAX-30 and the MSCI World Textiles, Apparel & Luxury Goods Index declined at the beginning of the year as several US banks incurred significant write-offs related to the subprime crisis. During the second quarter, high inflation rates in Europe and a deteriorating macroeconomic outlook in the USA, led by low consumer confidence levels, heightened recessionary concerns and kept international stock markets subdued.

In the third quarter, record high oil prices of US$ 147 a barrel, weakening business confidence indicators and increasing government intervention in the financial sector resulted in a sharp downturn across all global indices. Whilst remaining volatile and still suffering from uncertainty among investors and analysts, markets recovered slightly from November lows, as coordinated interest rate cuts and further governmental stimulus packages provided some positive impetus.

Solid operational performance unable to offset macro trends

After reaching an all-time high at the end of December 2007, the adidas AG share price declined at the beginning of the year. Turbulence on international stock markets related to the crisis in the financial sector and fears the USA might slip into recession burdened our share price development. The initiation of adidas AG's share buyback programme as well as the announcement of the Group's full year 2007 results were positively received. However, concerns around the Reebok business outlook and the state of the North American sporting goods markets negatively impacted the adidas AG share price afterwards. Strong first quarter financial results, which exceeded market expectations and included strong performances by the adidas and TaylorMade-adidas Golf segments, led to a significant share price increase in May. However, the adidas AG share price declined in line with strong decreases in footwear, luxury and retail sectors throughout the remainder of the second and the beginning of the third quarter as investor sentiment worsened in light of macroeconomic concerns.

Our quarterly earnings release in early August was well received by investors and analysts due to the increased full year guidance for our gross and operating margins. However, the share price further declined in the subsequent months, due to the steep downward trend on international stock markets. At the beginning of November, our nine months results publication led to a slight share price increase. Nevertheless, the adidas AG share closed 2008 at € 27.14, declining 47% over the course of the year. As a result of this development, our market capitalisation decreased to € 5.3 billion at the end of 2008 versus € 10.4 billion at the end of 2007.

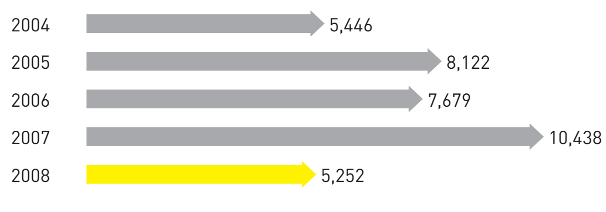
The adidas AG share

Number of shares outstanding	
2008 average [1]	197,562,346
At year-end 2008 [2]	193,515,512
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 Index Excellence Global
	Ethibel Index Excellence Europe
	ASPI Eurozone Index

1) After deduction of treasury shares.
2) All shares carry full dividend rights.

adidas AG market capitalisation at year-end

€ in millions



adidas AG share 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, 2008, our weighting in the DAX-30, which is calculated on the basis of free float market capitalisation and 12-month share turnover, was 1.19% (2007: 1.31%). Our lower weighting compared to the prior year was largely a result of our decreased market capitalisation and share turnover. Average daily trading volume of the adidas AG share (excluding bank trades) declined from 2.2 million in 2007 to 2.0 million shares in 2008. Within the DAX-30, we ranked 19 on market capitalisation (2007: 21) and 25 on turnover (2007: 22) at year-end 2008.

Strong sustainability track record reflected in index memberships

In recognition of our social and environmental efforts, adidas AG is part of several sustainability indices. For the ninth consecutive time, adidas has been included in the Dow Jones Sustainability Indexes (DJSI). The index, which analyses and tracks the social, environmental and financial performance of more than 300 companies worldwide, rated adidas for the sixth time in a row as industry leader in sustainability issues and corporate responsibility in the category "Clothing, Accessories & Footwear". In addition, adidas was named "Super Sector Leader" 2008/2009 in the sector "Personal & Household Goods" and thus ranks among the most sustainable companies worldwide.

In addition, adidas AG was again included in the FTSE4Good Europe 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 again included in the Vigeo Group's Ethibel Excellence Sustainability Indices (Europe and Global) as well as in the ASPI Eurozone Index. The Vigeo Group is a leading European supplier of extra-financial analysis that measures companies' performance in the fields of sustainable development and social responsibility. Further, the adidas Group was included for the fourth consecutive time in the list of The Global 100 Most Sustainable Corporations in the World. This is a project initiated by Corporate Knights Inc. with Innovest Strategic Value Advisors Inc., a research firm specialised in analysing extra-financial drivers of risk and shareholder value. Launched in 2005, the annual list of The Global 100 Most Sustainable Corporations in the World is unveiled each year at the World Economic Forum in Davos.

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 212%. This represents a clear outperformance of both the DAX-30 and the MSCI Index, which increased 118% and 55% respectively during the period.

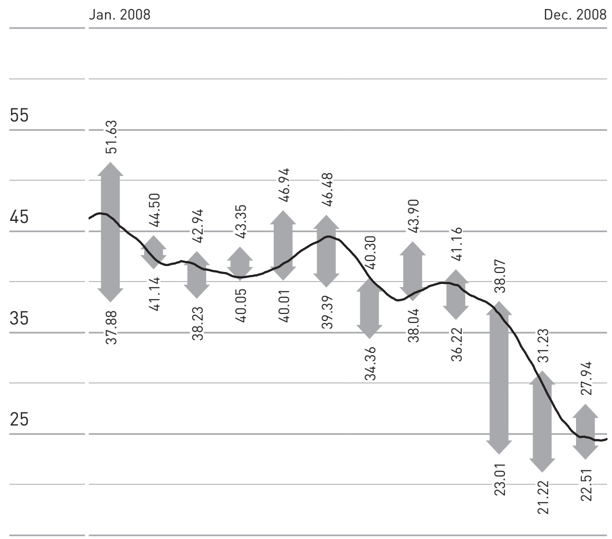
ADR performs in line with common stock

Since its launch on December 30, 2004, our Level 1 American Depositary Receipt (ADR) facility has enjoyed great popularity among American investors. Roughly in line with the development of our common stock, the Level 1 ADR closed the year at US$ 19.35, representing a decrease of 48% versus the prior year (2007: US$ 37.20). The number of Level 1 ADRs outstanding decreased to 8.9 million at year-end 2008 (2007: 11.1 million). However, the average daily trading volume increased 32% compared to the prior year. Since November 2007, the adidas AG ADR is quoted on the international OTCQX. This electronic trading forum includes leading international companies with substantial operating businesses and credible disclosure policies.

Historical performance of the adidas AG share and important indices at year-end 2008 in %

	1 year	3 years	5 years	since IPO
adidas AG	(47)	(32)	20	212
DAX-30	(40)	(11)	21	118
MSCI World Textiles, Apparel & Luxury Goods	(42)	(22)	9	55

adidas AG high and low share prices per month [1]



— 30-day moving average   High and low share prices

1) Based on intra-day prices.
Source: Bloomberg.

Five-year share price development[1]

- adidas AG
- DAX-30
- MSCI World Textiles, Apparel & Luxury Goods

1) Index: December 31, 2003 = 100.

Convertible bond trades at a premium

The publicly-traded convertible bond closed the year at € 121.00, which is 40% below its prior year level (2007: € 202.65). This represents a premium of around 13.6% above par value of the share.

Dividend proposal at prior year level

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 7, 2009 (2007: € 0.50). Subject to the meeting's approval, the dividend will be paid on May 8, 2009. Management has decided to maintain the dividend level in light of the tough business environment and our focus on reducing net borrowings. The total payout of € 97 million (2007: € 99 million) reflects a decrease of our payout ratio to 15% of net income (2007: 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.

Share buyback programme completed

On January 29, 2008, adidas AG announced a share buyback programme. The buyback was conducted on the basis of authorisations given by the Annual General Meetings on May 10, 2007, and May 8, 2008, respectively. Under the programme, adidas AG 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) could be repurchased, exclusively via the stock exchange.

On October 27, 2008, adidas AG announced the completion of the programme. Between January 30 and October 22, 2008, adidas AG repurchased a total of 10,182,248 shares at an average price of € 40.21. This represents 5% of the stock capital at the time the programme started. The total buyback volume amounted to € 409 million. The repurchased shares were cancelled, hence increasing earnings per share.

Share ratios at a glance

		2008	2007
Basic earnings per share	€	3.25	2.71
Diluted earnings per share	€	3.07	2.57
Operating cash flow per share	€	2.52	3.83
Year-end price	€	27.14	51.26
Year-high	€	51.63	51.26
Year-low	€	21.22	34.50
Dividend per share	€	0.50[1]	0.50
Dividend payout	€ in millions	97[2]	99
Dividend payout ratio	%	15[2]	18
Dividend yield	%	1.84	0.98
Shareholders' equity per share	€	17.50	14.85
Price-earnings ratio at year-end		8.8	19.9
Average trading volume per trading day	shares	1,966,669	2,231,485
DAX-30 ranking[3] at year-end			
by market capitalisation		19	21
by turnover		25	22

1) Subject to Annual General Meeting approval.
2) Based on number of shares outstanding at year-end.
3) As reported by Deutsche Börse AG.

Increasingly international investor base

Based on the amount of invitations to our AGM in May 2008, we estimate that adidas AG currently has around 70,000 shareholders. In our latest ownership analysis conducted in December 2008, we identified 72% of our shares outstanding. Shareholdings in the North American market account for 30% of our total shares outstanding. Identified German institutional investors hold 10% of shares outstanding. The shareholdings in the rest of Europe excluding Germany amount to 28%, while 1% of institutional shareholders were identified in other regions of the world. adidas Group Management, which comprises current members of the Executive and Supervisory Boards, holds 3% in total see Corporate Governance, p. 026. Undisclosed holdings, which also include private investors, account for the remaining 28%.

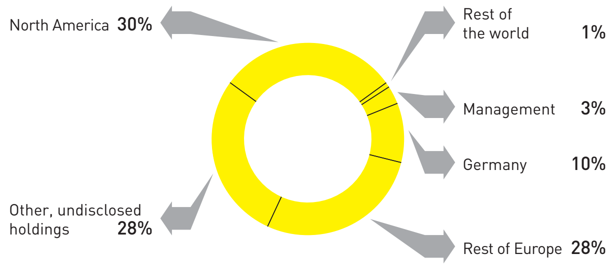
Voting rights notifications received

All voting rights notifications in accordance with § 21, section 1 of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) received in 2008 can be viewed on our corporate website at www.adidas-Group.com/shareholdings. Further information can also be found in the Notes section of this Annual Report see Note 21, p. 176.

adidas Group receives strong analyst support

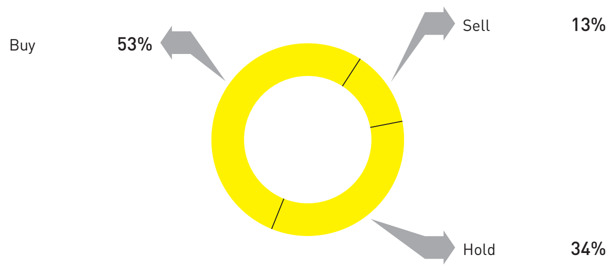
The adidas Group continued to receive strong analyst support in 2008. Around 30 analysts regularly published research reports on adidas AG. In 2008, Commerzbank initiated coverage while Merrill Lynch shifted reporting on our share to Europe from North America. Most of the coverage on the adidas AG share now takes place in Europe. 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 at December 31, 2008. 53% of analysts recommended investors to "buy" our share in their last publication during the 12-month period (2007: 84%). 34% advised to hold our share (2007: 16%). 13% of the analysts recommended a "sell" rating (2007: 0%).

Shareholder structure [1]



1) In December 2008.

Recommendation split [1]



1) At year-end 2008.
Source: Bloomberg.

Award-winning Investor Relations activities

adidas AG strives to maintain continuous close contact to institutional and private shareholders as well as analysts. In 2008, Management and the Investor Relations team spent more than 30 days on roadshows and presented at numerous national and international conferences. At the Annual General Meeting in May 2008, we conducted a private shareholder survey reflecting high satisfaction with our share as an investment as well as our Investor Relations services.

In June, nearly 40 analysts and investors joined the Group's CFO Robin J. Stalker and the Investor Relations team for an Investor Field Trip to China. Store visits as well as extensive presentations outlined the Group's strategy in Asia.

The print version of our 2007 Annual Report ranked strongly, taking first place in the DAX-30 and the overall ranking by the "manager magazin" competition "The Best Annual Reports".

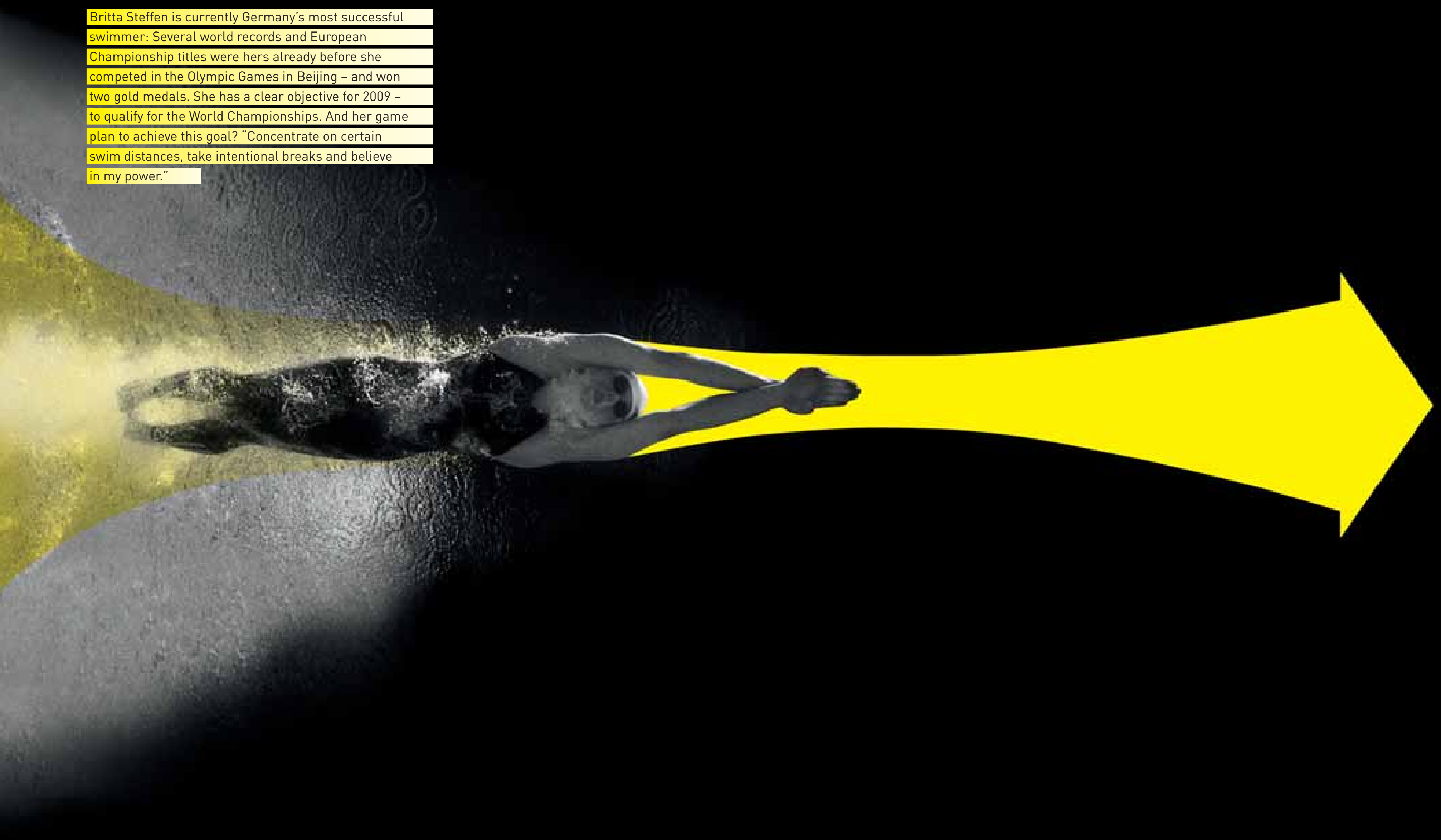
Extensive financial information available online

We offer extensive information around our share as well as the Group's strategy and financial results on our corporate website at 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 Conferences, the Annual General Meeting and our Investor Day, we also offer podcasts of our quarterly conference calls. In January 2008, we launched an event reminder service to ensure timely notification about upcoming corporate events to interested shareholders.

Britta Steffen

adidas

Britta Steffen is currently Germany's most successful swimmer: Several world records and European Championship titles were hers already before she competed in the Olympic Games in Beijing – and won two gold medals. She has a clear objective for 2009 – to qualify for the World Championships. And her game plan to achieve this goal? "Concentrate on certain swim distances, take intentional breaks and believe in my power."



2

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 dedicated
to consistently delivering outstanding financial results.

We are committed
to continuously strengthening our brands and products to improve our competitive position.

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 consumer focused
and therefore we continuously improve the quality, look, feel and image of our products and our organisational structures to match and exceed consumer expectations and to provide them with the highest value.

We are a global organisation
that is socially and environmentally responsible, creative and financially rewarding for our employees and shareholders.

adidas GROUP

adidas
(72% of Group sales)

Reebok
(20% of Group sales)

TaylorMade-adidas Golf
(8% of Group sales)

Sport Performance (80% of adidas sales)
The guiding principle of the adidas Sport Performance Division is to equip all athletes to achieve their "impossible". adidas Sport Performance brings its passion for great products to athletes in all sports and mainly focuses on four key categories globally: football, running, training and basketball.

Sport Style (20% of adidas sales)
The Sport Style Division is the home of Originals, defined as authentic sportswear, the Fashion Group, which is the future of sportswear, and Style Essentials, the fresh sport-inspired label made accessible for style-adopting youth. Together they offer consumers products from street fashion to high fashion, all uniquely inspired and linked to sport.

Reebok (80% of Reebok sales)
Inspired by its roots in sport and women's fitness, Reebok is a global brand that is committed to developing innovative products which will allow Reebok to own Women's Fitness, challenge the Men's Sport category and revive its Classics heritage.

Reebok-CCM Hockey (9% of Reebok sales)
Reebok-CCM Hockey is one of the world's largest designers, manufacturers and marketers of hockey equipment and apparel with two of the world's most recognised hockey brand names: Reebok Hockey and CCM Hockey.

Rockport (11% 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.

TaylorMade (70% of TaylorMade-adidas Golf sales)
TaylorMade is a leader in the industry and 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 (30% 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.

Ashworth (acquired in November 2008)
Ashworth is a leading designer of men's and women's golf-inspired lifestyle sportswear distributed internationally in golf pro shops and resorts as well as upscale department and speciality stores.

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 maximise 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 optimise 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 optimise 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. 070. Further, we are particularly focused on ensuring best-practice social and environmental standards see Sustainability, p. 067. 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 organisation.

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 priorities:

- 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 a 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. 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 organisation and sharing best practice across our Group. In particular, we continue to prioritise the development and further integration of our supply chain across all brands, turning it into a long-term competitive advantage for our Group see Global Operations, p. 064.

Leading position in markets worldwide

As a global organisation, 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 twofold. First, we continue to strengthen our position in the major Western European markets and strive to grow our brands through well-coordinated efforts with key account partners. Secondly, we are capitalising 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 under-represented 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 several markets, 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: China and Japan. In tandem, we will also continue to capitalise on opportunities in other emerging markets in Asia such as India.

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.

Leading through innovation and design

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, 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 see Research and Development, p. 074.

Through design partnerships and collaborations with Stella McCartney, Yohji Yamamoto, Porsche Design and Jean-Michel Basquiat 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 premium price points, thus contributing to Group margin improvement.

Customising 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 including e-commerce
- 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 organisations 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 position. We intend to generate at least 35% of our Group's revenues through controlled space in the coming years.

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. Creating value for our shareholders through significant free cash flow generation drives our overall decision-making process see Internal Group Management System, p. 058. 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 optimising 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 strives to be the leading sports brand in the world – an ambitious yet realistic goal. One major lever to achieve this is the brand's broad and unique product portfolio spanning from apparel and footwear for professional athletes to premium fashion. It allows adidas to address multiple consumer needs, tackle market opportunities from various angles as well as be less affected by one-dimensional market risks. This product portfolio as well as adidas' commitment to excel in all relevant segments differentiates the brand from competitors and ensures solid market growth, while staying true to the brand's values. Currently, the brand focuses on five global priorities: Football, Running, Training, Basketball and Originals.

Preparing the adidas business for the future

Like every world-class athlete, adidas is continuously trying to be faster, stronger and thus more competitive. To further focus on becoming a more efficient organisation, a comprehensive "Streamlining Complexity" programme commenced at the beginning of 2008. The objective is to increase the efficiency of how adidas brings concepts to market, defining clear responsibilities, and ensuring optimal external results in the marketplace. The programme is also designed to help adidas reduce costs. In 2008, for example, adidas already achieved a significant article reduction that will drive improvements in net sales per article. In addition, this will reduce workload in the creation area going forward, facilitating higher focus on key product initiatives. The Streamlining Complexity programme will continue in 2009, providing a platform to maximise future brand profitability and a more dedicated focus on the brand's core strengths.

Innovation leadership through personalisation

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, personalisation represents a key focus. Personalised product concepts at adidas include:

— Interactive product concepts such as miCoach – an individual training system launched in 2008, which can sense, understand and adapt to the consumer's needs.

— Customised solutions such as the mi Originals 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, personalisation includes providing tailor-made offerings – be it online or in stores. Personalisation 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 and it is adidas' goal to be the most personal sports brand by 2015.

Partnership network strengthened

The utilisation of promotion partners such as federations, teams, leagues, events, individuals and designers is an important part of the brand's strategy. This not only serves to showcase the credentials of adidas products in the performance arena, but also to facilitate the extension of the adidas brand in the sport-inspired lifestyle market. In 2008, the Sport Performance division further strengthened its promotional partnership network. In November, adidas announced a long-term partnership with the IAAF. Under this agreement, adidas will be the official IAAF athletic sponsor and licensee product supplier, a partnership that incorporates every aspect of athletics, and makes adidas the Official Sponsor of the 2009 IAAF World Championships in Berlin. The brand extended contracts with two of the world's most recognised football clubs: AC Milan and Ajax Amsterdam. Furthermore, the Russian Football Union was added as a partner – an important step for the brand's future success in the Russian market. Also, the sponsorship deal with the All Blacks, New Zealand's iconic rugby team, was extended. In the Sport Style division, adidas has created a new platform – Originals by Originals – to increase its collaboration with some of the world's leading designers. Season after season, this programme will allow adidas to offer consumers cutting-edge footwear and apparel that reflects the diversity and creativity of the designers who work close to the brand. Jeremy Scott, Alyasha and Kazuki have each created mini collections for the launch of this initiative in spring 2009.

Increasing cooperation with retail partners

Success in both Sport Performance and Sport Style requires an effective distribution strategy and a solid network of reliable retail partners. The right presentation and availability of consumer-relevant products as well as excellent customer service at the point-of-sale are critical in this respect. adidas currently generates around 82% of its business with its retail partners. Two of the highest strategic priorities to drive future business growth with the brand's partners are:

— Consumer-oriented range segmentation today forms the foundation for closely targeted brand activation plans. In this, adidas is working very closely with its main retail partners to fully align consumer propositions and to develop unique selling propositions in line with the partner's target audience. In 2008, an example of this was the collaboration with the Intersport Group around the UEFA EURO 2008™. adidas also seeks to broaden its distribution network with the addition of new partners, in particular sports specialist or fashion specialist customers, as the product offering is expanding continuously.

— Retail space management (e.g. shop-in-shops) is becoming the most dynamic business model for adidas and is a key part of the brand's controlled space expansion. In this, the brand is cooperating with retailers along the entire supply chain all the way through to the point-of-sale. Replenishment models secure high levels of product availability throughout the season, allowing for quick adaptation to demand patterns. In addition, by increasing control over point-of-sale presentation, regular brand statements and product updates give adidas higher flexibility to generate consumer awareness.

To support these initiatives, during 2008 the brand extended the reach of its innovative web portal services and added attractive new features to its CRM platform in many countries around the world. Going forward, adidas is ready to invest into new forms of cooperation to remain at the forefront of customer collaboration and partnership.

Own retail and e-commerce

Own-retail expansion is an important strategic driver for adidas brand growth. While serving as a mechanism to expand distribution where retail infrastructure is under-developed (such as in many emerging markets), own-retail activities also give the brand valuable insight into consumer trends and product positioning in all markets where adidas operates its own stores. In addition, improving own-retail presence and processes will – in the long run – also be beneficial for enhancing other controlled space initiatives as best practices in presenting brand image can be incorporated in these concepts.

2008 marked a milestone in adidas own-retail history with the opening of the first adidas Brand Center in Beijing a month before the Beijing 2008 Olympic Games. As the largest adidas own-retail store in the world with 3,170 m^2, the Brand Center offers products from all adidas categories under one roof. Other retail initiatives carried out in 2008 included refining the women's and kids' areas and a revised, more customer-friendly footwear department in adidas Sport Performance stores. The Sport Style division released new concepts for the Originals stores called Atelier and Studio. Furthermore, a refreshed Y-3 store concept has been launched and is already exceeding expectations. To fully exploit the potential of the new Style Essentials range, adidas has opened numerous dedicated stores via the adidas franchise partners in China.

In 2008, adidas also successfully launched its e-commerce platform in four major European markets (Germany, the Netherlands, France and the UK). In 2009, the United States and selected European countries will welcome mi Performance online as part of the mi adidas® customisation solution.

Sport Performance: divisional overview

No other brand has a more distinguished history or stronger connection with sport than adidas; not only where the best meet the very best, like at the Beijing 2008 Olympic Games, but everywhere around the globe where sports are played, watched, enjoyed and celebrated.

Everything at adidas reflects the spirit of its founder Adi Dassler. That means adidas intends to inspire, 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:

— Football
— Running
— Training
— Basketball

In all these areas, adidas strives to be the leading global brand in terms of sales. Additionally, adidas plans to intensify its activities in the outdoor market see adidas Products and Campaigns, p. 128 and to further extend its strong global market 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 – Football: expanding market leadership

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. Building on its success around major sporting events such as the FIFA World Cup™ and the European Football Championship, 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, Russia, Spain, Romania, Greece, Argentina, Mexico, Japan), leagues (e.g. Major League Soccer in the USA), clubs (e.g. Real Madrid, AC Milan, Chelsea FC, Liverpool FC, FC Bayern Munich, River Plate Buenos Aires) and individual players (e.g. Kaká, Lionel Messi, David Beckham, Michael Ballack).

In 2008, adidas continued to grow its market leadership in football markets around the world, thanks to the brand's strong presence at the UEFA EURO 2008™. Going forward, the football category will concentrate on the lead-up to the 2010 FIFA World Cup South Africa™. In addition, the FIFA Confederations Cup in South Africa and the UEFA Champions League serve as important platforms to showcase new products and marketing concepts throughout 2009.

Sport Performance – Running: building credibility with high-performance athletes

Running continues to be one of adidas' highest category priorities and is 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.

The brand's philosophy is to inspire and enable runners on all levels. First and foremost, adidas focuses on building credibility with the high-performance athlete. This credibility is the foundation for eventually tapping into the broader opportunity in the running category, the casual runner.

In 2009, running will focus on personalisation as well as more exciting and feminine products for women runners. Using the marketing mantra "Because Every Runner Is Different", adidas Running will introduce the exciting new family Gazelle in addition to current product families such as the adiSTAR® and Supernova™ offerings. The huge track and field support that adidas provides its athletes with will also become apparent on the world's biggest sporting stage in 2009, at the IAAF World Championships in Berlin.

Sport Performance – Training: leading in innovation

At adidas, training is the biggest category for both men and women. Training supports the preparation needs of serious athletes across all sports disciplines and is the industry's largest apparel category. Innovation continues to be an important strategic priority in this category. In September 2008, adidas purchased Textronics, Inc., a specialist in integrating high-tech heart rate, moisture and blood pressure monitoring technology into performance apparel. This acquisition will help strengthen adidas' leading position in the intelligent product category. Furthermore, adidas will continue to deepen its relationship with other key partners, providing athletes with insights, advice and training programmes, which will be delivered on the adidas miCoach platform.

In addition to new innovations, training continues to evolve and develop its existing industry-leading technologies. Updated gender-specific body mapping enables CLIMA to stay at the forefront of delivering optimal solutions for moisture management and body temperature control. TECHFIT™ compression, led by the unique TECHFIT PowerWEB proposition, will further broaden itself as a cross-category technology featuring on athletes in sports as wide-ranging as football and athletics to basketball, swimming, rugby and boxing see adidas Products and Campaigns, p. 129.

We believe one of our major existing growth areas and key long-term opportunities for the brand is women's training. In 2009, a campaign entitled "Me, Myself" featuring tennis player Ana Ivanovic and basketball star Candace Parker will be launched, recognising the personalised and individual needs of women who want to be "fit to win" and "fit for life".

Sport Performance – Basketball: the "Brotherhood" grows

adidas is one of the leading basketball brands worldwide with a strong presence outside of North America. Increasing its footprint in basketball, in particular in the critical North American market, therefore represents another key component of the adidas brand strategy. adidas intends to strengthen its position in the category by emphasising the brand's unique positioning – with a clear focus not only on individual but also on team performance.

In 2008, adidas Basketball continued to leverage its unique NBA partnership and developed the "Brotherhood" campaign which will continue in 2009. 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. With basketball overtaking football as the most popular sport in China, adidas brought the NBA to Shanghai in 2008. With the NBA live and 5IVE grassroots events, and the introduction of TECHFIT PowerWEB as the official compression apparel of the NBA, adidas Basketball will continue to excite consumers in 2009.

Sport Style: divisional overview

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.

adidas was the first brand to credibly leverage its sports assets in the lifestyle arena and as a result is regarded as a legitimate sports lifestyle brand. What started as a niche business has developed into a significant contributor to the brand's top line with potential to represent up to 30% in the medium to long term. To best tap the potential of the sports lifestyle market, adidas created a dedicated Sport Style division primarily focused on its Originals and Fashion businesses (e.g. Y-3, Porsche Design).

Sport Style – adidas Originals: from niche to fashion mainstream

The cornerstone of the Sport Style division is adidas Originals: the original lifestyle brand, born in sport heritage but living in contemporary lifestyles. adidas Originals is uniquely positioned amongst its competitors in that it unites and touches diverse pockets of popular culture around the world. Its biggest strength and point of difference is the ability of the Trefoil to be a relevant part of people's lives – in whatever lifestyle they have: skater, rocker, artist, musician, sneakerhead, sports fan, etc.

With a holistic offering in products and communications, adidas Originals speaks to and engages the youth audience in authentic, creative and new ways with the "Celebrate Originality" philosophy.

To address the needs of its diverse consumer groups and maximise business opportunities, adidas Originals takes a two-tier strategy to brand and product marketing: Statement and Core. Statement product concepts aim to generate buzz and to add freshness to the brand. Core product concepts aim to generate sales volumes by presenting a constant collection that is uniquely adidas. In essence, Core is the bread and butter of adidas Originals and includes all collections that consumers have come to depend on.

The brand marketing focus is with the core consumer, so in 2008 the marketing efforts behind adidas Originals were also increased significantly with the first global campaign including television and cinema, the "Originals House Party", featuring entertainment icons like Missy Elliott and Katy Perry, or sports icons from Ilie Nastase to David Beckham celebrating "60 Years of Soles and Stripes".

In 2009, adidas Originals will complete the full transition from niche marketing to mainstream with the largest global Originals brand campaign ever, coinciding with the 60th anniversary of the brand.

Sport Style – adidas is fashion: Y-3 and the adidas SLVR Label

Since 2002, adidas has rapidly expanded Y-3, a collaboration with one of the most innovative and highly regarded global designers: Yohji Yamamoto. Y-3 successfully combines the worlds of fashion and sports and makes adidas a true pioneer in the field of sport-inspired high-end, premium fashion. adidas is the only sports brand with a greatly anticipated and well-regarded show at each New York Fashion Week.

Controlled space will be the main strategic priority for Y-3 in the upcoming years. By the end of 2010, adidas targets to have 40 Y-3 stores (including franchise and own-retail stores) located in the world's top shopping destinations. Furthermore, a Y-3 online store has been launched in the USA in 2008, with the extension of e-commerce to other markets following in the future.

The opportunity or "new-ness", however, will come through leveraging what has been created through Y-3 and Originals to expand the brand's fashion lifestyle offer to more and different consumers. In 2009, adidas will bring the Sport Style division to another level with the launch of the adidas SLVR Label, a pure fashion brand for the modern cosmopolitan consumer, offering "simply perfect" garments, shoes and accessories. The adidas SLVR Label celebrated its premiere at the New York Fashion Week in February 2009, which will be followed by the opening of its first store worldwide.

Sport Style – extending brand reach through adidas Style Essentials

In 2008, adidas took a big step forward with the expansion of the Sport Style division through the introduction of adidas Style Essentials. adidas Style Essentials is a complete offering of footwear, apparel and accessories which takes its design inspiration from the entire brand, both Sport Performance and Sport Style, but offers it up in different distribution channels and at more accessible price points. It capitalises on existing trends and brings them to market more rapidly than traditional sporting goods timelines. adidas Style Essentials is primarily distributed through mono-branded stores in Asia and through key account partners in North America and Europe.

Reebok Strategy

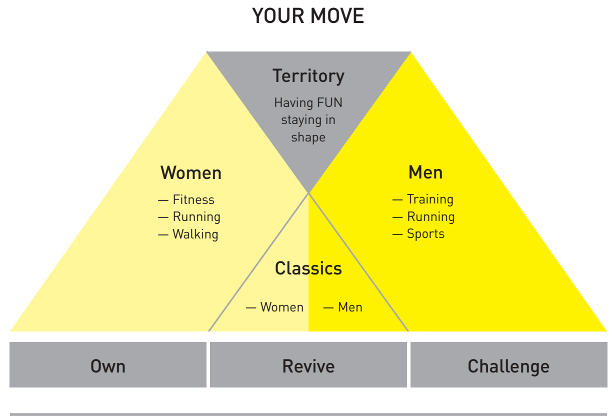
The Reebok segment is comprised of the Reebok brand, Reebok-CCM Hockey and Rockport. In 2008, the Reebok brand has further refined its strategy considering the brand's heritage and values, consumer insights and positioning within the adidas Group portfolio. Inspired by its roots in sport and women's fitness, Reebok developed a clear roadmap for its key businesses going forward: Own Women's Fitness, Challenge Men's Sport and Revive Classics. Central to Reebok's brand heritage is the courage to challenge convention. Unlike many other brands, Reebok is committed to make fitness fun again – challenging men and women to fulfil their potential in sport and in life by providing them with the opportunity, the products and the inspiration to have fun staying in shape.

Becoming the "brand that fits me"

As a consumer-driven brand, Reebok commits to offer consumers products that provide maximum fit and comfort see Research and Development, p. 074. For Reebok this means designing and developing products with materials, styles and technologies that enhance fit and comfort for consumers. With technologies such as SmoothFit™, KineticFit and The Pump™, Reebok has already provided consumers with innovative fit elements in its apparel and footwear. In 2008, Reebok expanded its SmoothFit™ technology across all sports categories, providing an amazing fit through the elimination of interior seams within the shoe. In 2009, the brand will take this approach a step further with the launch of a new innovative footwear technology to meet the versatile needs of today's athletes, called SelectRide™. Through its adjustable air-inflated underfoot cushioning system, the SelectRide™ technology creates two shoes in one – a running shoe and a training shoe. Initiatives like these support Reebok's fit and innovation strategy and will be the focus of Reebok's innovation going forward.

Becoming the "brand that fits me" also means addressing consumers in a personal, engaging way so they can better identify with the brand. Reebok's global brand campaign, "Your Move", is an invitation for people to express themselves, in sport and life, in their own individual way. This campaign was launched in 2008, and will continue through 2009 as a connecting theme across all categories.

Reebok strategy and focus areas



However, the concept of fit is not only a product and marketing philosophy. Instead, it should guide all facets of the brand's business. That means meeting the needs of consumers, promotional partners, retailers and employees. With a "perfect fit" distribution strategy, Reebok intends to offer the right products to 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.

Own women's fitness

Reebok is on a mission to make fitness fun again for women. The brand's commitment to women's fitness is long-standing. It introduced Step Reebok in 1989 and virtually invented the aerobics movement of the 1980s. This heritage and credibility has connected women to Reebok like no other brand, and will serve as the cornerstone for the brand's business expansion.

Reebok began to define its focus on women's fitness in autumn 2008, launching a women's specific "Your Move" campaign. In 2009, the brand will accelerate its women's programmes, introducing new partnerships and products and once again reaffirming its support of women's health and fitness – whether in the gym, out of the gym or for a cause.

In the gym: Reebok and Cirque du Soleil entered into a revolutionary partnership, inspiring a new workout experience and product collection that is forward-looking, exploratory and feminine. In spring 2009, Reebok and Cirque du Soleil will launch JUKARI Fit to Fly™, a genuine workout experience, inspired by the imaginative, theatrical and physically demanding artistry of Cirque du Soleil see Reebok Products and Campaigns, p. 138. It is a full body cardio, core and strength workout that brings the Reebok philosophy of having fun in fitness vividly to life.

Unique to JUKARI Fit to Fly™ is proprietary new equipment, the FlySet™, created by Reebok and enabling a diverse repertoire of exercises and movement progressions. With dramatic music, fluid choreography and unique signature moves, JUKARI Fit to Fly™ is unlike anything currently available in gyms. Alongside JUKARI Fit to Fly™ is a fully integrated women's fitness range, the Reebok Cirque du Soleil collection, which combines the performance demands of the workout experience with the creativity and artistry of Cirque du Soleil.

Personifying its philosophy of having fun staying in shape, Reebok is partnering with some of the world's top women's fitness instructors renowned for their inspirational approach to fitness. The Reebok Global Instructor Team are ambassadors of the brand, JUKARI Fit to Fly™ teachers and inspirational motivators for women worldwide. JUKARI Fit to Fly™ will be available through a group of select worldwide gym partners from early 2009.

In addition, Reebok will also launch the On The Move collection of apparel and footwear. Designed specifically for a woman's body and how she moves and created for the needs of a woman's busy lifestyle, the collection is versatile and able to be mixed-and-matched in or out of the gym.

Out of the gym: Women are busy and don't always find the time to fit in their daily workout. Based on this relevant consumer need, in 2009, Reebok will launch the EasyTone™ footwear collection that allows consumers to "take the gym with them" see Reebok Products and Campaigns, p. 138. The EasyTone™ technology involves two balance pods under the heel and forefoot of the shoes that create natural instability with every step, forcing the muscles to adapt and develop tone.

For a cause: Reebok is committed to helping fight breast cancer. The company is the official global footwear and apparel sponsor of the Avon Walk Around the World for Breast Cancer. The brand has developed a special Pink Ribbon collection of sports and lifestyle products for the walk. All products carry the symbolic Pink Ribbon and Reebok makes a significant monetary contribution each year to supporting research into a cure against this deadly disease. Reebok also plans to activate its newly formed Reebok Global Instructors locally in 2009 in support of its Pink Ribbon Avon partnership.

Challenge in men's sport

Reebok is a well-recognised men's sports brand, a product of its long-standing partnerships with several of the world's top athletes, professional leagues and teams. Many of the world's most recognisable athletes support Reebok, including Eli Manning (2008 Super Bowl MVP), Santonio Holmes (2009 Super Bowl MVP), Alexander Ovechkin (2008 NHL MVP), Yao Ming (Olympic flag bearer for China), and footballers Thierry Henry (France's top goalscorer) and Iker Casillas (goalkeeper-captain of Spain).

Given Reebok's close collaboration with athletes, the brand has a clear understanding of athletes' training needs. In 2009, Reebok will focus on the largest globally relevant market segments, formulating a unique point of difference by fusing running and training into one.

The primary focus is on creating versatile products that help athletes prepare for their sport irrespective of the discipline. One such example is the launch of the SelectRide™, an under-foot cushioning technology that allows the athlete to select the "train" or "run" mode.

To support this running/training initiative, Reebok formed a new partnership with British driving sensation Lewis Hamilton, the youngest ever Formula One champion. Reebok has already successfully leveraged this partnership in 2008 through its innovative "The Athlete within the Driver" campaign and will continue to build on this throughout 2009.

This global focus on running and training will be complemented by a select set of regional category priorities, including American football, hockey, baseball and lacrosse in North America, football in Europe and Latin America, and cricket in India. The brand holds exclusive, long-term licensing agreements with the National Football League, National Hockey League and National Lacrosse League in North America, giving Reebok the exclusive rights to manufacture and market both authentic and replica uniform jerseys and sideline apparel.

For example, in North America, Reebok's successful partnership with the National Football League has provided significant exposure for the brand. 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 utilising individual players such as Peyton Manning and Eli Manning as brand ambassadors, Reebok strives to strengthen its connection with consumers.

Revive Classics

Most brands in the sporting goods industry define themselves as either a sport or a lifestyle player. Reebok has a long heritage within the industry based on products that bridge the gap between sport and lifestyle. 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 for the future, Reebok has been working over the past three years to limit distribution of its Classics products to allow the market to recover from oversupply.

Going forward, to leverage its iconic sports heritage, Reebok will revive its Classics brand with a refined and widened product range. In rebuilding this business, a key tenet of the strategy will also be to control distribution by segmenting the product offering available for retailers as well as keeping a tight rein on supply. The intention is to reach a new generation of consumers. Within Classics there will be three collections: Retro Sports Line, Always Classics and Heritage.

Taking inspiration from its authentic fitness Classics, Reebok has remixed iconic models from its past – Freestyle™, Ex-O-Fit™ and The Pump™ – for the spring/summer 2009 collection, creating modern versions of them. These new shoes have the distinct Reebok Classics branding, but have been energised with a modern look and feel. On November 20th, 2009, Reebok will celebrate the 20th anniversary of The Pump™, which revolutionised the athletic footwear industry and was one of the most successful shoes ever created. Through a partnership with 20 select retailers around the world, custom collaborations of The Pump™ will be newly developed in 2009 and exclusively launched in select stores in limited quantities see **Reebok Products and Campaigns, p. 138.**

Growth opportunities through controlled space and e-commerce

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 2008 for example, Reebok formed a new men's and women's sports apparel partnership with Dick's Sporting Goods, introducing hundreds of new Reebok shop-in-shops throughout Dick's stores in the USA. In addition, Reebok began rolling out shop-in-shops with key European retail partners in order to represent the new women's concepts holistically. By the end of 2009, Reebok plans to have over 150 of these in place in the European market.

Reebok is also leveraging the digital space to control distribution and build direct consumer relationships. In 2008, Reebok launched a new global website and e-commerce channels in North America and five markets in Europe (UK, France, Netherlands, Ireland, Belgium). The new global website allows Reebok to showcase the breadth and depth of the brand's complete product offering, significantly improving the consumer experience and driving online sales for the brand.

Reebok will build on its controlled space momentum in 2009 with the further roll-out of mono-branded retail stores and shop-in-shops as well as extending its e-commerce platform (e.g. in Germany and Austria). Current plans are to open over 1,000 new mono-branded stores (including franchise and own-retail stores) in the next 24 months, including the introduction of a new Women's Fitness retail format.

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 the targeted 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 long-term sales and profitability growth and preserves the brand's image.

Reebok-CCM Hockey: strengthening innovation leadership

Reebok-CCM Hockey leverages significant brand exposure through its exclusive licensee relationships with the National Hockey League (NHL), the American Hockey League, the Canadian Hockey League (CHL), as well as several colleges (NCAA) and national teams. Reebok-CCM Hockey continues to hold the number one position in global sales in the hockey category through its Reebok Hockey and CCM Hockey brands.

Reebok-CCM Hockey aims to further strengthen its innovation leadership. Product development and design initiatives therefore focus on technologically advanced, performance-enhancing equipment see Research and Development, p. 074. While both brands offer the complete range of hockey equipment and apparel, the CCM brand is focused on leveraging its excellence in skates and Reebok Hockey is focused on hockey sticks and apparel.

The Reebok 2009 Hockey Pro product line will be backed by star athletes such as 2007 NHL MVP Sidney Crosby and top NHL Vancouver Canucks goalie Roberto Luongo. Reebok will introduce for the first time the PUMP™ hockey skate, featuring Reebok's proprietary PUMP™ technology. The company will also bring to market the lightest hockey stick ever, at a mere 405 grams.

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.

Rockport: expanding in the casual lifestyle market

Rockport is a leading global lifestyle footwear brand. It combines engineered comfort with contemporary design in a unique and meaningful way by using technologies derived from the athletic footwear industry. In 2008, Rockport has sharpened its strategy to focus on four key pillars:

- Globalise brand, product and distribution
- Develop a meaningful women's business
- Enhance own retail capability
- Develop organisational structure to support growth

Leveraging the Group's infrastructure (e.g. in emerging markets) is a core element in Rockport's growth strategy. By 2010, more than 50% of Rockport sales are expected to be generated outside of North America. From a category perspective, Rockport has major growth initiatives targeted at the metropolitan consumer. In the women's area, Rockport will continue to invest in people to bring new competency in terms of product creation and design to its organisation. The brand strives to connect with different consumer groups through a well-defined product segmentation and disciplined distribution strategy. Part of this strategy is the creation of a new mono-branded retail concept whose prototype is currently being tested in the USA. Following a review of its performance, and provided it proves successful, this will then be rolled out on a more significant scale later in 2009.

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. To this effect, Rockport will continue to leverage on Group-wide resources with the continued incorporation of industry-leading technologies such as adidas TORSION® and the first-time inclusion of adiPRENE® into its products in 2009 see Rockport Products and Campaigns, p. 145.

TaylorMade-adidas Golf Strategy

TaylorMade-adidas Golf's aim is to be the leading performance golf company in the world in terms of sales and profitability. It combines three of golf's most well-known brands: TaylorMade, adidas Golf and Ashworth. All three brands are dedicated to continuously developing and commercialising innovative, technologically advanced products. TaylorMade-adidas Golf has established six strategic priorities: extending its leadership in metalwoods, continuing to increase market share in irons, maintaining a strong presence in golf balls, maximising growth in footwear and apparel, further strengthening its distribution mix and executing aggressive retail initiatives to drive increased sales.

Capitalising on the strong market positions of three well-established brands

TaylorMade-adidas Golf implements a multi-brand strategy comprised of three well-defined golf brands with strong market positions under one roof. TaylorMade is the market leader in the metalwoods category, is among the leaders in irons, and is steadily evolving into a leader in golf ball manufacturing. adidas Golf footwear and apparel sales have doubled in size during the past five years, thanks in part to the brand's focus on technologically infused performance apparel. The acquisition of Ashworth adds an authentic golf-inspired lifestyle brand complementing adidas Golf's position and increases the segment's presence in the golf apparel market. TaylorMade-adidas Golf is committed to further growing its business in all categories in a profitable way, by harnessing the segment's R&D resources, by leveraging its brand equity and by expanding the distribution of all three brands.

Innovation and design focus

TaylorMade-adidas Golf's core objective is to create the best performance golf products in the marketplace, and that starts with a clear commitment to innovation, technology and leadership on the world's professional golf tours. The segment strives to extend its leadership position with a continued focus on innovation and cutting-edge design while introducing at least one major product innovation or evolution every 12 to 18 months. In 2008, for example, TaylorMade successfully launched two new innovatively designed high-MOI putters called Monza Spider and Itsy Bitsy Spider that proved immediately and immensely popular among Tour professionals, and which helped double TaylorMade's putter sales. In 2009, the segment will continue to leverage the terrific success of the Burner® golf club line with the launch of new Burner® irons see TaylorMade-adidas Golf Products and Campaigns, p. 146, with the long, middle and short irons each designed separately to achieve specific types of performance. adidas Golf continues to leverage adidas' R&D capabilities, incorporating innovative adidas concepts and technologies into golf footwear and apparel products to improve performance, comfort and durability.

Extending leadership in metalwoods

Today, TaylorMade is the clear market leader in metalwoods (drivers, fairway woods and hybrids). The brand is particularly strong in the USA, where it has forged a 30% share of the market and a large lead over its strongest competitor.

This success was driven by TaylorMade's ability to introduce and commercialise a steady stream of new and innovative products. The brand's primary focus going forward is to remain the innovation leader and expand its metalwood business outside the USA. This strategy enabled TaylorMade to gain significant market share in Europe in 2008. In 2009, the launch of the new R9™ driver and fairway woods will serve as a platform to continue the brand's strong momentum globally. In addition to TaylorMade's award-winning Movable Weight Technology™ (MWT®), the R9™ incorporates the brand's new Flight Control Technology (FCT) see TaylorMade-adidas Golf Products and Campaigns, p. 146. The combination of these two technologies adds a new dimension of product customisation, giving golfers the power to change the club head's face angle, loft and lie angle in addition to changing the location of its centre of gravity.

By 2010, TaylorMade plans to establish a global metalwood market position that is as strong as what it enjoys in the USA, in part by strengthening its promotion partnerships in other regions (e.g. new partnerships with Andres Romero of South America and Ye Yang of Asia).

Growing golf ball business by further gaining Tour credibility

Success in this category depends on the ability to create high-performance golf balls, bring them to market and build credibility among Tour professionals. During the last four years, TaylorMade-adidas Golf has restructured its golf ball business to lay the groundwork for a prosperous future. This includes the careful construction of an in-house ball division fully dedicated to developing high-quality, technologically advanced performance products.

TaylorMade successfully extended its premium TP Red™ and TP Black™ golf balls in 2008, upgrading them with a new technology called Low-Drag Performance (LDP) that improves driver distance on off-centre hits. TaylorMade-adidas Golf Tour Staff professional Sergio Garcia used the TP Red™ LDP throughout 2008 when he won the PGA Tour's prestigious Players Championship and rose to No. 2 in the World Golf Rankings. TaylorMade is now the second most-played golf ball brand on the European Tour. More than 270 Tour professionals around the world are playing the TP Red™ and TP Black™. This high level of Tour validation has furthered TaylorMade's credibility as a golf ball brand among professionals and serious golfers. Commercially, this success has fuelled a significant rise in market share, making TaylorMade the industry's fastest-growing golf ball brand.

TaylorMade intends to enhance marketplace acceptance and sales in the golf ball category by extending TaylorMade branded offerings, increasing the number of Tour professionals using TaylorMade balls and further leveraging the successful NOODLE franchise, which focuses on soft-feeling, long-distance golf balls at a value price.

Building on adidas Golf's strength in footwear and apparel

adidas Golf's steady commitment to developing great-looking, great-feeling and performance-enhancing products has made it the fastest-growing footwear and apparel brand in golf during the last three years. The introduction of industry-leading high-performance golf shoes such as the TOUR360, the TOUR360 II and the POWERBAND has helped adidas Golf extend its position as the top-selling footwear brand in Japan and advance its standing as a strong competitor in the global golf footwear market. adidas Golf intends to expand 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 positions itself as the most innovative performance brand in the game by utilising adidas CLIMACOOL®, CLIMACOOL® Motion, CLIMA Compression and CLIMAPROOF® technologies in adidas Golf apparel products. adidas Golf was the first major brand to incorporate technologies like these into golf apparel, making the brand the clear leader in technological innovation. adidas Golf is committed to growing its apparel business by continuing to incorporate leading adidas apparel technologies into golf products, a strategy that will help the brand achieve global market leadership in the category in the medium term. Also, the integration of adidas Golf and Ashworth has extended the segment's distribution capability from over 4,000 to 5,000 green grass retail accounts, creating further distribution potential for adidas Golf.

Authenticity through Ashworth

The acquisition of Ashworth presents TaylorMade-adidas Golf with a unique opportunity to establish a lifestyle business. Through the combination of adidas Golf and Ashworth, the segment is now the leading manufacturer in the golf apparel market. The acquisition allows adidas Golf to sharpen its focus and leadership in performance apparel, while under its new multi-brand approach Ashworth can be refocused to golf lifestyle. Its roots in golf and authenticity as a golf brand provide a key differentiator from other golf lifestyle brands. From a product perspective, the brand will primarily focus on extending its leadership in functional cotton products that deliver a modern look and will prioritise the men's segment. In line with TaylorMade-adidas Golf's strategy, Ashworth will also seek to build Tour visibility and credibility utilising partners such as Tour professional Fred Couples. While maintaining two distinct brands, to maximise the commercial opportunity of the acquisition, all operating and go-to-market functions have been fully integrated to take advantage of operational and fixed cost synergies.

Marketing excellence as a key success factor

Well-coordinated and consumer-relevant marketing is paramount to attaining sustainable market leadership. To achieve that, TaylorMade-adidas Golf has combined product marketing, brand communication and retail marketing into one fully-integrated global marketing team. This team uses a variety of strong marketing tools to achieve its objectives. Product launches are followed by 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. Likewise, TaylorMade-adidas Golf's leadership and presence on the world's major professional golf tours is imperative to increasing brand traction among consumers. A multitude of prominent Tour professionals wear and play TaylorMade-adidas Golf products, including Kenny Perry, Retief Goosen, Sean O'Hair, Darren Clarke, Natalie Gulbis, Nick Faldo, Mike Weir, Andres Romero, Fred Funk and global golf icon Sergio Garcia, with the logos of the brands clearly displayed on their bags, hats, apparel and footwear. Further, efficient product lifecycle management plays an important role in helping TaylorMade-adidas Golf achieve optimal marketplace results. In summary, marketing expertise and excellence are critical tools that TaylorMade-adidas Golf uses to drive sustainable growth.

Further extending and segmenting distribution

TaylorMade-adidas Golf works with retail partners that possess the skills to effectively showcase the performance advantages of TaylorMade, adidas Golf and Ashworth products. Core channels include green grass retailers, off-course golf specialty retailers and sporting goods retail formats with golf-specific departments. Focusing on strategic and key accounts (golf specialty and sporting goods retailers) in the distribution mix allows TaylorMade-adidas Golf to position its clubs, balls, footwear and apparel among the top-selling golf products in these retail channels.

TaylorMade-adidas Golf will continue to work closely with its strategic accounts in 2009 and plans to increase its efforts to extend brand presence at smaller retailers and on-course golf shops, where great opportunities exist. To support growth and at the same time avoid overexposure to certain accounts or an oversupply 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 utilises 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 three brands. As a result, TaylorMade's pricing strategy is to dominate the market at premium price points and compete aggressively in the high-volume mid-price segment. adidas Golf supports its market reputation as the innovation leader by selling its products primarily at premium price points. Ashworth positions products in the mid- and premium-price categories, and focuses on distribution through golf specialists. 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. In 2008, two examples of TaylorMade-adidas Golf's success with this strategy are the Burner® (medium price) and r7® Limited (premium price) drivers, and the POWERBAND (medium price) and TOUR360 Limited (high price) footwear.

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 maximise shareholder value. By improving our top- and bottom-line performance and optimising the use of invested capital, we aim to maximise free cash flow generation. This is our principal goal for increasing shareholder value. Management utilises a variety of decision-making tools to assess our current performance and to align future strategic and investment decisions to best utilise commercial and organisational opportunities.

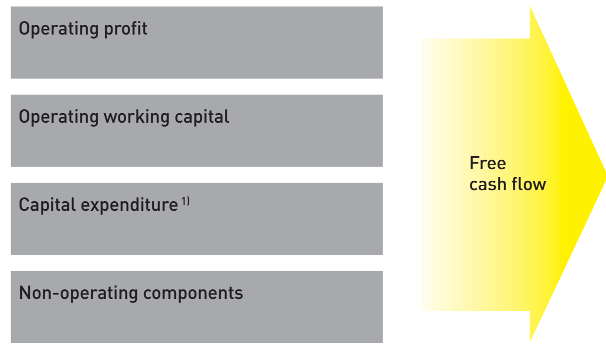
Free cash flow as Internal Group Management focus

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 maximise free cash flow generation across our multi-brand organisation, brand management has direct responsibility for improving operating profit as well as optimising operating working capital and capital expenditure. Non-operating items such as financial expenses and taxes are managed centrally by the Group Treasury and Taxes departments. To keep Group and brand management focused on long-term performance improvements, 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 taxes, or relative/absolute stock price performance.

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.

Free cash flow components



1) Excluding acquisitions and finance leases.

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 optimising our product mix, increasing the quality of distribution – with a particular focus on controlled space – as well as supply chain efficiency initiatives, and the minimisation of clearance activities.

— Operating expense control: We put high emphasis on tightly controlling operating expenses to leverage the Group's sales growth through to the bottom line. This requires a particular focus on ensuring flexibility in the Group's cost base. 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 utilisation 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. In this respect we constantly review our operational structure – streamlining business processes, eliminating redundancies and leveraging the scale of our organisation. These measures may also be supplemented by short-term initiatives such as temporarily curtailing operational investments, for example staff hiring.

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

Key financial metrics

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

1) Excluding acquisitions and finance leases.

Optimisation of non-operating components

Our Group also puts a high priority on the optimisation 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. 093. The Group's current and future tax expenditures are optimised globally by our Group Taxes department.

Tight operating working capital management

Due to a comparatively low level of fixed assets required in our business, the efficiency of the Group's balance sheet depends to a large degree on our operating working capital management. 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 have significantly enhanced working capital management over recent years through continuous improvement of our Group's inventories, accounts receivable and accounts payable.

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 optimise clearance activities. As a result, stock turn development is the key performance indicator as it measures the number of times average inventory is sold during a year, highlighting the efficiency of capital locked up in products in relation to our Group's business. To minimise 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 optimise payment terms with our suppliers to best manage our accounts payable.

Capital expenditure targeted to maximise future returns

Improving the effectiveness of the Group's capital expenditure is another lever to maximise 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 utilising the net present value. Risk is accounted for, adding a risk premium to the cost of capital and decreasing future revenue streams where appropriate. By means of scenario planning, the sensitivity of investment returns is tested against changes in initial assumptions. 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 see the majority of our Group's future growth opportunities in our 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 improving our Group's positioning within a sports category, strengthening our technology portfolio or addressing new consumer segments. The strategies and business culture of any potential acquisition candidate must correspond with the Group's direction and culture. Maximising 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 potential financing needs and their impact on the Group's financial leverage.

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 utilising 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 utilising 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 utilises a variety of tools to measure the performance of the adidas Group and our brand segments. The Group's key financial metrics are monitored and compared against budget on a monthly basis. Focus is on free cash flow, sales, operating margin and operating working capital development. When negative deviations exist between actual and target numbers, we perform a detailed analysis to identify and address the cause. We also benchmark our Group's and brands' financial results with those of our major competitors on a quarterly basis. To assess current sales and profitability development, Management analyses sell-through information from our controlled space distribution as well as short-term replenishment orders from retailers. Taking into account year-to-date performance as well as opportunities and risks, the Group's full year financial performance is forecasted on a quarterly basis. In this respect, backlogs comprising orders received up to nine months in advance of the actual sale are used as an indicator. However, due to the growing share of own retail in our business mix as well as fluctuating order patterns among retailers, our brands' order books are less indicative of anticipated revenues compared to the past. As a result of the growing share of at-once business, qualitative feedback from our retail partners on the success of our collections at the point-of-sale is becoming even more important. As an early indicator for future performance, we also conduct market research to measure brand appeal, brand awareness and resulting purchase intent.

Management appraisal of performance and targets

We communicate our Group's financial targets on an annual basis. We also provide updates throughout the year as appropriate. In 2008, we achieved or exceeded all key financial targets we had set for the Group except for net borrowings, which surpassed the prior year level. We outperformed macroeconomic and global industry growth see Economic and Sector Development, p. 080, improved Group gross and operating margins and increased earnings per share at a double-digit rate.

By segment, development at adidas and TaylorMade-adidas Golf exceeded our initial sales expectations while the Reebok segment performed below initial expectations. At Reebok, sales increases in the emerging markets, particularly in Asia and in Eastern Europe, were more than offset by lower than anticipated revenues in North America and the UK.

Our expectations for Group business performance in 2009 reflect the deterioration of the global economy towards the end of 2008 and at the beginning of 2009. We expect the recessionary environment in many major markets to have a significant negative impact on our Group's financial performance in 2009, resulting in declines in both Group sales and earnings per share. The degree of the decline in earnings per share will also depend on the development of exchange rates. In 2010, assuming an improving global economy, we are confident to increase sales and earnings per share compared to 2009. We believe our outlook is realistic within the scope of the current trading environment. Compared to prior years, however, it entails a higher degree of uncertainty. No material event between the end of 2008 and the publication of this report has altered our view see Subsequent Events and Outlook, p. 120.

Targets versus actual key metrics

	2007 Actual	2008 Initial Target	2008 Actual	2009 Outlook
Group sales (currency-neutral)	**7%**	**high-single-digit increase**	**9%**	**low- to mid-single-digit decline**
adidas segment sales (currency-neutral)	12%	high-single-digit increase	14%	low- to mid-single-digit decline
Reebok segment sales (currency-neutral)	0%	low- to mid-single-digit increase	(2%)	at least stable
TaylorMade-adidas Golf segment sales (currency-neutral)	9% [1]	mid-single-digit increase	7%	low-single-digit increase
Group gross margin	**47.4%**	**47.5 to 48%**	**48.7%**	**decline**
adidas segment gross margin	47.4%	increase	48.6%	
Reebok segment gross margin	38.7%	increase	37.0%	
TaylorMade-adidas Golf segment gross margin	44.7%	increase	44.3%	
Group net other operating expenses and income (in % of sales)	**39.2%**	**increase**	**39.6%**	**increase**
adidas segment net other operating expenses and income (in % of sales)	35.6%	increase	35.6%	
Reebok segment net other operating expenses and income (in % of sales)	35.8%	increase	38.7%	
TaylorMade-adidas Golf segment net other operating expenses and income (in % of sales)	34.4%	increase	32.1%	
Group operating margin	**9.2%**	**at least 9.5%**	**9.9%**	**decline**
adidas segment operating margin	12.9%	increase	14.0%	
Reebok segment operating margin	4.7%	increase	(0.3%)	
TaylorMade-adidas Golf segment operating margin	8.1%	increase	9.6%	
Net income growth (attributable to shareholders)	**14%**	**at least 15%**	**16%**	**decline**
Operating working capital (in % of net sales)	**25.2%**	**further reduction**	**24.5%**	**further reduction**
Capital expenditure (€ in million) [2]	**289**	**300 – 400**	**380**	**300 – 400**
Net debt (€ in million)	**1,766**	**maintain 2007 level or reduce**	**2,189**	**reduction**

1) On a like-for-like basis, excluding prior year sales related to the Greg Norman Collection wholesale business which was divested in November 2006.
2) Excluding acquisitions and finance leases.

Major locations and promotion partnerships

The adidas Group sells products in virtually every country around the world. As at December 31, 2008, the Group had 190 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 Group Headquarters
Herzogenaurach, Germany

02 Reebok Europe
Amsterdam, Netherlands

03 TaylorMade-adidas Golf Europe
Basingstoke, UK

04 adidas International Trading
Amsterdam, Netherlands

05 adidas International Marketing
Amsterdam, Netherlands

North America

06 adidas North America
Portland/Oregon, USA

07 Reebok International Headquarters
Canton/Massachusetts, USA

08 The Rockport Company Headquarters
Canton/Massachusetts, USA

09 Reebok–CCM Hockey Headquarters
Montreal/Quebec, Canada

10 TaylorMade-adidas Golf Headquarters
Carlsbad/California, USA

11 Sports Licensed Division Headquarters
Canton/Massachusetts, USA

Asia

12 adidas Group Asia
Hong Kong, China

13 TaylorMade-adidas Golf Asia
Tokyo, Japan

14 adidas Sourcing
Hong Kong, China

Latin America

15 adidas Group Latin America
Panama City, Panama

Promotion partnerships

A IHF Men's World Championship, Croatia
January 16 – February 1, 2009
adidas Official Partner of International Handball Federation

B NHL All-Star Game, Montreal/Quebec, Canada
January 25, 2009
Reebok-CCM Hockey Exclusive Licensee of National Hockey League

C NFL Super Bowl, Tampa/Florida, USA
February 1, 2009
Reebok Official Outfitter of National Football League

D NBA All-Star Game, Phoenix/Arizona, USA
February 15, 2009
adidas Official Outfitter of National Basketball Association

E Boston Marathon, Boston/Massachusetts, USA
April 20, 2009
adidas Official Apparel and Footwear Outfitter

F Flora London Marathon, London, UK
April 26, 2009
adidas Official Sponsor

G French Open, Paris, France
May 24 – June 7, 2009
adidas Official Partner of Roland Garros

H UEFA Champions League Final, Rome, Italy
May 27, 2009
adidas Official Ball Supplier for UEFA Champions League

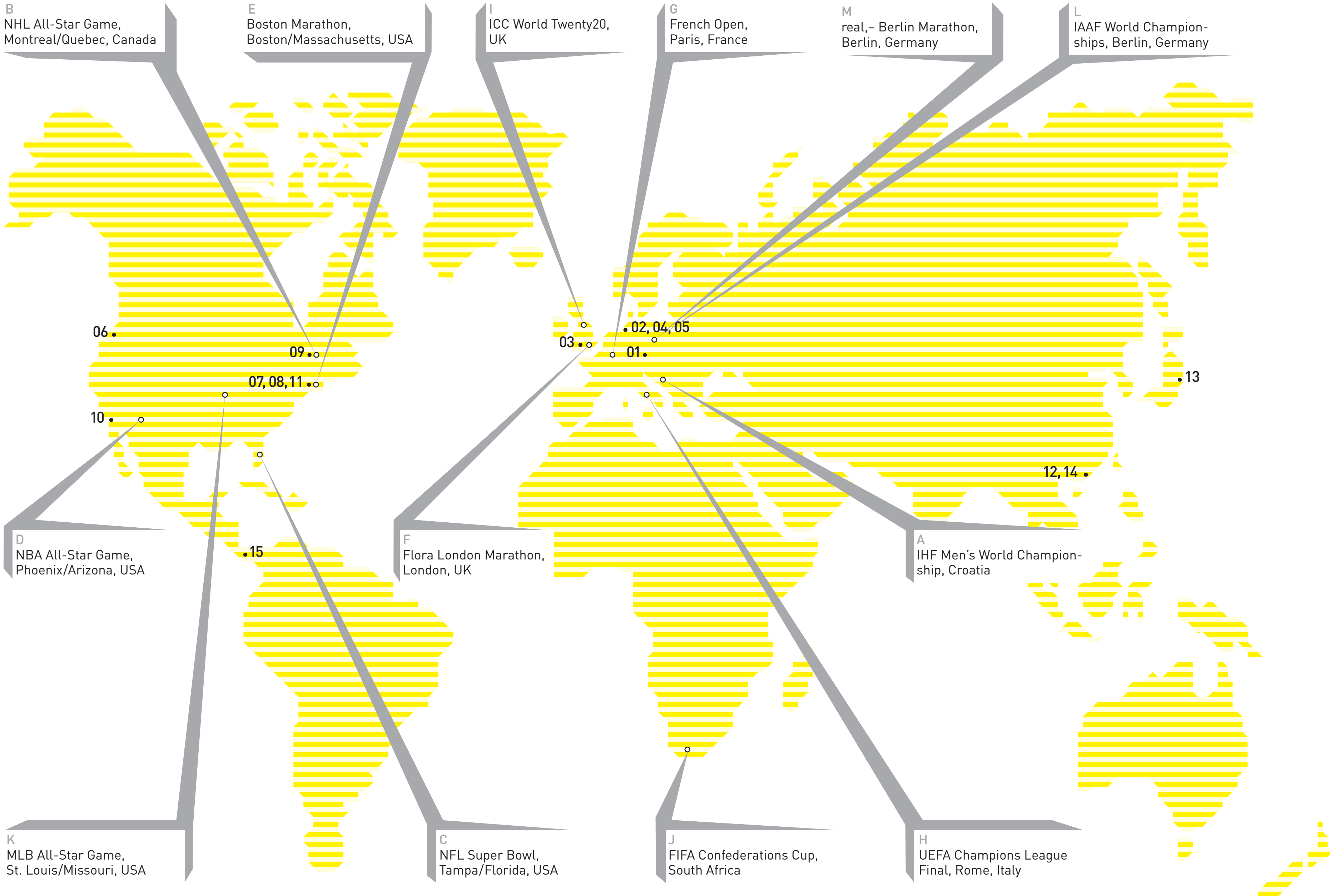
I ICC World Twenty20, UK
June 5 – 21, 2009
adidas Official Supplier of Australia and England cricket teams

J FIFA Confederations Cup, South Africa
June 14 – 28, 2009
adidas Official Partner of Fédération Internationale de Football Association

K MLB All-Star Game, St. Louis/Missouri, USA
July 14, 2009
Reebok Official Licensee of Major League Baseball fan and lifestyle apparel and Official Authentic Collection Footwear Supplier

L IAAF World Championships, Berlin, Germany
August 15 – 23, 2009
adidas Official Sponsor of International Association of Athletics Federations

M real,– Berlin Marathon, Berlin, Germany
September 20, 2009
adidas Official Partner


B
NHL All-Star Game,
Montreal/Quebec, Canada
E
Boston Marathon,
Boston/Massachusetts, USA
I
ICC World Twenty20,
UK
G
French Open,
Paris, France
M
real,– Berlin Marathon,
Berlin, Germany
L
IAAF World Champion-
ships, Berlin, Germany
06
09
07, 08, 11
10
15
03
02, 04, 05
01
13
12, 14
D
NBA All-Star Game,
Phoenix/Arizona, USA
F
Flora London Marathon,
London, UK
A
IHF Men's World Champion-
ship, Croatia
K
MLB All-Star Game,
St. Louis/Missouri, USA
C
NFL Super Bowl,
Tampa/Florida, USA
J
FIFA Confederations Cup,
South Africa
H
UEFA Champions League
Final, Rome, Italy

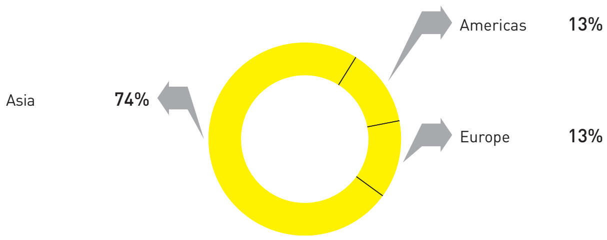
Global Operations

The adidas Group's Global Operations function coordinates the development, commercialisation, 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. In 2008, Global Operations focused on five key initiatives to optimise processes in our supply chain, each of which will be further built upon in 2009.

Independent partners producing most of our goods

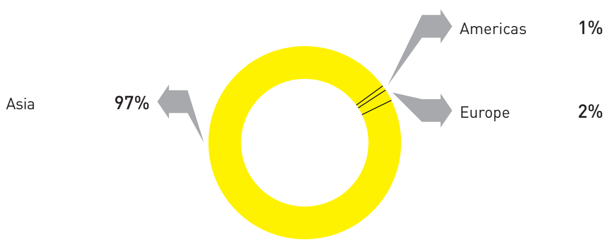
To minimise production costs, we outsource over 95% of production to independent third-party manufacturers, primarily located in Asia. These suppliers possess excellent expertise in cost-efficient high-volume production of footwear, apparel and accessories. A list of our suppliers is regularly updated and can be found on our website **www.adidas-Group.com/en/sustainability/suppliers_and_workers**. We provide our suppliers with detailed specifications for production and delivery. However, our Group also operates a very limited number of own production and assembly sites in Germany (1), Sweden (1), Finland (1), the USA (4), Canada (4), 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. 067**.

Suppliers by region [1]



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

Footwear production [1]

in million pairs

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

Continued consolidation of manufacturing partners

In 2008, Global Operations worked with 300 independent manufacturing partners. This represents a 20% reduction compared to the prior year and is a result of further rationalisation of our supplier base. This is mainly due to the completion of the Reebok apparel build programme, in which we phased out Reebok's former sourcing agents and replaced them with existing suppliers in the adidas Group sourcing network. 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, 74% were located in Asia, 13% were located in Europe and 13% in the Americas. 29% of all suppliers were located in China. Our Global Operations function manages product development, commercialisation 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 utilise their own purchasing organisations. 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.

Decrease in China share of footwear production

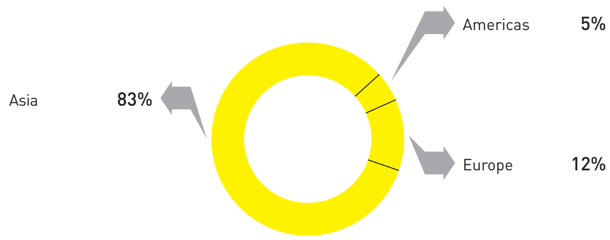
97% of our total 2008 footwear volume for adidas, Reebok and adidas Golf was produced in Asia (2007: 96%). Production in Europe and the Americas combined accounted for 3% of the sourcing volume (2007: 4%). China represents our largest sourcing country with approximately 44% of the total volume, followed by Vietnam with 31% and Indonesia with 18%. The only significant change versus the prior year was a 5 percentage point reduction in the overall representation of China in our sourcing mix. This is part of our strategy to increase the regional diversity of our supplier base to meet the ongoing needs of our business. However, while volume share decreased, in absolute terms volume produced in China remained almost stable compared to the prior year. In 2008, our footwear suppliers produced approximately 221 million pairs of shoes (2007: approx. 201 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 (2007: 11%).

Rockport purchased approximately 9 million pairs of footwear in 2008, which represents a decrease of 17% versus the prior year. Products were primarily sourced from factories in China (72%), Vietnam (17%), Indonesia (8%) and Brazil (3%). The largest factory accounted for 25% of the total sourcing volume of the Rockport brand.

Volume of apparel production increases

In 2008, we sourced 83% of the total apparel volume for adidas, Reebok and adidas Golf from Asia (2007: 82%). 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 12% of the volume (2007: 13%). The Americas accounted for 5% of the volume (2007: 5%). China was the largest source country, representing 36% of the produced volume, followed by Thailand with 14% and Indonesia with 10%. The only significant change compared to the prior year was in China whose overall representation increased 5 percentage points due to the strong growth in apparel sales in that market in 2008. In total, our suppliers produced approximately 284 million units of apparel in 2008 (2007: approx. 252 million units). The largest apparel factory produced approximately 10% of this apparel volume in 2008 (2007: 12%). In addition, Reebok-CCM Hockey sourced around 3 million units of apparel (game wear, jerseys and headwear) in 2008. 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 22 million units of apparel and 17 million units of headwear (2007: 21 million and 18 million, respectively). The majority of purchased apparel products was sourced as unfinished goods from Central America (58%) and Asia (10%), and was subsequently finished in our own screen-printing facilities in the USA. On the other hand, the majority of headwear sourced was finished products manufactured in Asia (97%) and the USA (3%).

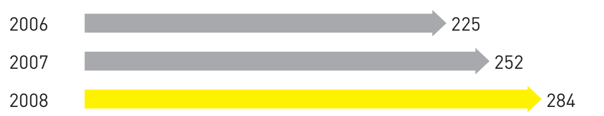
Apparel production by region [1]



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

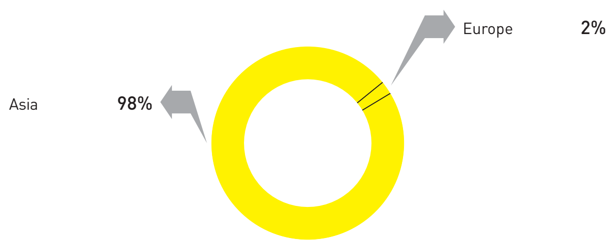
Apparel production [1]

in million units



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

Hardware production by region [1]



1) Figures only include adidas and Reebok.

Approximately 65% of adidas and Reebok branded hardware produced in China

In 2008, the vast majority (i.e. 98%) of adidas and Reebok branded hardware products, such as balls and bags, was also produced in Asia (2007: 96%). China remained our largest source country, accounting for 65% of the sourced volume, followed by Vietnam with 21% and Pakistan with 10%. The remaining 4% was sourced via other Asian and European countries. The total 2008 hardware sourcing volume was approximately 42 million units (2007: approx. 39 million units) with the largest factory accounting for 30% of production.

TaylorMade and Reebok-CCM Hockey sourced 93% and 75% of their hardware volumes from Asia, respectively (2007: 92% and 70%). 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.

Unchanged vision: closest to every consumer

The vision of Global Operations is to be closest to every consumer. This means meeting consumer demand in various distribution channels with the right product (in terms of quality, size, colour, style and material) in the right store at the right time.

In 2008, we had further evidence of the success of our efforts, most visibly with the Beijing Olympic Games. In total, we shipped 2.9 million units, with many produced on very short leadtimes (e.g. more than 210,000 in less than seven days). The flexibility of our supply chain even allowed us to successfully replenish 300,000 units that were unplanned, sometimes in as little as nine days after order placement. We achieved similar levels of service to our customers during the UEFA EURO 2008™ tournament and the UEFA Champions League final. Our ability to deliver on short leadtimes and continuous replenishment needs during large, global events such as these shows that we are moving closer to realising our vision.

Focus on five initiatives

Global Operations continues to focus on five key initiatives to optimise processes in our supply chain:

- Replenishment: Providing high availability of products to our customers while minimising our inventory of finished goods.
- End-to-End Profitability: Identifying our key cost and profitability drivers and their interrelationships to optimise 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: Optimising our Group-wide demand and supply planning activities 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.

Further improvements in short production leadtimes

Our Replenishment programme is essential to support the growth of own retail and Group-controlled retail space see Group Strategy, p. 046. This year we further improved our short production leadtime model with enhanced forecasting and material planning processes. This also helped to control costs by reducing risk on material leftovers by about 70%. Furthermore, we started to develop a more retail-friendly set of fulfilment models, which we will build upon in 2009.

Transparency and predictability in costing increased

In 2008, we faced significant pressure on input costs, and our End-to-End Profitability efforts were focused on mitigating those pressures. Internally, we engineered products differently with a better appreciation for cost. We continued to meet regularly with our suppliers to increase transparency and predictability in costing. For example, we tracked raw material costs and used that information to consolidate volumes and negotiate more effectively which helped to offset cost increases. In addition, our Sourcing teams improved our allocation process to better align with suppliers' capabilities and take into account total supply chain costs (e.g. time to market, trade restrictions).

Significant infrastructure implementations

We made significant upgrades to our infrastructure in 2008 as part of our Adaptive Supply Network initiative. We consolidated our network of distribution centres and upgraded facilities. The most notable improvements were our new sites in Manchester, UK and Spartanburg/South Carolina, USA. These multi-brand distribution centres represent a further step in the integration of Reebok into the Group's infrastructure. They are state-of-the-art and designed to support the future growth of our brands and new demands of our own-retail business. Warehousing will again be a priority in 2009, with the completion of the US footwear facility in Spartanburg and also the commencement of planning for a new multi-branded distribution centre in Russia.

We also improved our process and IT system infrastructure in 2008 to bring increased flexibility to our supply chain. One example is our new Global Procurement System (GPS), a SAP-based system for purchase order management which harmonises and simplifies the ordering process and enables us to better react to market changes. GPS is the largest SAP implementation ever undertaken by the adidas Group, and already replaces four major legacy systems within the Group. It was implemented for the adidas brand in 2008 and will be rolled out to the Reebok brand by 2010. Another example within the Adaptive Supply Network programme is the expansion of our trading platform in Amsterdam, which brings together our key supply chain functions across all brands, thus enabling better visibility, more control and improved risk management capabilities across our supply chain.

Complexity reduced in planning process

Our End-to-End Planning initiatives focused this year on implementing an optimised demand planning process and system to 19 countries in Europe. We standardised and partly automated certain planning steps, with the intention of increasing forecast accuracy. After the initial implementation in 2008 for brand adidas, we will continue to roll this platform out to all European countries for adidas and Reebok in 2009.

Creation to shelf timelines cut

We expanded our Accelerated Creation to Shelf initiative in 2008 to bring more products onto shortened creation calendars. We have introduced key acceleration initiatives, including process simplifications and an increasing use of virtual prototyping technology, at our creation centres around the world. These initiatives have already impacted timelines, for example with a 25% reduction in the creation timeline of the Portland creation centre. This represents a significant change in our business, with nearly 60% of our Sport Performance products on these shortened timelines.

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 organisation 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 dialogue with our numerous stakeholders, involving them in key social and environmental decisions that shape our day-to-day operations. Through in-depth engagement with the Better Cotton Initiative and the AFIRM Working Group, we work closely with leading companies from a variety of sectors to develop sustainable business approaches and to debate social and environmental topics on a global level. This is also supported by our membership in organisations 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). In addition, we always strive to report in an open and transparent way. Comprehensive information on the Group's sustainability programme is provided in our 2008 Social and Environmental Online Report on our website www.adidas-Group.com/sustainability.

Workplace Standards set rules in supply chain

Covering health and safety, labour rights and environmental protection at our own sites and our suppliers' factories is of highest importance to us. Therefore, we have defined rules or standards by our own corporate values as well as by what society expects of global businesses. We have condensed our rules into a supplier code of conduct that we call our "Workplace Standards". 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 labour
- 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. 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.

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

Good management systems help factories improve their day-to-day operations and support the process of internalisation and self-governance. Therefore, we support our core business partners in establishing management systems with internationally recognised standards such as ISO 14001 for quality and environmental management. By running a certified management system, our suppliers demonstrate 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 issues. 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 2008, our Group's supply base included 20 athletic footwear suppliers' factories, which were OHSAS 18000 and/or ISO 14001 certified. These factories produced around 73% of our footwear sourcing volume.

Training to achieve sustainable compliance

To achieve long-term sustainable compliance in the supply chain, we consider training even more important than monitoring and policing factories. Our SEA team offers specific training courses and workshops for factory supervisors and managers to help them apply our Standards and implement best practices. These workshops include, for example, introductory training on our Workplace Standards and SEA operating guidelines, detailed training on effective health, safety and environmental practices as well as training in the correct application of rating and compliance planning tools and supplier self-assessment methods. 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 organisations (NGOs). The team also organises workshops for licensees, agents and adidas Group business entities in order to build personnel capacities throughout our company. In this way, acceptable working conditions become a routine part of business activities. In 2008, the SEA team conducted 251 training sessions and workshops (2007: 267).

Monitoring through factory inspections

The SEA team assesses compliance with our Workplace Standards by means of factory inspections. We apply innovative monitoring approaches such as deeper and more frequent monitoring of fewer suppliers in our core supply chain than in previous years. This allows us to rigorously assess compliance risks and to identify the root causes of non-compliance. Our auditors check performance against a customised 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. During 2008, we conducted 1,323 factory visits (2007: 1,007 visits) involving management and worker interviews, document review, facility inspections and training sessions at different levels in our supply chain. In addition to our own monitoring activities, we value independent assessment by third parties to demonstrate the credibility of and provide verified information about our programme to stakeholders. As a member of the Fair Labor Association (FLA), the adidas Group is subject to external assessment by independent monitors, participation in the FLA third-party complaint system and public reporting. In 2007, the adidas Group assumed a role as one FLA participating company as a combined entity (including Reebok). In 2008, the consolidated monitoring programme of the adidas Group was again accredited by the FLA for a period of two years. This review was based on independent factory monitoring and verification reports of supplier facilities, and a thorough audit of monitoring protocols, training programmes and auditing systems. Since joining the FLA, more than 220 Independent External Monitoring (IEM) audits and verification visits have been conducted at adidas Group suppliers.

Warning-letter system to enforce standards

We strongly believe in a partnership approach. Where a supplier is performing poorly in terms of Workplace Standards compliance, we will work closely with them to find solutions. However, when we find ongoing and serious instances of non-compliance and a lack of commitment from factory management to address the issues, we send out a formal warning letter including a notification to factory management that their business relationship with the adidas Group is in jeopardy. For threshold compliance issues, three warning letters will usually result in an immediate recommendation to terminate. We see termination of business relationships as a last resort. Whenever possible, we prefer to stay in partnership and work from the inside to help encourage factory improvements. In 2008, we terminated our business relationship with two suppliers for compliance reasons (2007: 4).

System-based approach to managing 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 programmes 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 utilise sustainable materials instead.

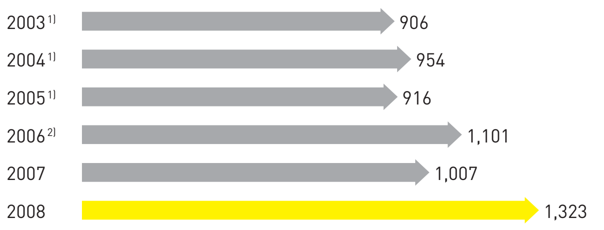
Control and monitoring of restricted substances

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 dialogue with scientific organisations. Our standards cover the general requirements for eco-labels and green seals (e.g. ÖKO-Tex Standard 100, Tox Proof TÜV 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 to an average VOC emission of 20 grams per pair of shoes. 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 exposure to such emissions, and the records taken provide evidence that workers are not being exposed to dangerous levels of VOCs. Our athletic footwear suppliers in Asia and Europe have reduced VOC emissions from 130 grams per pair in 1999 to 21 grams per pair in 2008.

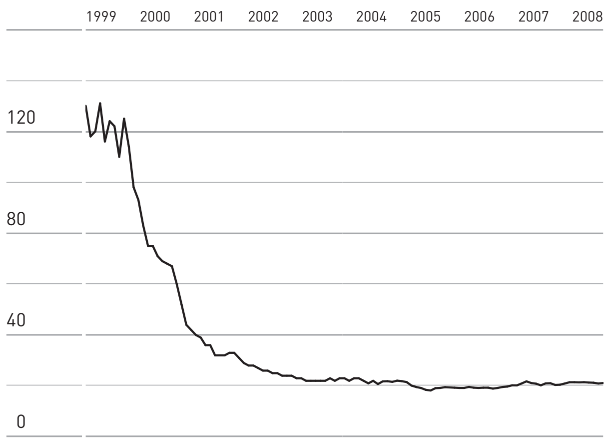
Number of factory visits



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

VOC consumption [1]

in grams per pair of shoes produced



1) At year-end.

Climate change

Tackling climate change poses a number of challenges for our company and its functions and our manufacturing partners. We have closely analysed the environmental footprint of our business operations and have focused our efforts on three primary areas: our products, our supply chain and our own sites. A wide range of activities have been implemented to reduce our own carbon footprint.

The adidas Group constantly strives to reduce the environmental impact of transporting its products around the world. Our policy is to minimise the impacts from transport, in particular air freight shipments, through improved order and production planning tools. Our transport and logistics department has developed benchmarks for carriers and forwarders that help us evaluate their environmental performance. Both environmental and wider sustainability performance have been included in the decision-making process regarding the service suppliers we work with.

As the generation of electricity is the major source of emissions, we have taken steps to measure and reduce our energy use as a business. At the adidas Group we apply policies, procedures and practices to ensure that all corporate entities are operating to the highest standards. We have environmental management systems in place at our major sites, and our core suppliers are required to establish such a system, too. In 2008, we continued the series of energy workshops for core suppliers in China. Additionally, we also try to limit air travel by our own employees through more rigorous travel planning and extended use of telecommunication systems such as video conferencing.

Environmentally optimised product concepts

We continue to increase emphasis on the efficient use of resources in product manufacturing and packaging to minimise the environmental impact of our products without compromising function and quality. In this respect, the adidas Group has developed its first environmentally optimised product concept, the Originals range "adidas Grün", which was launched in spring 2008. adidas Grün is a collection of footwear and apparel that minimises its environmental impact by being as efficient as possible in the use of natural resources involved in its production and packaging. It was created in response to increasing consumer awareness of the importance of sustainability. adidas Grün is distinguished from other "eco" collections by its clear labelling system that explains the environmental credentials of each part of the collection. The lessons learnt about material selection in this project have been captured so that other adidas Group teams can apply them to their product ranges. Besides the adidas Grün collection, our adidas Sport Performance division has initiated a programme called "Better Place". This is a horizontal concept with initiatives from all categories. It brings adidas' sustainability credentials to life via products built with sustainability as the main focus. The initiative, which began in 2008, will enter the market in spring/summer 2009 in selected product collections.

Strong sustainability track record reflected in index memberships

Interest from the financial community in sustainability management is steadily increasing. We appreciate positive recognition from international institutions and rating agencies, NGOs and socially responsible investment (SRI) analysts. Each year, we respond to various comprehensive enquiries from socially responsible investors, fund managers and financial analysts. They evaluate our efforts through in-depth analysis of our social and environmental programme, 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 indices:

- DJSI World (DJSI = Dow Jones Sustainability Index)
- DJSI STOXX
- DJSI EURO STOXX
- FTSE4Good Europe Index
- ASPI Eurozone Index
- Ethibel Index Excellence Europe
- Ethibel Index Excellence Global

see Our Share, p. 038

Employees

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 strive to create a working environment that stimulates team spirit, passion, engagement and achievement. We promote a performance culture based on strong leadership and therefore link employee compensation to Group and individual achievements. We aim to continuously develop our employees with opportunities for career progression, while upholding a culture that celebrates diversity and encourages global mobility.

Global employee base continues to grow

On December 31, 2008, the Group had 38,982 employees, which represents an increase of 24% versus 31,344 in the previous year. This development is primarily related to new employees in adidas and Reebok own retail, mainly on a part-time basis. Personnel expenses increased 8% to € 1.283 billion in 2008 from € 1.186 billion in 2007, see Note 25, p. 187, representing 30% of the Group's total operating expenses (2007: 30%) and 12% of Group sales (2007: 12%).

Emerging markets and own retail drive employee growth

The development of our employee numbers varied significantly from a brand perspective. The number of employees at the adidas brand increased 24% to 23,202 at the end of 2008 (2007: 18,678), 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 increased 31% due to the expansion of own-retail activities in emerging markets. Hence, the Reebok segment comprised 8,836 employees at year-end (2007: 6,751). At TaylorMade-adidas Golf, the number of employees increased by 33% to 1,852 (2007: 1,393) mainly due to the acquisition of Ashworth, Inc.

The number of employees working in our Group functions increased by 13% to 5,092 (2007: 4,522). The main reason for this development was the expansion of our sourcing function.

At the end of 2008, 52% of our staff were employed in Europe (2007: 47%), 28% in North America (2007: 31%), 15% in Asia (2007: 18%) and 5% in Latin America (2007: 4%). As a global company with less than 10% of our employees located in Germany, we actively encourage global mobility and offer our employees the opportunity to go on international assignments. To support relocating professionals and their families in new living and working environments, we provide, for example, relevant language and cultural training.

Three-pillar human resources strategy

We strive to have the right team in place by focusing our activities on the implementation and execution of our Group's Human Resources strategy, which is based on three pillars:

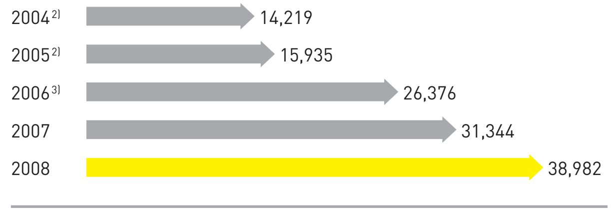
— Creating a working environment that stimulates team spirit, passion, engagement and achievement
see "Engagement drives performance", p. 071
see "Internal communication activities further enhanced", p. 071

— Expanding our performance culture based upon strong leadership
see "Fit for today and tomorrow", p. 071
see "Performance-driven remuneration system", p. 072

— Being an "Employer of Choice"
see "Employer of choice: creating an attractive work environment", p. 073

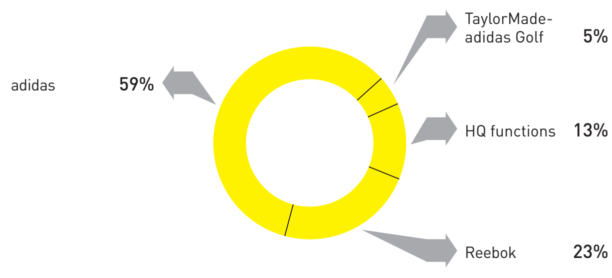
Measures taken in order to implement our strategy are explained in the subsequent sections.

Number of employees [1]

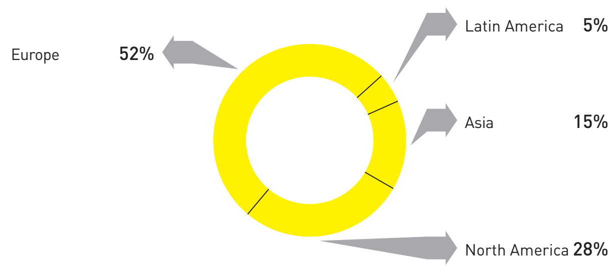


1) At year-end.
2) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Including Reebok business segment from February 1, 2006 onwards.

2008 employees by segment



2008 employees by region



Engagement drives performance

We believe that engagement drives performance. Therefore it is important for us to collect regular employee feedback. To measure engagement we carry out engagement surveys which enable us to maintain a regular dialogue with our employees, evaluate our progress internally and also to benchmark ourselves externally. The employee survey system was developed and rolled out with Hewitt Associates, a leading human resources consulting company. It has a standardised approach with consistent methodology and definition of employee engagement and is aligned with our strategic pillars. In 2008, we conducted engagement surveys in most business units around the globe and are now in the process of translating the feedback into action. In 2010 we plan our first truly global survey to measure our progress.

Internal communication activities further enhanced

To foster employee engagement, we offer our employees the opportunity to exchange ideas directly with senior management and raise questions via our intranet (through our "Ask the Management" application). In addition, we regularly hold all-employee meetings at our major locations around the world where our staff have the opportunity to openly share their views with senior management and gain an overview of current and future business developments. The last one in 2008 took place at the adidas Group Headquarters in Herzogenaurach in December and was broadcast to all our employees worldwide via the intranet. To continuously strengthen communication with our employees, we are further aligning and consolidating internal communication tools across all regions and brands, for example through an electronic and interactive version of our employee magazine.

Fit for today and tomorrow

To reach their personal best, our Group's employees need a training plan to build on their strengths, improve their technique and overcome their own challenges. In this process, joining individual aspirations to our organisational needs is the highest priority. Our "Competency Model" clearly defines a set of competencies to ensure consistent and transparent performance and talent management. It is our goal to support our employees in delivering their best performance by focusing our efforts on three key success drivers.

Success drivers for performance

— Leadership Excellence: We believe that leaders should act as role models. In addition to gearing all activities towards the success of the adidas Group in the marketplace, leaders have a central role in actively shaping the Group's corporate culture.

— Performance Management: Through our global PEP (Performance Evaluation and Planning) tool we not only aim to measure our employees against the required competencies of their job level and their performance, but also to set individual business targets and plan appropriate training and development activities as necessary. We offer targeted training under our Fit for Today programme (e.g. basic skills training or business coaching) for both individual and team performance improvement.

— Talent Management (Fit for Tomorrow): With specifically designed talent management tools and processes, we identify employees at all levels of our company who have the potential to become future leaders in our organisation. Actively managing internal succession contributes to our competitive position and ensures that we are "fit for tomorrow". In order to prepare employees for new and more complex future roles, they participate in targeted development programmes for various levels within the organisation:
  - Executive Development Programme (EDP): A centrally managed cross-brand and cross-region programme for employees who show potential for the Executive Level.
  - Management Development Programme (MDP): Run decentrally by our regional Development & Training teams, this programme is tailored for employees from different functional areas and brands who show potential for the management level.
  - Business Management Programme (BMP): A 24-month international cross-functional and cross-brand programme aiming at attracting professionals with MBA degrees and three to five years' work experience to prepare them for future management positions within our Group. At year-end 2008, 7 employees were participating in the BMP globally (2007: 7).

— Functional Trainee Programme (FTP): A 12- to 18-month programme giving graduates with international backgrounds and excellent educational credentials the opportunity to start a functional career with the adidas Group. The programme comprises six three-month assignments in varying departments. At least one of these assignments takes place abroad. At year-end 2008, we employed 29 participants in our global FTP (2007: 23).

Our "Fit For Tomorrow" programmes are complemented by apprenticeship programmes and internships. The adidas Group apprenticeship offers young people who want to join our Group straight out of school the opportunity to gain business experience in a three-year rotation programme. These programmes include vocational training in retail, industrial management and IT as well as integrated study programmes. At the end of 2008, we employed 54 apprentices in Germany (2007: 45).

Our global internship programme gives students four to six months' work experience within the adidas Group. For "best-of-class" interns, we initiated a "ReBound" programme to remain in close contact with them after their internship and foster potential future employment. At the end of 2008, we employed 396 interns in Germany (2007: 189).

Performance-driven remuneration system

We are committed to rewarding our employees with effective compensation and benefit programmes 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 programme 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.

Employees by function

in %

	2008	2007
Own retail	47	41
Sales	11	14
Logistics	14	15
Marketing	9	9
Central functions & administration	9	9
Production	5	6
Research & development	3	3
IT	2	3
Total	**38,982**	**31,344**

— Bonus programme: 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 programme combines individual performance (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 programme, profit sharing is used as an incentive to reward the achievement of the Group's profit target. In 2008, for example, we again paid a one-time gratification to employees in Germany (Champions Bonus) honouring their performance in the past year.

— Additional compensation components: For senior management and Executive Board members we offer Long-Term Incentive Programmes (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 2008, 1,712 employees (2007: 1,396) participated in the latter, which represents an increase of 23% 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.

Employer of choice: creating an attractive work environment

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 our representation in several external rankings such as Vault, Trendence or Potential Park. But as much as our organisation is result-driven, we also know that top performance can only be achieved in a work environment that recognises the individual needs of our employees.

Diversity: As a truly global company, diversity is one of our Group's core values. We believe that the diversity of our workforce helps us to sustain a competitive advantage. As part of our training and development programme, for example, we offer specific modules on diversity management. This helps us to ensure our company's success and stability. The high degree of diversity is also reflected in our workforce. At our corporate headquarters, for example, we have employees from more than 50 countries. In 2008, we signed the Diversity Charta (Charta der Vielfalt) in Germany, an initiative that facilitates best practice exchange and embraces diversity as an active contributor to business success.

Work-Life Balance: We aim to harmonise the commercial interests of the adidas Group with the private and family needs of our employees, thereby assuring the mutual benefit of both. The programme includes family-oriented services, flexible work time and place, people development and leadership competence related to work-life balance.

In addition, we offer our employees a wide range of sports activities at our major sites. Employees in Herzogenaurach, Portland and Canton and other subsidiaries have access to a company gym. Our Company Sports department in Herzogenaurach also organises several sports activities such as mountain biking, kayaking or ski tours. Special events such as a one-week sports camp for employees' children, trans-alpine mountain bike tours and the yearly Berlin Marathon weekend (with a suitable training programme prior to the event) are also available. In 2008, the Company Sports department in Germany offered about 130 courses and more than 30 events which were attended by more than 2,800 participants.

2008 key employee statistics

	adidas	Reebok	TaylorMade-adidas Golf	Group functions	Total
Total employees (in %)					
Male	50	53	53	45	51
Female	50	47	47	55	49
Management positions (in %)					
Male	71	73	73	73	72
Female	29	27	27	27	28
Average age of employees (in years) [1]	28	26	38	37	29
Average length of service (in years)	3.3	4.1	5.6	6.2	3.9
Annual training hours by employee	13.6	5.6	6.2	8.5	10.8

1) At year-end.

Future challenges

The adidas Group faces increasing competition for highly qualified personnel in the international labour market. In this respect, we constantly strive to improve our Human Resources service and delivery model, adapting it to evolving business needs and benchmarks. Through integrated Human Resources solutions, we proactively approach these challenges, focusing on relevant performance-related Human Resources tools and processes. Our "Team Line Up" helps us to identify employees based on their performance and potential to become future leaders in our organisation. In addition, we are also extending our targeting programmes to attract external candidates. Although we benefit from our excellent reputation, a key tenet of our strategy is to continuously refine our branding as an employer of choice. For example, in 2008 we started a "key university strategy roll-out" where members of the Executive Board and other senior executives of the Group shared their business insights at 13 top universities worldwide and engaged in discussions with students. In addition, we're also adapting to new trends in the interaction of employers and employees. This includes the shift from traditional job board advertisement and static company information towards a more individual approach facilitated by the Internet. In 2008, we started a more personalised approach, for example by creating a special community for potential adidas designers and by using Web 2.0 technologies and the social networking scene.

Research and Development

Our dedication to product innovation is a prerequisite to sustaining our position as the performance leader in the sporting goods industry. As a result, research and development (R&D) is a cornerstone for the continued success of our business. We invest considerable resources into developing and commercialising technological innovations as well as 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 teams of employees with diverse professional backgrounds. In 2009, one of our top R&D focus priorities will be the further development and commercialisation of intelligent products.

R&D an integral part of the product creation process

Research and development within the adidas Group follows a decentralised approach. Each brand segment runs its own research, design and development activities. The teams generally have either a category or a technology focus. Fundamental and biomechanical research, however, is shared across the Group. Within the segments, R&D is not a separate organisational entity, but is closely integrated with the sourcing, design and product marketing functions. As a result, all R&D activities are focused on producing results directly applicable to a specific product. At the beginning of the product creation process, marketing defines a development focus. This is derived on a case-by-case basis from a combination of consumer research and feedback, competition analysis and own product testing. Independently from specific development requests, our innovation teams also analyse new materials, production processes or scientific research – often even from other industries – with regard to ideas for potential product innovations which are presented to product marketing at an early stage to assess commerciality. Once conceptualised, new technologies are engineered using state-of-the-art CAD and Finite Element Analysis (FEA) systems. Sourcing specialists are consulted to integrate cost and production process aspects into the development phase. As soon as a new technology is deemed viable, it is produced as a physical sample. Samples are then tested extensively by members of our innovation team as well as top athletes and teams. Only when these tests have been successful are technologies handed over to product marketing which commercialises the technology to a final product.

Important efficiency improvements made in 2008

We constantly strive to improve our R&D processes to fulfil our mission to develop products that give our athletes and consumers a tangible advantage over the competition. In 2008, our efforts focused on increasing efficiencies throughout the R&D process. One aspect of this is the sharing of fundamental technologies across our brands. In 2008, certain technologies used in the production of adidas football boots were also applied at Reebok. We also stepped up the transfer of technologies across different categories. The TECHFIT™ technology, for example, has now also been introduced in the basketball category. In golf, Movable Weight Technology™ – originally used in metalwoods – is now also used in putters.

In addition, we have put emphasis on streamlining the development process. As a result, we have significantly decreased the number of physical samples by using virtual sampling technologies instead. This results in lower costs and a reduction of process time.

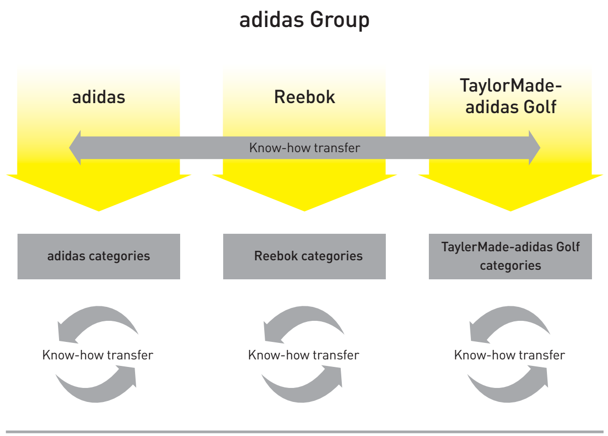
adidas Innovation Team drives brand's R&D initiatives

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.

Major technology-related awards won by the adidas Group in 2008

Award	Magazine	Product	Segment
Best update	Runner's World	Supernova™ Cushion	adidas
Best motion-stabilising shoe	Running Network	Supernova™ Sequence	adidas
Best inventions of 2008	Time Magazine	Bounce:S	adidas
Best debut	Runner's World	Premier Verona KFS	Reebok
Innovation	Plus X Award	Premier SmoothFit™	Reebok
Innovation	Plus X Award	TOUR360 LTD	TaylorMade-adidas Golf

adidas Group R&D structure



Major R&D locations and activities

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

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). Approximately half of the groups are located in Portland/Oregon, USA. The other half is based in Herzogenaurach, Germany. Dedicated innovation development centres in Asia focused on the production of prototypes support the product creation process.

R&D activities at Reebok follow divisional segment structure

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 located in Canton/Massachusetts, USA, create footwear, apparel and equipment with the primary focus on developing products that provide maximum comfort and fit for the consumer.

— The R&D team at Reebok-CCM Hockey, located at two different locations in Canada, is dedicated to continuously creating state-of-the-art hockey equipment for both professional and recreational players.

— Rockport's R&D function located in Canton/Massachusetts, USA, is a vertically integrated organisation 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 commercialisation 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.

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. The team is structured according to the different product categories in golf and is located in Carlsbad/California, USA.

Selective purchase of external R&D expertise

In addition to its internal R&D efforts, the adidas Group also purchases a limited amount of R&D expertise from well-established research partners. We enter into external collaborations to gain access to highly specialised knowledge in certain areas of expertise we have decided not to fill internally. This strategy allows for greater flexibility and faster access to know-how that may otherwise require considerable time and resources if built up within the Group. To increase efficiency and protect research results, collaborations are usually long-term and exclusive. All projects carried out with external partners are based on a clearly defined mandate outlining the project scope to ensure consistency with the Group's R&D focus. Major adidas relationships exist with the Universities of Loughborough, England, the University of Calgary, Canada, the Universities of Fribourg and Erlangen-Nuremberg, Germany, and the Fraunhofer Institute, Germany. The brand has also built up a network of medical experts advising adidas on relevant new findings in their respective areas of expertise. In 2008, the further development of compression apparel, for example, was based on a scientific analysis carried out in cooperation with the University of Calgary on how different muscle groups work together. adidas also acquired Textronics, Inc., a specialist in the development of wearable sensors for use in fitness and health monitoring, to strengthen the brand's leading position in the intelligent product category. Reebok partnered with the University of Delaware in the development of the EasyTone™ shoe. Using electromyographic tests, the activity of individual muscles was measured. TaylorMade-adidas Golf has cooperations with the Universities of Calgary, Canada, and Portland, USA.

Active trademark and patent protection policy

To capitalise on the Group's R&D achievements, we seek patent protection for all our footwear, apparel and hardware innovations. It is an important business policy for our Group to secure the best available patent protection for our innovations in major markets. As we use a wide range of different technologies in our products, we are not dependent upon any single technology, or any patent rights related to any single technology. We also own a substantial portfolio of registered trademarks for the Group's brands and related proprietary names. As part of our business policy, we vigorously enforce the Group's trademarks and patents by monitoring the markets for infringements and taking action to prevent them. This includes a vigorous anti-counterfeiting programme. We also have stringent processes, and undertake significant research, to avoid infringement of third-party intellectual property rights see Risk and Opportunity Report, p. 107.

Efficiency improvements reduce R&D expenses

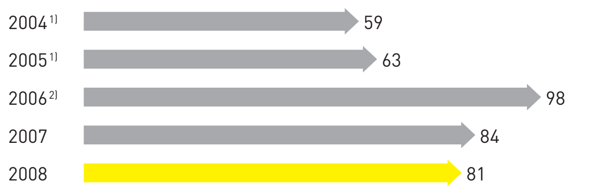
In 2008, all research and development costs were expensed as incurred. adidas Group R&D expenses decreased by 3% to € 81 million (2007: € 84 million) as a result of continued efficiency improvements at all brands. R&D expenses include expenses for personnel and administration, but exclude other costs, for example those associated with the design aspect of the product creation process. Personnel expenses represent the largest portion of R&D expenses, accounting for more than 50% of total R&D expenses in 2008. In 2008, R&D expenses represented 1.9% of total operating expenses versus 2.1% in the prior year. R&D expenses as a percentage of sales remained stable at 0.8% (2007: 0.8%) see Note 2, p. 158.

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. At December 31, 2008, 1,152 people were employed in the Group's R&D activities compared to 976 employees in 2007 (+18%). This represents 3% of total Group employees, unchanged compared to the prior year (2007: 3%).

R&D 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.

R&D 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.

R&D expenses

in % of operating expenses

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.

The R&D departments for each brand comprise experienced teams from different areas of expertise. Employees with a background in mechanical engineering and biomechanics specialise primarily in the development of performance footwear with a special focus on reducing stress on knees and other joints. Experts in material engineering concentrate on the development of apparel and footwear with an emphasis on reducing skin irritation, increasing durability and flexibility as well as enhancing temperature and moisture management. Other professional backgrounds include industrial design, Finite Element Analysis, advanced CAD design and product development.

Successful commercialisation of technological innovations

Developing industry-leading technologies is only one aspect of being an innovation leader. Even more important is the successful commercialisation of those technological innovations. The majority of adidas Group sales in 2008 were generated with products newly introduced in the course of the year. As new products tend to have a higher gross margin compared to products which are in the market for more than one season, newly launched products contributed overproportionately to the Group's net income development in 2008. We expect this development to continue in 2009 as our launch schedule highlights a full pipeline of innovative products see Subsequent Events and Outlook, p. 120.

Successful product launches across all major adidas categories

The strong sales development of brand adidas in 2008 was largely based on launching evolutions of existing technologies in all major categories. Products launched in 2008 accounted for 78% of brand sales (2007: 77%). Only 5% of total sales were generated with products introduced three or more years ago (2007: 6%).

Highlight product launches in the football category included the EUROPASS, the official ball for the UEFA EURO 2008™, of which we sold more than six million pieces in 2008. Its revolutionary PSC-Texture™ guarantees optimum grip between ball and boot in all weather conditions. adidas also launched miCoach, an interactive training system which collects and turns personal data into individual training plans based on the user's fitness level and specific goals.

The system comprises five key components: a mobile phone, a heart rate monitor, a stride sensor chip to fit all adidas running footwear, compatible adidas apparel and the miCoach website to create tailored training programmes. Sales of products using TECHFIT™ technology doubled in 2008 following extension of the technology into additional categories such as basketball.

Product innovation at Reebok focuses on key categories

In 2008, we made progress in improving the quality and appeal of Reebok's product portfolio especially in the sports category. Product launches focused on those categories the brand has defined as core to its future positioning, i.e. Women's Fitness, Men's Sport and Classics. At brand Reebok, 66% of ordered footwear was launched in 2008 (2007: 61%). Only 14% of ordered footwear products were related to products introduced three or more years ago (2007: 10%). In 2008, Reebok brought to market SmoothFit™, a unique technology that eliminates all exposed stitching in shoes and apparel to reduce the amount of abrasion against the foot and body. The technology was rolled out across different categories such as training and running and is now used in more than 70 Reebok products. Reebok also launched a number of footwear products across different categories containing further refinements to its KineticFit (KFS) technology. This technology makes use of a series of engineered stretch panels positioned in key areas of the shoe which accommodate changes in the size and shape of an athlete's foot as it moves.

At Reebok-CCM Hockey, products launched in 2008 accounted for 31% of sales in North America (2007: 58%). Only 16% of sales in this region were generated with products introduced three or more years ago (2007: 12%). In 2008, Reebok-CCM Hockey launched the revolutionary U+™ Skate. Through the use of U FOAM, the skate customises to the foot after being heated once. The use of the new lightweight, revolutionary rocket runner blade makes it the lightest skate on the market, supporting CCM's position as one of the leading skate brands in the National Hockey League (NHL).

Due to the different business model for the Rockport brand with its larger focus on non-athletic styles, the impact from new styles is significantly lower. As a result, 51% of ordered products were launched in 2008 (2007: 50%). 18% of ordered products were related to products introduced three or more years ago (2007: less than 20%). In 2008, R&D efforts concentrated on further developing the brand's Machine Washable and Walk Dry technologies as well as improving Rockport's proprietary Dynamic Suspension System.

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 92% of total hardware sales (2007: 75%). Products that had been brought to market three or more years ago accounted for 1% (2007: 1%). Among the highlight product launches in 2008 was the next generation of Burner® drivers using SuperFast and Dual Crown technology promoting faster swing speed, a higher launch angle and lower spin-rate. Together this enables players to achieve longer distance. The Burner® family of drivers accounted for approximately 15% of TaylorMade-adidas Golf sales in 2008. In this year, TaylorMade also launched the Itsy Bitsy Spider Putter featuring Movable Weight Technology™ and AGSI+ grooved insert technology, which is designed to grip the ball at impact, reducing backspin and promoting forward spin.

Ambitious 2009 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. The awards we attained in 2008 are further proof of our technology leadership within the sporting goods industry. Our Group remains committed to bringing at least one new revolutionary technology or groundbreaking evolution to the market each year see Group Strategy, p. 046. In 2009, intelligent product technologies will be at the forefront of adidas R&D activities as we aim to position the brand as the technology leader in this rapidly growing category. Reebok's focus will continue to be on technologies enhancing comfort and fit that are tangible and easily understandable for the consumer. TaylorMade-adidas Golf's development efforts will centre on further increasing the adaptability of its products to individual player characteristics.

Major 2008 product launches

Product	Brand
adidas by Stella McCartney golf apparel collection	adidas
adidas Originals adidas Grün collection	adidas
adidas Originals Handbags For Feet collection	adidas
adidas Originals Denim by Diesel apparel collection	adidas
adiSTAR® Control 4 running shoe	adidas
adiSTAR® Revolt running shoe	adidas
adiZero™ CS running shoe	adidas
Barricade tennis shoe	adidas
F50 TUNIT™ football boot	adidas
Men's training adidas TECHFIT PowerWEB	adidas
miCoach training system	adidas
mi Originals customisation tool	adidas
Team Signature Creator basketball shoe	adidas
Women's Yatra training collection	adidas
Avon Pink Ribbon collection	Reebok
Big Papi 2M (baseball footwear)	Reebok
Freestyle Cities collection	Reebok
HEXRIDE Rally running shoe	Reebok
KFS Sprintfit II Pro football boot	Reebok
Premier Verona KFS running shoe	Reebok
Vince Young Electrify SD (American football boot)	Reebok
Voltron men's footwear collection	Reebok
Women's American football apparel collection	Reebok
Yao Pump™ Omni HEXRIDE basketball shoe	Reebok
CCM Vector U+™ Stick	Reebok-CCM Hockey
Reebok OPS 7K Sickick Stick	Reebok-CCM Hockey
Rockport Signature Series	Rockport
Burner® and Burner® TP balls	TaylorMade-adidas Golf
my TP ball	TaylorMade-adidas Golf
r7® CGB MAX Limited driver	TaylorMade-adidas Golf
r7® CGB MAX Rescue hybrid	TaylorMade-adidas Golf
TECHFIT PowerWEB adidas Golf apparel line	TaylorMade-adidas Golf
Tour Burner® iron	TaylorMade-adidas Golf
Tour Burner® TP driver	TaylorMade-adidas Golf
Tour Preferred® Red and Black golf balls	TaylorMade-adidas Golf
TOUR360 LTD adidas Golf shoe	TaylorMade-adidas Golf

Haile Gebrselassie

adidas

Haile Gebrselassie could undoubtedly be named the best distance runner ever: four times World Champion, two times Olympic Champion in the 10,000 metres, numerous world records in the 5,000 metres, the 10,000 metres and the marathon. In 2008, he again smashed his own world record at the Berlin Marathon. His new goal? To once run a marathon in under 2:03:00 hours. And his game plan: “Have a clear goal, pursue it and challenge my own impossible.”

Group Management Report – Our Financial Year

3

Group Business Performance

In 2008, the adidas Group again delivered strong financial performance. Group sales and profitability developed in line with Management's initial expectations. Currency-neutral sales increased 9%. Double-digit sales growth in the adidas segment had the biggest impact on this development. In euro terms, adidas Group revenues grew 5% to € 10.799 billion in 2008 from € 10.299 billion in 2007. The Group's gross margin increased 1.3 percentage points to 48.7% in 2008 (2007: 47.4%) mainly driven by an improving regional mix, further own-retail expansion and a more favourable product mix. The Group's gross profit increased 8% to reach € 5.256 billion in 2008 versus € 4.882 billion in 2007. The Group's operating margin grew 0.7 percentage points to 9.9% from 9.2% in 2007, due to the higher gross margin which more than offset higher net other operating expenses and income as a percentage of sales. The Group's operating profit increased 13% to € 1.070 billion in 2008 versus € 949 million in 2007. The Group's net income attributable to shareholders grew 16% to € 642 million from € 551 million in 2007. Diluted earnings per share increased 20% to € 3.07 in 2008 versus € 2.57 in 2007.

Economic and Sector Development

Global economic growth at its lowest level in six years

In 2008, the global economy grew 2.0%. This represents a sharp slowdown versus the 2007 growth rate of 4.0%. The crisis that started in 2007 in the banking sector spilled over into the real economy, with each region seeing a slow moderation in GDP growth. The crisis intensified from October onwards, with all key economic indicators spiralling downwards.

In Europe, full year GDP increased by 0.9% (2007: 2.8%). A moderation of growth in Western Europe was only partly offset by the region's emerging markets. The latter grew their economy by 4.6%, but also showed signs of a slowdown. Despite a slight improvement mid-year, consumer confidence in Europe declined throughout 2008. As a result of the crisis, unemployment rose to its highest level since February 2007.

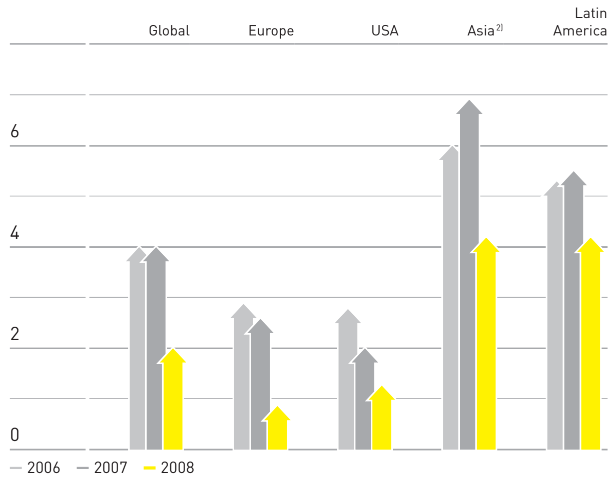
In the USA, economic growth decreased to 1.3% in 2008 (2007: 2.0%). Depression of the housing market and a troubled banking sector suffering from the liquidity crisis drove this development. As a result of the economic difficulties, the unemployment rate rose to a 16-year high of 7.2% in December, and brought US consumer confidence to an all-time low.

In Asia, most of the region's economies continued on a strong upswing, albeit at a lower rate than in previous years. Asia's GDP grew 4.2% in 2008 (2007: 6.9%). GDP growth in China was 9.0%, while Japan's economy shrank 0.2%. Developing Asian countries indirectly suffered from the crisis, experiencing a decline in exports and foreign investment. Consumer confidence in Asia decreased in most countries, including Japan and China.

Despite slightly slower activity, GDP growth in Latin America reached 4.2% in 2008 (2007: 5.5%). Economic growth lost momentum in the last months of the year due to a decline in commodity prices and lower exports. Consumer confidence in the region declined in 2008, especially towards the end of the year.

Regional GDP development [1]

in %



1) Real, percentage change versus prior year; 2008 figures are estimated.
2) Asia also includes Japan and Area Pacific.
Source: Goldman Sachs.

Quarterly unemployment rate by region

in % of total active population

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
USA [1]	4.9	5.1	5.6	6.2	7.2
Euro Zone [2]	7.2	7.2	7.4	7.6	8.0
Japan [3]	3.8	3.8	4.1	4.0	4.4

1) Source: US Bureau of Labor Statistics.
2) Source: Eurostat.
3) Source: Japan Ministry of Internal Affairs and Communications.

Quarterly development of Consumer Price Index [1]

by region

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
USA	4.1	4.0	5.0	4.9	0.1
Euro Zone	3.1	3.6	4.0	3.6	1.6
Japan	0.7	1.2	2.0	2.1	0.4

1) Source: Bloomberg.

Quarterly consumer confidence development

by region

	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008
USA [1]	90.6	65.9	51.0	61.4	38.6
Euro Zone [2]	(9)	(12)	(17)	(19)	(30)
Japan [3]	38.3	37.0	32.9	31.8	26.7

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

Exchange rate development [1]

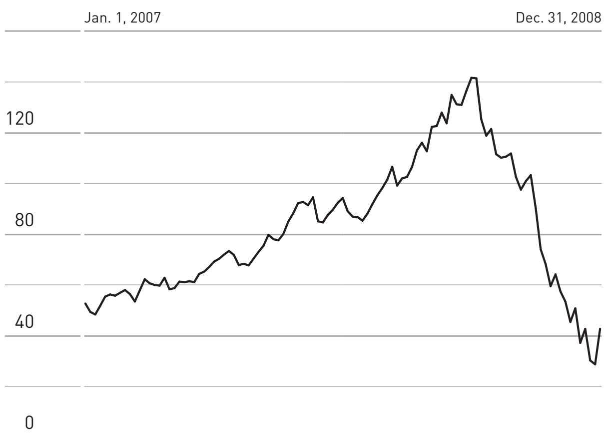
€ 1 equals

	Average rate 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Average rate 2008
USD	1.3709	1.5812	1.5764	1.4303	1.3917	1.4702
GBP	0.6845	0.7958	0.7923	0.7903	0.9525	0.7956
JPY	161.19	157.37	166.44	150.47	126.14	152.39

1) Spot rates at quarter-end.

Oil price development [1]

in US $



1) West Texas Intermediate Cushing crude oil.
Source: Bloomberg.

Global sporting goods industry hit by economic downturn

In 2008, growth of the sporting goods industry was affected by slower economic expansion in most major markets. However, the extent of the crisis differed from region to region. The sporting goods markets in the USA and Western Europe were the most hit while emerging markets continued to post significant growth.

Mixed performance of European sporting goods industry

In 2008, the European sporting goods industry saw diverse developments among the various markets. Despite the positive impact of the UEFA EURO 2008™, all major Western European countries posted a decline in sales. The UK led the downward trend, being faced with a particularly tough retail environment. Emerging markets continued to show a strong performance, however at a slower pace than in the prior year.

The decline in Western Europe hit both the footwear and apparel segment, albeit in diverse degrees. Declining volumes accounted for the major part of the sales drop. Footwear sales decreased at a mid-single-digit rate while apparel sales declined at a high-single-digit rate. The decline in footwear sales was driven by the outdoor, training and basketball categories. Among the distribution channels, clothing stores, general shoe stores and sports shoe stores declined at a double-digit rate while sporting goods stores were able to outperform the market, although they were still down.

US sporting goods industry endures tough retail market

In the US sporting goods industry, the sales trends differed significantly by category. Footwear sales grew, while apparel sales declined.

The slight expansion of footwear sales was supported by an increase in average selling prices. The main contributor to the sales growth was the running category (mid-single-digit growth), while basketball, lifestyle and training decreased. Apparel sales were down low-single-digit as average selling prices declined. The sales drop was driven by the training category, which declined at a high-single-digit rate, and to a lesser extent by the basketball category.

From a channel perspective, sales also developed differently by category. The family footwear channel increased at a mid-single-digit rate. The sporting goods and mall athletic specialty channels, however, were down at a low-single-digit rate. In apparel, the sporting goods channel increased sales, while the mall athletic specialty and family/volume channels were down double-digit.

Asian sporting goods industry driven by emerging markets

The Asian sporting goods industry showed continued double-digit growth in 2008, driven by most major markets. The emerging markets were the primary driver of growth, supported by increasing consumer demand and continued retail expansion. In addition, the Olympic Games held in Beijing raised awareness for sports among the Chinese population and in neighbouring countries.

Despite weak private consumption in Japan, the industry grew at a mid-single-digit rate in 2008. Sales in footwear increased at a mid-single-digit rate, while apparel sales grew at a low-single-digit rate.

Latin American sporting goods market increases

In Latin America, the sporting goods market developed in line with the overall economy and grew at a single-digit rate compared to the prior year. Both apparel and footwear sales increased in 2008 compared to the prior year, reflecting higher consumer spending in the region.

adidas Group outpaces overall economic and industry growth

In 2008, adidas Group revenues grew faster than both the global 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.

Income Statement

No change in accounting policy

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). There were no relevant changes in IFRS and no changes in the Group's consolidation and accounting principles see Note 1, p. 157. Therefore, there was no impact on the Group's consolidated financial statements from any such changes in the reporting period.

Portfolio changes impact business development

In 2008, the adidas Group implemented various portfolio changes which had an impact on the Group's financial results see Note 4, p. 164. In February 2008, TaylorMade-adidas Golf divested the Maxfli brand. This had a small negative impact on sales. The Group's operating result was positively impacted by a one-time book gain of € 5 million resulting from this transaction. In addition, in November 2008, the TaylorMade-adidas Golf segment acquired Ashworth, Inc., a leader in cotton casual golf apparel. The Ashworth consolidation did not have a significant impact on the Group's sales in 2008. The transaction positively impacted the Group's operating result due to a one-time book gain of € 21 million. However, this was partially offset by restructuring costs and other one-time expenses of € 7 million. Furthermore, effective April 1, 2008, the adidas Group acquired 99.99% of the shares of Reebok Productos Esportivos Brasil Ltda. (formerly Comercial Vulcabras Ltda.), the distributor for Reebok products in Brazil and Paraguay. Effective June 2, 2008, Reebok also founded a new company in Argentina, in which the adidas Group holds 99.99% of the shares. Both these transactions had a positive impact on sales in the Reebok segment. Royalty income, however, was negatively impacted as the new companies took over the business of the former distribution partner in the region.

Synergies support operational performance

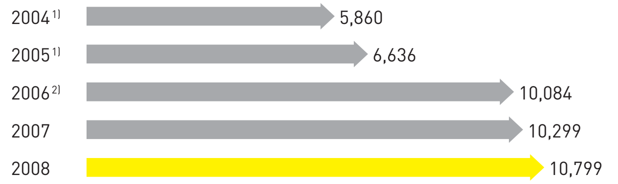
The operational performance of the adidas and Reebok segments was positively impacted by the realisation of revenue and cost synergies resulting from the integration of the Reebok business into the adidas Group. Sales synergies were realised in the Reebok segment, in particular in countries for which Reebok had purchased the distribution rights, such as Russia and China. Revenue synergies also had a small positive impact on sales development in the adidas segment due to increased revenues related to the NBA licence business, which was transferred from Reebok to the adidas brand in 2006. Cost synergies resulting from the combination of adidas and Reebok sourcing activities also continued to have a positive impact on the cost of sales. These were partly offset by integration costs which negatively impacted the Group's operating expenses. In 2008, we realised revenue synergies of around € 230 million (2007: around € 100 million). Due to lower than expected Reebok apparel sales, these synergies are slightly below our initial expectations. Net cost synergies were in line with expectations and amounted to around € 110 million for the full year 2008 (2007: around € 20 million).

adidas Group currency-neutral sales grow 9%

In 2008, Group revenues increased 9% on a currency-neutral basis, as a result of strong sales growth in the adidas and TaylorMade-adidas Golf segments. This development was in line with initial Management expectations of high-single-digit growth. Currency translation effects negatively impacted Group sales in euro terms. Group revenues grew 5% in euro terms to € 10.799 billion in 2008 from € 10.299 billion in 2007.

Net sales

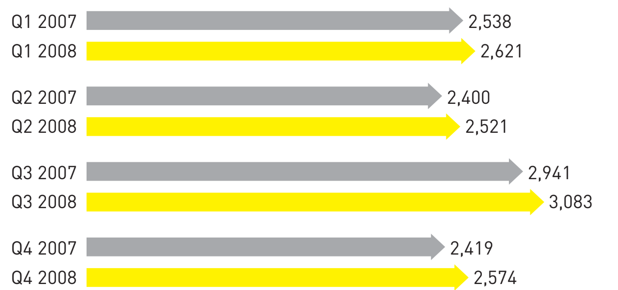
€ in millions



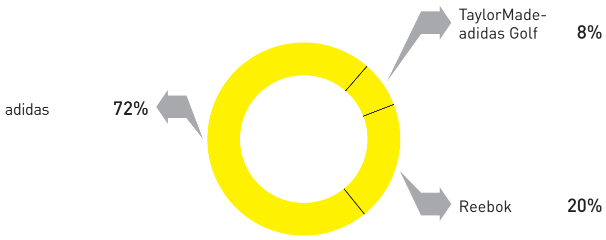
1) Figures reflect continuing operations as a result of the divestiture of the Salomon business segment.
2) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

Net sales by quarter

€ in millions

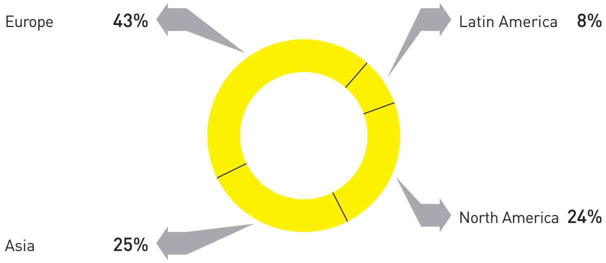


2008 net sales by segment [1]



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

2008 net sales by region [1]



1) Excluding HQ/Consolidation.

Net sales by region

€ in millions

	Europe	North America	Asia	Latin America	Total [1]
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
2008	**4,665**	**2,520**	**2,662**	**893**	**10,799**

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 and TaylorMade-adidas Golf drive top-line performance

The adidas segment was the most significant contributor to Group sales growth in 2008. Currency-neutral adidas segment revenues increased 14% during the period, driven by double-digit increases in all major performance categories. Currency-neutral sales in the Reebok segment decreased 2% versus the prior year. Growth in the running category was offset by declines in most other categories. At TaylorMade-adidas Golf, currency-neutral revenues increased 7%, due to positive sales momentum in apparel, footwear, balls and putters. Sales recorded in the HQ/Consolidation segment, which reflect revenues not attributable to the adidas, Reebok or TaylorMade-adidas Golf segments, decreased 63% on a currency-neutral basis. This development was mainly due to the expiration of our sourcing cooperation agreement with Amer Sports Corporation in February 2008.

Currency translation effects negatively impacted sales in all segments in euro terms. adidas sales increased 10% to € 7.821 billion in 2008 from € 7.113 billion in 2007. Sales at Reebok decreased 8% to € 2.148 billion versus € 2.333 billion in the prior year. TaylorMade-adidas Golf sales increased 1% to € 812 million in 2008 from € 804 million in 2007. HQ/Consolidation sales decreased 64% to € 18 million from € 49 million in the prior year.

Double-digit currency-neutral sales increase in nearly all regions

adidas Group sales grew at double-digit rates on a currency-neutral basis in all regions except North America in 2008. Group sales in Europe grew 11% on a currency-neutral basis as a result of strong growth in emerging markets. In North America, Group sales declined 8% on a currency-neutral basis due to lower sales in the USA. Sales for the adidas Group in Asia increased 20% on a currency-neutral basis, driven by particularly strong growth in China. In Latin America, sales grew 42% on a currency-neutral basis, with double-digit increases coming from most of the region's major markets, supported by the new Reebok companies in Brazil/Paraguay and Argentina.

2008 net sales growth (currency-neutral) [1]

by segment and region in %

	Europe	North America	Asia	Latin America	Total
adidas	13	(3)	24	21	14
Reebok	(3)	(16)	7	192	(2)
TaylorMade-adidas Golf	17	3	10	38	7
Total	**11**	**(8)**	**20**	**42**	**9**

1) Versus the prior year.

2008 net sales growth (in €) [1]

by segment and region in %

	Europe	North America	Asia	Latin America	Total
adidas	10	(10)	23	16	10
Reebok	(8)	(22)	(1)	170	(8)
TaylorMade-adidas Golf	0	(4)	8	28	1
Total	**7**	**(14)**	**18**	**36**	**5**

1) Versus the prior year.

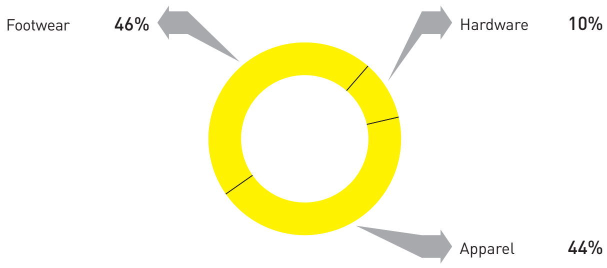
Currency translation effects negatively impacted sales in euro terms in all regions. In euro terms, sales in Europe increased 7% to € 4.665 billion in 2008 from € 4.369 billion in 2007. Sales in North America decreased 14% to € 2.520 billion in 2008 from € 2.929 billion in the prior year. Revenues in Asia grew 18% to € 2.662 billion in 2008 from € 2.254 billion in 2007. Sales in Latin America grew 36% to € 893 million in 2008 from € 657 million in the prior year.

Currency-neutral apparel revenues advance at a double-digit rate

From a product category perspective, currency-neutral Group sales growth was driven by increases in all categories. Currency-neutral footwear sales increased 8% during the period. This development was driven by double-digit growth in the adidas and TaylorMade-adidas Golf segments, while the Reebok segment remained stable. Apparel sales grew 12% on a currency-neutral basis, driven by double-digit increases in the adidas and TaylorMade-adidas Golf segments, while sales in the Reebok segment declined. Currency-neutral hardware sales increased 4% compared to the prior year due to improvements in all segments.

Currency translation effects negatively impacted sales in all product categories in euro terms. Footwear sales in euro terms increased 4% to € 4.919 billion in 2008 (2007: € 4.751 billion). Apparel sales grew 8% to € 4.775 billion in 2008 from € 4.426 billion in the prior year. Hardware sales decreased 1% to € 1.106 billion in 2008 from € 1.121 billion in 2007.

2008 net sales by product category



Net sales by product category

€ in millions

	Footwear	Apparel	Hardware	Total[1]
2004[2]	2,620	2,462	778	5,860
2005[2]	2,978	2,798	860	6,636
2006[3]	4,733	4,105	1,246	10,084
2007	4,751	4,426	1,121	10,299
2008	**4,919**	**4,775**	**1,106**	**10,799**

1) Rounding differences may arise in totals.
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.

Cost of sales increases modestly

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 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 2008, cost of sales was € 5.543 billion, representing an increase of 2% compared to € 5.417 billion in 2007. The increase was below sales growth due to the optimisation of sourcing processes and efficiency gains within our supply chain which more than offset increasing labour and raw material costs.

Gross margin reaches record level of 48.7%

The gross margin of the adidas Group increased 1.3 percentage points to 48.7% in 2008 (2007: 47.4%). This is the highest annual gross margin for the Group since the IPO in 1995. This development exceeded Management's initial expectation of a gross margin between 47.5 and 48.0%. The improvement was mainly due to an improving regional mix, further own-retail expansion and a more favourable product mix. Currency movements also supported this development. Cost synergies resulting from the combination of adidas and Reebok sourcing activities also continued to have a positive impact. As a result, gross profit for the adidas Group rose 8% in 2008 to reach € 5.256 billion versus € 4.882 billion in the prior year.

Royalty and commission income decreases

Royalty and commission income for the adidas Group decreased 9% on a currency-neutral basis. This development is mainly due to the non-recurrence of royalties from distribution partners in the Reebok segment in Brazil/Paraguay and Argentina in 2008. The distribution partnerships in these countries were replaced by own companies whose sales were consolidated for the first time in 2008. In euro terms, royalty and commission income decreased 13% to € 89 million in 2008 from € 102 million in the prior year.

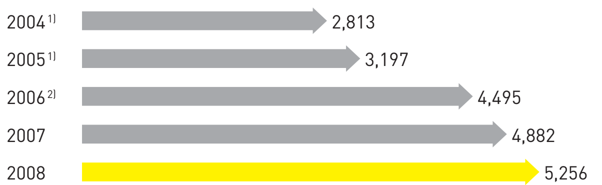
Gross margin

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.

Other operating income grows 28%

Other operating income includes items such as releases of accruals and provisions and gains from the disposal of fixed assets see Note 24, p. 186. Other operating income increased 28% to € 103 million in 2008 from € 80 million in 2007. This development is mainly due to one-time book gains in connection with the acquisition of Ashworth (€ 21 million) and the divestiture of the Maxfli business (€ 5 million) see TaylorMade-adidas Golf Business Performance, p. 105.

Higher other operating expenses as a percentage of sales

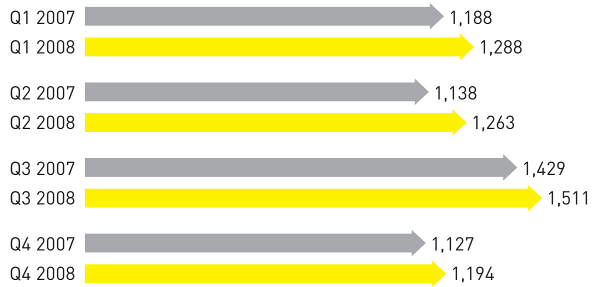
Other operating expenses, including depreciation and amortisation, consist of items such as marketing working budget and operating overhead costs see Note 25, p. 187. Other operating expenses as a percentage of sales increased 0.6 percentage points to 40.5% in 2008 from 40.0% in 2007. Higher expenses to support the Group's growth in emerging markets were partly offset by efficiency improvements and a slight decrease in marketing working budget expenditure as a percentage of sales. In absolute terms, other operating expenses increased 6% to € 4.378 billion in 2008 from € 4.115 billion in the prior year.

Marketing working budget decreases as a percentage of sales

Marketing working budget consists of items such as expenses for promotion partnerships, advertising, retail presentation and public relations. The Group's marketing working budget as a percentage of sales decreased 0.2 percentage points to 13.2% in 2008 (2007: 13.4%). Higher expenses related to the major sporting events in 2008 were offset by the adidas Group's strong revenue growth. In absolute terms, marketing working budget increased 4% to € 1.429 billion in 2008 from € 1.378 billion in the prior year.

Gross profit by quarter

€ in millions



Other operating expenses

€ in millions

2005 [1]	2,573
2006 [2]	3,759
2007	4,115
2008	4,378

1) Figure reflects 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.

Other operating expenses

in % of net sales

2005 [1]	38.8
2006 [2]	37.3
2007	40.0
2008	40.5

1) Figure reflects 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 overhead expenses increase

Group operating overheads include overhead costs related to marketing, sales, logistics, research and development as well as finance and administration functions. Operating overhead expenses as a percentage of sales increased 0.7 percentage points to 27.3% in 2008 from 26.6% in the prior year. This was primarily a result of higher own-retail expenditures, which increased due to the expansion of the Group's own-retail activities, mainly in emerging markets. As a result, operating overhead expenses increased 8% in 2008 to € 2.949 billion versus € 2.737 billion in 2007.

Other operating expenses

€ in millions

	2008	2007
Marketing working budget	1,429	1,378
Marketing overhead	376	327
Sales force	1,179	1,045
Logistics	565	535
Research & development	81	84
Finance & administration	748	746
Total	**4,378**	**4,115**

Marketing working budget

in % of net sales

2004 [1]	14.2
2005 [1]	14.2
2006 [2]	12.9
2007	13.4
2008	13.2

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.

EBITDA increases 10%

The Group's earnings before interest, taxes, depreciation and amortisation of tangible and intangible assets (EBITDA) increased 10% to € 1.277 billion in 2008 (2007: € 1.165 billion). Depreciation and amortisation expense for tangible and intangible assets with limited useful lives grew 11% to € 234 million in 2008 (2007: € 211 million). This development was mainly a result of increased fixed assets related to our own-retail expansion. In accordance with IFRS, 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 with unlimited useful lives was incurred in 2008 and 2007.

Operating margin improves 0.7 percentage points

The operating margin of the adidas Group increased 0.7 percentage points to 9.9% in 2008 (2007: 9.2%). This development was in line with Management's initial expectation of an operating margin of at least 9.5%. The operating margin increase was a result of the gross margin improvement and higher other operating income, which more than offset higher other operating expenses as a percentage of sales. As a result, Group operating profit increased 13% in 2008 to reach € 1.070 billion versus € 949 million in 2007.

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.

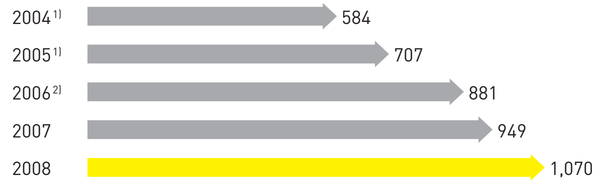
Operating margin

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.

Operating profit

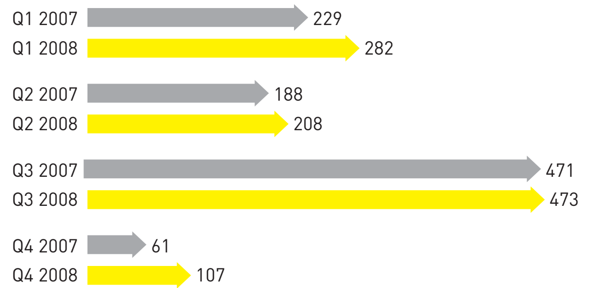
€ in millions



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.

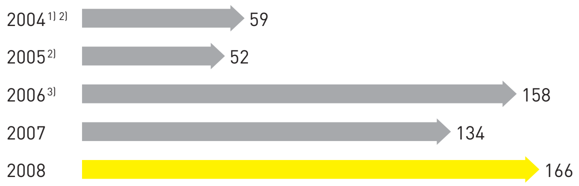
Operating profit by quarter

€ in millions



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.

Net financial expenses increase 23%

Net financial expenses increased 23% to € 166 million in 2008 from € 134 million in the prior year. This was mainly a result of higher financial expenses compared to the prior year.

Financial income up 5%

Financial income increased 5% to € 37 million in 2008 from € 36 million in the prior year as a result of higher interest income from cash deposits see Note 27, p. 188.

Financial expenses increase 19%

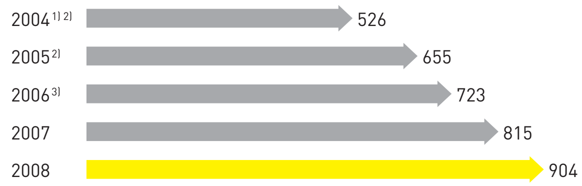
Financial expenses increased 19% to € 203 million in 2008 (2007: € 170 million). This development was primarily due to net foreign currency exchange losses resulting from the revaluation of balance sheet positions in foreign currencies other than functional currencies see Note 27, p. 188.

Income before taxes increases 11%

Income before taxes (IBT) as a percentage of sales increased 0.5 percentage points to 8.4% in 2008 from 7.9% in 2007. This was a result of the Group's operating margin increase, which more than offset the increase in net financial expenses. IBT for the adidas Group increased 11% to € 904 million in 2008 from € 815 million in 2007.

Income before taxes

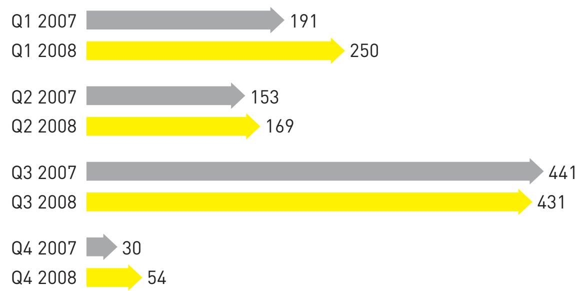
€ in millions



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

€ in millions



Net income attributable to shareholders grows 16%

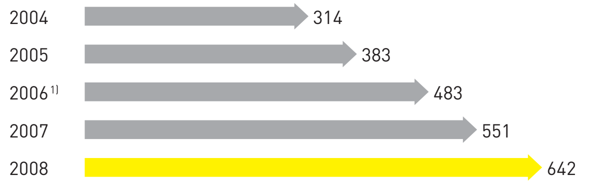
The Group's net income attributable to shareholders increased 16% to € 642 million in 2008 from € 551 million in 2007. This development was in line with Management's initial expectation of net income growth of at least 15%. The Group's higher operating profit, a lower tax rate and lower minority interests contributed to this development. The Group's tax rate decreased 3.0 percentage points to 28.8% in 2008 (2007: 31.8%) mainly due to a more favourable regional earnings mix throughout the Group as well as one-time tax benefits in the fourth quarter of 2008 see Note 28, p. 189.

Minority interests decline 39%

The Group's minority interests decreased 39% to € 2 million in 2008 from € 4 million in 2007. The decline was primarily due to lower profit at Reebok's subsidiary in Spain.

Net income attributable to shareholders

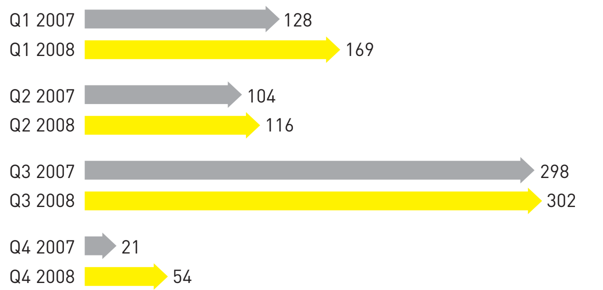
€ in millions



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

€ in millions



Basic and diluted earnings per share increase 20%

Basic earnings per share increased 20% to € 3.25 in 2008 versus € 2.71 in 2007. Basic earnings per share increased at a higher rate than the Group's net income attributable to shareholders due to a decrease in the number of shares outstanding. The weighted average number of shares used in the calculation of basic earnings per share decreased to 197,562,346 in 2008 (2007 average: 203,594,975) due to the share buyback programme initiated in January 2008 see Our Share, p. 038. Diluted earnings per share in 2008 increased 20% to € 3.07 from € 2.57 in the prior year. The weighted average number of shares used in the calculation of diluted earnings per share was 213,333,203 (2007 average: 219,467,177). 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 change in accounting policy

The Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). There were no relevant changes in IFRS and no changes in the Group's consolidation and accounting principles see Note 1, p. 157. Therefore, there was no impact on the Group's consolidated financial statements from any such changes in the reporting period.

Total assets increase 15%

At the end of 2008, total assets increased 15% to € 9.533 billion versus € 8.325 billion in the prior year. This was mainly a result of an increase in current assets.

Group inventories up 22%

Group inventories increased 22% to € 1.995 billion at the end of 2008 versus € 1.629 billion in 2007 see Note 8, p. 168. On a currency-neutral basis, inventories grew 21%. This was a result of a higher volume of product shipments received from suppliers towards the end of the year in anticipation of future price increases as well as potential regulatory changes in Latin America. Hesitant customer order patterns also impacted this development see Risk and Opportunity Report, p. 107. In addition, the new Reebok companies in Latin America as well as the consolidation of the Ashworth business acquired in November contributed to the increase.

Accounts receivable increase 11%

At the end of 2008, Group receivables increased 11% to € 1.624 billion (2007: € 1.459 billion) see Note 7, p. 167. On a currency-neutral basis, receivables grew 13%. This increase reflects slower receipt of payments due to the difficult economic situation in some markets. The new Reebok companies in Latin America as well as the consolidation of the Ashworth business acquired in November also contributed to this increase.

Balance sheet structure [1]

in % of total assets

Assets	2008	2007
Cash and cash equivalents	2.6	3.5
Accounts receivable	17.0	17.5
Inventories	20.9	19.6
Fixed assets	42.7	44.8
Other assets	16.8	14.6
Total assets (€ in millions)	9,533	8,325

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

Balance sheet structure [1]

in % of total liabilities and equity

Liabilities and equity	2008	2007
Short-term borrowings	8.4	2.2
Accounts payable	12.8	10.2
Long-term borrowings	18.6	23.6
Other liabilities	24.5	27.6
Total equity	35.7	36.4
Total liabilities and equity (€ in millions)	9,533	8,325

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

Other current assets up 49%

Other current assets increased 49% to € 789 million at the end of 2008 from € 529 million in 2007. This development was mainly due to higher fair values of financial instruments see Note 9, p. 168.

Fixed assets increase 9%

Fixed assets increased 9% to € 4.074 billion at the end of 2008 versus € 3.726 billion in 2007. This was mainly the result of continued own-retail expansion, investment into the Group's IT infrastructure, the transfer of assets held-for-sale to fixed assets as well as the acquisition of Ashworth, Inc. and Textronics, Inc. Additions of € 378 million were partly offset by depreciation and amortisation of € 234 million as well as disposals in an amount of € 41 million. Currency translation effects on fixed assets denominated in currencies other than the euro had a positive effect of € 120 million.

Assets held-for-sale decrease 60%

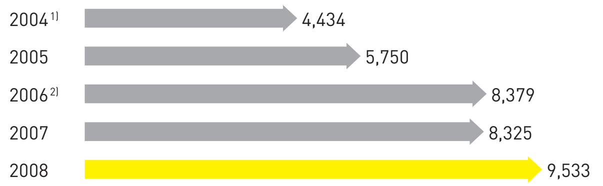
At the end of 2008, assets held-for-sale decreased 60% to € 31 million (2007: € 80 million). In the second quarter of 2008, land and buildings in Herzogenaurach, Germany, which are no longer in the scope of a sale, were transferred to fixed assets. At the end of 2008, assets held-for-sale mainly related to warehouses for sale in the UK and in the USA, property in Herzogenaurach and assets in connection with the planned divestiture of Gekko Brands, LLC acquired with Ashworth, Inc. see Note 3, p. 163.

Other non-current assets increase 25%

Other non-current assets increased by 25% to € 180 million at the end of 2008 from € 147 million in 2007, mainly driven by an increase in the fair value of financial instruments see Note 14, p. 170.

Total assets

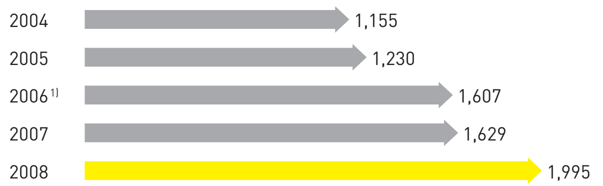
€ in millions



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

Inventories

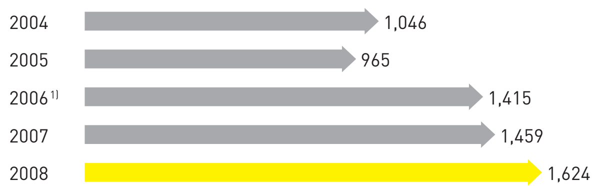
€ in millions



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

Receivables

€ in millions



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

Accounts payable grow 43%

Accounts payable increased 43% to € 1.218 billion at the end of 2008 versus € 849 million in 2007. On a currency-neutral basis, accounts payable were up 37%. This development was mainly a result of a higher volume of production and product shipments towards the end of the year in anticipation of future price increases as well as potential regulatory changes in Latin America see Risk and Opportunity Report, p. 107. The new Reebok companies in Latin America as well as the consolidation of the Ashworth business acquired in November also contributed to the increase.

Other current liabilities increase 11%

Other current liabilities increased 11% to € 295 million at the end of 2008 from € 266 million in 2007, primarily as a result of increases in tax liabilities other than income taxes see Note 17, p. 173.

Other non-current liabilities decrease 23%

Other non-current liabilities decreased 23% to € 52 million at the end of 2008 from € 69 million in 2007, primarily as a result of a decrease in the fair value of non-current forward contracts see Note 19, p. 175.

Equity grows due to increase in net income

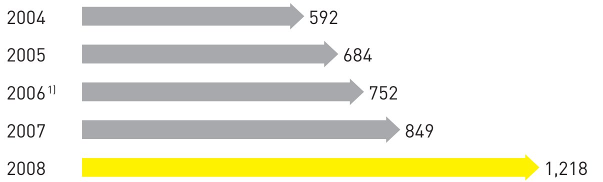
Shareholders' equity rose 12% to € 3.386 billion at the end of 2008 versus € 3.023 billion in 2007. The net income generated during the period more than offset the buyback of adidas AG shares. Currency translation effects and increases in the fair value of forward contracts also positively impacted this development see Note 21, p. 176.

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 25% to € 422 million in 2008 from € 337 million in the prior year, mainly due to the continued expansion of the adidas Group's own-retail activities see Note 22, p. 181.

Accounts payable

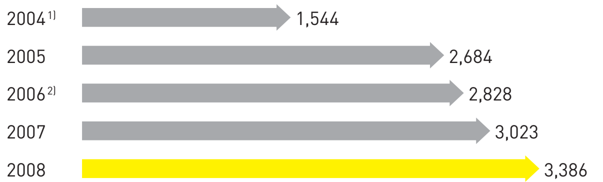
€ in millions



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

Shareholders' equity

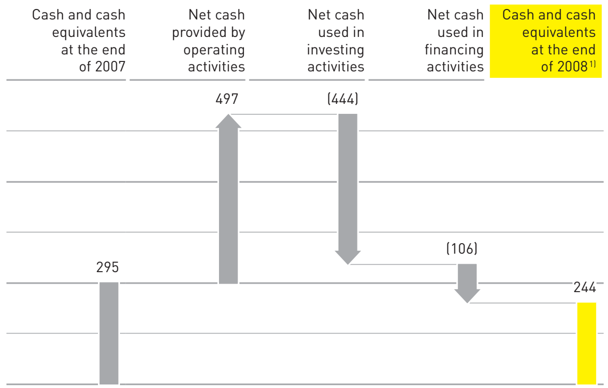
€ in millions



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 positive exchange rate effect of € 2 million.

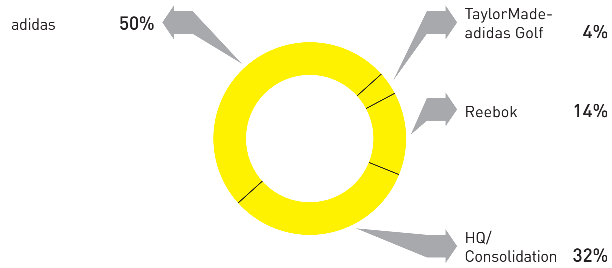
Cash flow development reflects increased working capital needs

In 2008, cash inflow from operating activities was € 497 million (2007: € 780 million). The decrease in cash provided by operating activities compared to the prior year was primarily due to higher working capital needs. Cash outflow for investing activities was € 444 million (2007: € 285 million) and was mainly related to spending for property, plant and equipment such as investments in the furnishing and fitting of adidas and Reebok own-retail stores and in IT systems. Cash outflows for financing activities were related to the buyback of adidas AG shares in an amount of € 409 million and the payment of dividends to shareholders in an amount of € 99 million. Cash outflow in the amount of € 186 million led to a corresponding change in short-term borrowings. An increase of long-term borrowings by € 588 million only partly offset these outflows. Consequently, net cash used in financing activities totalled € 106 million (2007: € 510 million). As a result of this development and despite a positive exchange rate effect of € 2 million (2007: negative € 1 million), cash and cash equivalents decreased by € 51 million to € 244 million at the end of 2008 (2007: € 295 million).

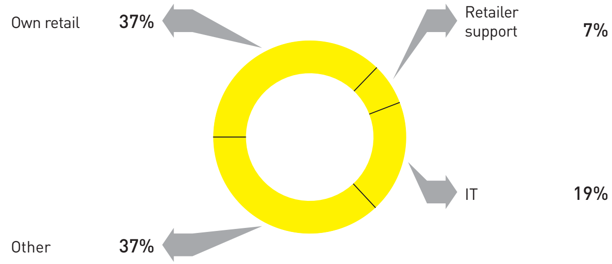
Capital expenditure focus on Group expansion

Capital expenditure is the total cash expenditure for the purchase of tangible and intangible assets. Group capital expenditures increased 32% to € 380 million in 2008 (2007: € 289 million). The adidas segment accounted for 50% of Group capital expenditures (2007: 52%). Expenditures in the Reebok segment accounted for 14% of total expenditures (2007: 20%). 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 (2007: 4%). The remaining 32% of total capital expenditures was recorded in the HQ/Consolidation segment (2007: 24%) and was mainly related to IT infrastructure measures see **Global Operations, p. 064**.

2008 capital expenditure by segment



2008 capital expenditure by type



Treasury

Group financing policy

The major goal of our financing policy is to minimise 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 optimising our net interest expenses. By settling intercompany transactions via intercompany financial accounts, we are able to reduce external bank account transactions and thus bank charges. Effective management of our currency exposure as well as ongoing interest rate optimisation 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 intercompany 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 centralised 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.

Centralised 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 centralised liquidity management, the Group is well positioned to allocate resources efficiently throughout the organisation. 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 authorised to work with banks with a lower rating see Risk and Opportunity Report, p. 107. To optimise 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 unutilised credit facilities in an amount of € 3.9 billion at the end of 2008 (2007: € 4.1 billion). These include a € 2.0 billion committed multi-year syndicated loan (2007: € 2.0 billion) of which € 1.8 billion was not utilised at year-end as well as bilateral credit lines at different banks in an amount of € 2.1 billion (2007: € 2.1 billion). 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

	2008	2007
Short-term lines	2,722	2,314
Medium-term committed lines	2,000	2,000
Private placements	1,432	1,564
Convertible bond	393	384
Total	**6,547**	**6,262**

Remaining time to maturity of available facilities
€ in millions

	2008	2007
< 1 year	3,519	2,500
1 to 3 years	462	967
3 to 5 years	2,332	2,376
> 5 years	234	419
Total	**6,547**	**6,262**

Short-term credit lines increase

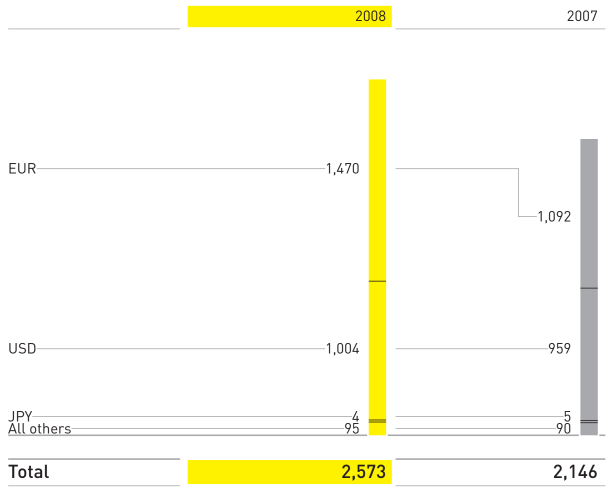
Short-term credit lines increased 18% to € 2.722 billion at the end of 2008 from € 2.314 billion in the prior year. The credit lines in 2008 increased to promote liquidity flexibility. Committed and uncommitted credit lines represent approximately 42% and 58% of total short-term credit lines, respectively.

Standard financial covenants

Under our committed credit facilities we have entered into various covenants. These covenants include limits on the 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, 2008, we were in full compliance with all of our covenants. As a result of our cash flow expectations, we are confident we will continue to be compliant with these covenants going forward see **Subsequent Events and Outlook, p. 120**. We currently believe that cash generated by operations, together with access to external sources of funds, will be sufficient to meet our future operating and capital needs.

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 and variable	2010
French private placement	EUR 150	variable	2011 – 2012
US private placement	USD 270	fixed	2009
US private placement	USD 288	fixed	2011
US private placement	USD 292	fixed	2013
US private placement	USD 175	fixed	2015
US private placement	USD 150	fixed	2016
Convertible bond	EUR 400	2.50%	2018
Other private placements	EUR 73	fixed and variable	2009 – 2012

Gross borrowings increase

Gross borrowings increased 20% to € 2.573 billion at the end of 2008 from € 2.146 billion in the prior year. Bank borrowings increased 206% to € 605 million from € 198 million in the prior year. Our private placements in the USA, in Europe and in Asia decreased 9% to € 1.432 billion in 2008 (2007: € 1.564 billion). The current value of the convertible bond increased 2% to € 393 million in 2008 from € 384 million in the prior year, reflecting the accrued interest on the debt component in accordance with IFRS requirements. Commercial paper amounting to € 143 million was outstanding at the end of 2008 (2007: € 0).

Euro dominates currency mix

The majority of our Group's gross borrowings are denominated in euros and US dollars. Gross borrowings denominated in euros accounted for 57% of total gross borrowings (2007: 51%). The share of gross borrowings held in US dollars decreased to 39% (2007: 45%).

Interest rate slightly decreases

The weighted average interest rate on the Group's gross borrowings decreased slightly to 5.2% in 2008 (2007: 5.3%). High interest rates, mainly in the Euro Zone, during the first half of the year were offset by decreased interest rates worldwide in the second half of 2008. Long-term fixed-rate financing amounted to around 60% of the Group's total financing at the end of 2008 (2007: around 70%). Variable financing amounted to around 40% of total financing at the end of the year (2007: around 30%).

Interest rate development[1]

in % per annum

1) Weighted average interest rate of gross borrowings.

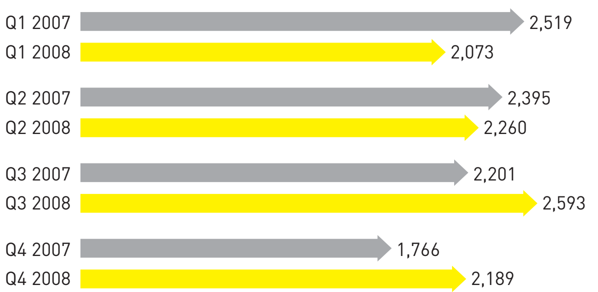
Net cash/(Net borrowings)

€ 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 increased by € 423 million

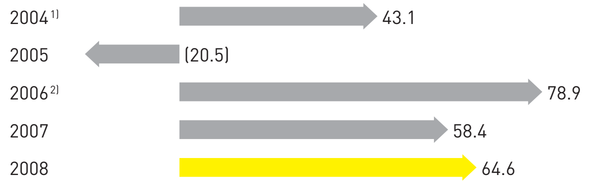
Net borrowings at December 31, 2008 amounted to € 2.189 billion, which represents an increase of € 423 million, or 24%, versus € 1.766 billion in the prior year. As a result, our original target of net debt to be at or slightly below the 2007 level was not achieved. During 2008, we utilised cash for a share buyback programme in an amount of € 409 million which contributed to the increase in net debt. Higher working capital requirements also influenced this development. In addition, negative currency effects contributed € 93 million to the net borrowings development. Consequently, the Group's financial leverage increased to 64.6% at the end of 2008 versus 58.4% in the prior year. On a net debt basis, the utilisation of the credit facilities available to the Group at the end of 2008 was 33% versus 28% in the prior year.

Currency management further optimised

Due to the Group's global activity, currency management is a key focus of the Group's Treasury department. Hedging US dollars is the central pillar of our programme. This is a direct result of our Asian-dominated sourcing, which is largely denominated in US dollars see Global Operations, p. 064. In 2008, the Treasury department managed a net deficit of around US $ 1.9 billion against the euro. This represents an increase of approximately US $ 0.4 billion from around US $ 1.5 billion in the prior year, mainly as a result of our increased sourcing needs. As outlined in our Group's Treasury Policy, we have established a rolling 12- to 24-month hedging system, under which the vast majority of the anticipated seasonal hedging volume is secured six months prior to the start of a season. As a result, we have almost completed our anticipated hedging needs for 2009 at rates similar to those of 2008 and we have already started to hedge our exposure for 2010. The use or combination of different hedging instruments, such as currency options, swaps and forward contracts, protects us against unfavourable currency movements, while retaining the potential to benefit from future favourable exchange rate developments see Risk and Opportunity Report, p. 107.

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

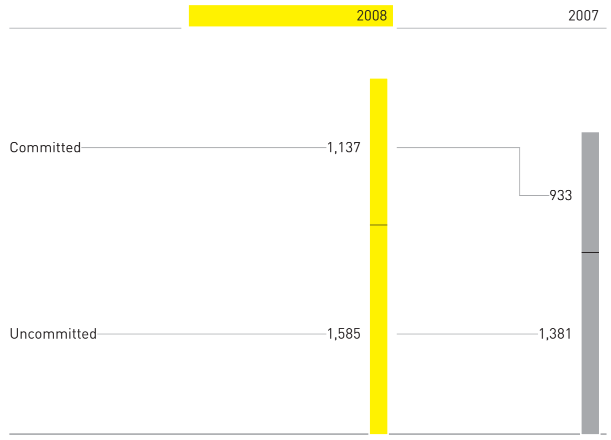
€ in millions

	2008	2007
Total cash and short-term financial assets	**384**	**381**
Bank borrowings	605	198
Commercial paper	143	0
Private placements	1,432	1,564
Convertible bond	393	384
Gross total borrowings	**2,573**	**2,146**
Net borrowings[1]	**2,189**	**1,766**

1) Rounding differences may arise in totals.

Short-term credit lines

€ in millions



	2008	2007
Total	**2,722**	**2,314**

Disclosures pursuant to § 315 Section 4 of the German Commercial Code and Explanatory Report

Composition of subscribed capital

The stock capital of adidas AG amounts to € 193,515,512 (as at December 31, 2008) and is divided into the same number of no-par-value bearer shares with a pro-rata amount in the stock capital of € 1 each ("shares") see Note 21, p. 176. Pursuant to § 4 section 10 of the Articles of Association, the shareholders' claim to the issuance of individual share certificates is in principle excluded. Each share grants one vote at the Annual General Meeting. All shares carry the same rights and obligations. In the USA, we have issued American Depositary Receipts (ADRs). ADRs are deposit certificates of non-US shares that are traded instead of the original shares on US stock exchanges. Two ADRs equal one adidas AG share.

Restrictions on voting rights or transfer of shares

We are not aware of any contractual agreements with the company restricting voting rights or the transfer of shares. Based on the Code of Conduct of adidas AG, however, particular lock-up periods do exist for members of the Executive Board with regard to the purchase and sale of adidas AG shares. These lock-up periods are connected with the publication of our quarterly and full year results. Such lock-up periods also exist for employees who have access to yet unpublished financial results.

In addition, restrictions of voting rights pursuant, inter alia, to § 136 German Stock Corporation Act (Aktiengesetz – AktG) or for treasury shares pursuant to § 71b AktG may exist.

Shareholdings in stock capital exceeding 10% of voting rights

adidas AG has not been notified of and is not aware of any direct or indirect shareholdings in the stock capital of adidas AG exceeding 10% of the voting rights.

Shares with special rights conferring powers of control

There are no shares with special rights which confer powers of control.

Voting right control if employees have a share in the capital

Like all other shareholders, employees who hold adidas AG shares exercise their control rights directly in accordance with statutory provisions and the Articles of Association.

Executive Board appointment and dismissal

Currently, the Executive Board of adidas AG consists of four members see Executive Board, p. 018. Pursuant to § 6 of the Articles of Association, § 84 section 1 AktG, the Supervisory Board is responsible for determining the number of members of the Executive Board as well as for their appointment and dismissal. Executive Board members may be appointed for a period not exceeding five years in accordance with § 84 section 1 sentence 1 AktG. Such appointments may be renewed and the terms of office may be extended, provided that no term exceeds five years (§ 84 section 1 sentence 2 AktG). The Supervisory Board has appointed a member of the Executive Board as Chairman of the Executive Board pursuant to § 6 of the Articles of Association. It may revoke the appointment of an individual as member or Chairman of the Executive Board in accordance with § 84 AktG section 3 for good cause, such as gross negligence of duties or a withdrawal of confidence by the Annual General Meeting. In all other cases, the dismissal of Executive Board members and also their appointment requires a majority of at least two thirds of the Supervisory Board members (§ 31 sections 2, 5 MitbestG) as adidas AG is subject to the regulations of the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG). If such a majority is not established in the first vote by the Supervisory Board, upon proposal of the Mediation Committee see Corporate Governance Report, p. 026 the appointment or dismissal may be made in a second vote with a simple majority of the votes cast by the Supervisory Board members (§ 31 section 3 MitbestG). Should the required majority not be established in this case either, a third vote, again requiring a simple majority, must be held in which, however, the Chairman of the Supervisory Board has two votes (§ 31 section 4 MitbestG). Additionally, pursuant to § 85 section 1 AktG, if the Executive Board does not have the required number of members the Fuerth local court shall, in urgent cases, make the necessary appointment upon application by any party involved.

Amendments to the Articles of Association

Pursuant to §§ 119 section 1 number 5, 179 section 1, sentence 1 AktG, the Articles of Association of adidas AG can, in principle, only be amended by a resolution passed by the Annual General Meeting. In accordance with § 21 section 3 of the Articles of Association in conjunction with § 179 section 2 sentence 2 AktG, the Annual General Meeting of adidas AG principally resolves upon amendments to the Articles of Association with a simple majority of the votes cast and with a simple majority of the stock capital represented when passing the resolution. If mandatory legal provisions stipulate a larger majority, this is applicable. Regarding amendments solely relating to the wording of the Articles of Association, the Supervisory Board is, however, authorised to make these modifications in accordance with § 10 section 1 of the Articles of Association in conjunction with § 179 section 1, sentence 2 AktG.

Authorisation of the Executive Board in particular to issue and cancel shares

The authorisations of our Executive Board are regulated by §§ 76 et seq. AktG in conjunction with § 7 of the Articles of Association. The Executive Board is responsible for managing adidas AG and represents the company judicially and extra-judicially. The authorisation of the Executive Board to issue shares is regulated by § 4 of the Articles of Association and by statutory provisions. The authorisation of the Executive Board to repurchase adidas AG shares is based on §§ 71 et seq. AktG and, for the financial year 2008, on the authorisations granted by the Annual General Meetings on May 10, 2007 and May 8, 2008.

- Authorised Capital
  - Until June 19, 2010, the Executive Board is authorised to increase the stock capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than a maximum of € 64,062,500 (Authorised Capital 2005/I).
  - Until May 28, 2011, the Executive Board is authorised to increase the stock capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than a maximum of € 20,000,000 (Authorised Capital 2006).
  - Until May 15, 2011, the Executive Board is authorised to increase the stock capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash and/or in kind once or several times by no more than a maximum of € 12,000,000 (Authorised Capital 2008).

Subject to Supervisory Board approval, shareholders' subscription rights can be excluded in certain cases see Note 21, p. 176.

- Contingent Capital
  - The Executive Board has at its disposal a contingent capital amounting to no more than € 1,294,748 (Contingent Capital 1999/I) for the issuance of shares to fulfil stock options granted to beneficiaries within the Management Share Option Plan (MSOP) in the years 1999 to 2003. Shares are only issued within the scope of the authorisation granted by the Annual General Meeting on May 20, 1999, as amended on May 8, 2002, May 13, 2004 and May 11, 2006. Taking into account all forfeited stock options, up to 63,200 shares (as at December 31, 2008) may still be issued through exercise of the remaining 15,800 share options. The issuance of new share options based on the above-mentioned authorisation is no longer possible.
  - The Executive Board has at its disposal a contingent capital amounting to no more than € 35,998,040 (Contingent Capital 2003/II) for the issuance of shares to holders of bonds issued by adidas International Finance B.V., the Netherlands, and guaranteed by adidas AG. The shares will, however, only be issued to the extent that bondholders exercise their conversion rights. In the event of conversion rights being exercised, the total number of shares to be issued in this case to bondholders amounts to 15,684,315 (as at December 31, 2008).
  - By resolution of the Annual General Meeting held on May 11, 2006, the Executive Board was also authorised to issue bonds with warrants and/or convertible bonds by the company or affiliated companies once or several times in the total amount of up to € 1.5 billion for a duration of up to 30 years and to accept guarantee of such bonds issued by affiliated companies. The Executive Board is authorised to grant to bondholders or bond creditors subscription or conversion rights relating to no more than a total of 20,000,000 shares in compliance with the corresponding conditions of the bonds. For this purpose, the stock capital was conditionally increased by up to € 20,000,000 (Contingent Capital 2006). The Executive Board is authorised to exclude shareholders' subscription rights to bonds, subject to approval by the Supervisory Board, provided that the issue price of the bonds with warrants and/or convertible bonds is not significantly below the market value of these bonds. This authorisation has not been utilised thus far.

- Share Buyback

  The authorisations of the company to repurchase adidas AG shares arise from §§ 71 et seq. AktG as well as the authorisations granted by the Annual General Meetings on May 10, 2007 and May 8, 2008.
  - By resolution dated May 10, 2007, the company was authorised, in accordance with § 71 section 1 number 8 AktG, to repurchase adidas AG shares of up to 10% of the stock capital of adidas AG until November 9, 2008 for any lawful purpose within the legal frame. The Executive Board utilised this authorisation to initiate a share buyback programme carried out between January 30, 2008 and May 2, 2008. The company repurchased 5,511,023 adidas AG shares during this period and, in accordance with the authorisation granted by the Annual General Meeting and with Supervisory Board approval, cancelled these shares on July 2, 2008, thus reducing the stock capital.

    The Annual General Meeting on May 8, 2008 cancelled this authorisation and replaced it with a new authorisation.
  - In accordance with the authorisation granted on May 8, 2008, the Executive Board is authorised until November 7, 2009 to repurchase adidas AG shares of up to an amount totalling 10% of the stock capital at the date of the resolution for any lawful purpose within the legal frame. The authorisation may be used by adidas AG but also by its subsidiaries or by third parties on account of the company or its subsidiaries.

adidas AG shares repurchased based on this authorisation may in particular be used as follows:
- They may be sold, subject to Supervisory Board approval, via the stock exchange or through an offer made to all shareholders for cash or through sale at a price not significantly below the stock market price of shares with the same features.
- They may be used, subject to Supervisory Board approval, for the purpose of acquiring companies, parts of companies or participations in companies.
- They may be offered and sold, subject to Supervisory Board approval, as consideration for the acquisition of industrial property rights or intangible property rights or for the acquisition of licences relating to such rights, also through subsidiaries.
- They may be used to meet subscription or conversion rights arising from bonds with warrants and/or convertible bonds issued or to be issued by adidas AG or a direct or indirect subsidiary, in accordance with the authorisations granted by the Annual General Meetings held on May 8, 2003 and May 11, 2006.
- They may be used to meet the company's obligations arising from the Management Share Option Plan 1999 (MSOP).
- They may be cancelled without a further resolution of the Annual General Meeting being required.
- They may be assigned to members of the Executive Board as compensation by way of a stock bonus subject to the provision that resale by the Executive Board shall only be permitted following a lock-up period of at least two years from the date of assignment. Responsibility in this case lies with the Supervisory Board.

In case of a sale of shares for the above-mentioned purposes, shareholders' subscription rights are excluded. If any of the transactions carried out on the basis of this authorisation require approval by the Supervisory Board, it may assign this responsibility to one of its committees.

The Executive Board partially utilised this authorisation for the share buyback programme initiated on January 30, 2008, and continued on May 21, 2008 after a temporary interruption. Pursuant to the authorisation granted by the Annual General Meeting, adidas AG repurchased 4,671,225 shares between May 21, 2008 and October 22, 2008 and cancelled these shares on December 15, 2008, thus reducing the stock capital.

— In addition, the Executive Board was authorised by the Annual General Meeting on May 8, 2008 to conduct the share buyback pursuant to the resolved authorisation, also by using equity derivatives arranged with a financial institution in close conformity with market conditions. Subject to Supervisory Board approval, adidas AG may sell put options issued for physical delivery and buy call options if the option conditions ensure that these shares are only delivered if they were purchased in compliance with the equality principle. All shares purchased by using put and call options are limited to a maximum value of 5% of the stock capital existing at the date on which the resolution was adopted by the Annual General Meeting. The term of the options must be chosen in such a way that the shares are acquired upon the exercise of the options no later than November 7, 2009.

The purchase price payable per adidas AG share upon the exercise of an option must not exceed or fall below the opening price of the company's shares in the Xetra Trading System (or a comparable successor system) on the Frankfurt Stock Exchange on the day of the conclusion of the relevant option transaction by more than 20% (excluding incidental purchasing costs), taking into account the option premium received/paid.

For selling and cancelling shares purchased using derivatives, the general rules resolved by the Annual General Meeting are applicable.

As at December 31, 2008 adidas AG did not hold any treasury shares.

Change of control/compensation agreements

A change-of-control clause is contained in the convertible bond with a nominal value of € 400,000,000 issued by adidas International Finance B.V. and guaranteed by adidas AG. The convertible bond will be paid back to the bondholders on October 8, 2018, unless it has previously been redeemed, converted or purchased and cancelled see Note 21, p. 176. A change of control within the meaning of this agreement is deemed to occur if one person or several persons acting jointly reach control over adidas AG. In this event, the holders of the convertible bond will be granted the right to early redemption of the loan amount including interest. In addition, some agreements between subsidiaries and third parties include change-of-control clauses.

However, no compensation agreements exist with members of the Executive Board or employees relating to the event of a take-over bid.

Explanatory Report by the Executive Board

As a result of the buyback of adidas AG shares and the subsequent cancellation as well as the issuance of new shares within the Management Share Option Plan (MSOP) in 2008, the stock capital changed from € 203,628,960 to € 193,515,512.

Pursuant to § 21 German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), the company must be notified if the voting rights in the company reach or exceed the threshold of 10%. The company has not received such a notification. A breach of this duty to report leads to a temporary loss of rights deriving from the corresponding shares and constitutes an administrative offence. In theory, a shareholding in the stock capital of more than 10% can exist without this having been reported.

At the 2008 Annual General Meeting, amendments to § 4 section 3 (revocation and amendment to the Authorised Capital) as well as to § 18 section 3 of the Articles of Association (Remuneration of the Supervisory Board) were resolved upon. In addition, the Supervisory Board resolved to amend the wording of the Articles of Association relating to the stock capital and the Contingent Capital (§ 4 section 1, § 4 section 5 of the Articles of Association) based upon the cancellation of shares and the issuance of new shares within the Management Share Option Plan (MSOP).

As the authorisation pursuant to Authorised Capital 2005/I expires in June 2010, the Executive Board and Supervisory Board expect to propose a new resolution on Authorised Capital at the 2009 Annual General Meeting.

As the authorisation to repurchase adidas AG shares may only be granted by the Annual General Meeting for a maximum of 18 months, it is common practice to propose to each Annual General Meeting that the currently valid resolution be replaced by a new authorisation. In light of this, the Executive Board also intends to ask the Annual General Meeting 2009 to issue a new authorisation to repurchase adidas AG shares.

The change-of-control clause contained in the convertible bond follows common practice for the protection of bondholders.

adidas Business Performance

In 2008, sales growth in the adidas segment exceeded Management's initial expectations. Profitability developed in line with expectations. Currency-neutral sales in the adidas segment increased 14%. In euro terms, segment sales grew 10% to € 7.821 billion in 2008 from € 7.113 billion in 2007. Gross margin increased 1.2 percentage points to a record annual level of 48.6% (2007: 47.4%). This was mainly driven by an improving regional mix, further own-retail expansion and a more favourable product mix. Gross profit grew 13% to € 3.802 billion in 2008 from € 3.370 billion in 2007. As a result of the positive gross margin development and stable net other operating expenses and income as a percentage of sales, operating margin increased 1.1 percentage points to 14.0% (2007: 12.9%). Operating profit increased 19% to € 1.098 billion in 2008 versus € 920 million in 2007.

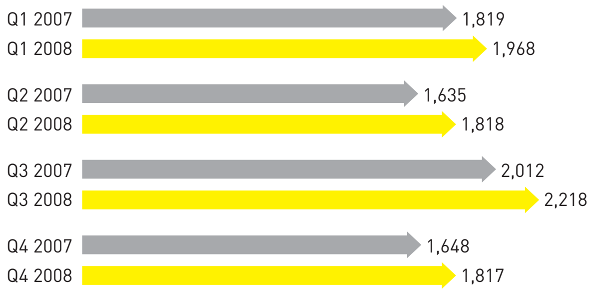
adidas at a glance

€ in millions

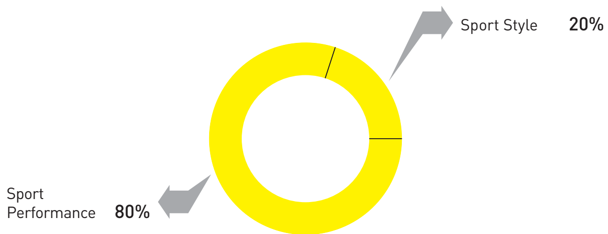
	2008	2007	Change
Net sales	7,821	7,113	10%
Gross profit	3,802	3,370	13%
Gross margin	48.6%	47.4%	1.2pp
Operating profit	1,098	920	19%
Operating margin	14.0%	12.9%	1.1pp

adidas net sales by quarter

€ in millions



2008 adidas net sales by division



Acquisition of Textronics, Inc.

In September 2008, the adidas segment acquired US-based Textronics, Inc. Textronics is a specialist in the development of wearable sensors for use in fitness monitoring. The acquisition did not have a material impact on adidas results in 2008.

Currency-neutral segment sales grow 14%

In 2008, revenues for the adidas segment grew 14% on a currency-neutral basis. This development clearly exceeded Management's initial expectation of a high-single-digit sales increase. Currency-neutral footwear, apparel and hardware revenues all increased at double-digit rates. Currency translation effects negatively impacted segment revenues in euro terms. adidas sales grew 10% in euro terms to € 7.821 billion in 2008 from € 7.113 billion in 2007.

Currency-neutral adidas sales grow at double-digit rates in nearly all regions

In 2008, currency-neutral sales for the adidas segment grew at double-digit rates in all regions except North America, where sales declined. Revenues in Europe grew 13% on a currency-neutral basis, mainly driven by double-digit increases in emerging markets. Currency-neutral adidas sales in North America decreased 3% as a result of the difficult retail environment in the USA. Sales in Asia improved 24% on a currency-neutral basis, due to double-digit increases in nearly all major markets, in particular China. In Latin America, currency-neutral sales grew 21%, driven by double-digit increases in all markets.

Currency translation effects negatively impacted sales in euro terms in all regions. Sales in Europe grew 10% in euro terms to € 3.879 billion in 2008 from € 3.526 billion in 2007. Revenues in North America decreased 10% to € 1.149 billion in 2008 from € 1.275 billion in 2007. Sales in Asia increased 23% to € 2.090 billion in 2008 from € 1.703 billion in 2007, and revenues in Latin America improved 16% to € 660 million in 2008 versus € 568 million in the prior year.

Sport Performance up 15% on a currency-neutral basis

Sales in the Sport Performance division increased 15% on a currency-neutral basis in 2008. The key categories identified by brand management as medium-term growth drivers see adidas Strategy, p. 048 all grew at a double-digit rate with particularly strong increases in the running and football categories. In euro terms, Sport Performance sales improved 11% in 2008 to € 6.250 billion from € 5.608 billion in the prior year.

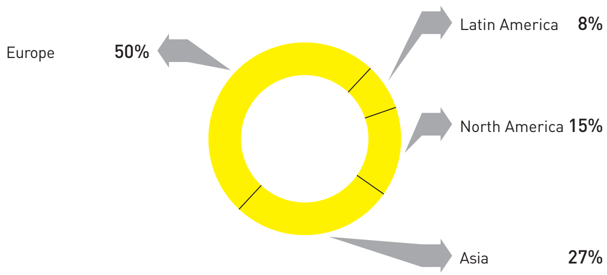
Sport Style increases 10% on a currency-neutral basis

Sales in the Sport Style division increased 10% on a currency-neutral basis in 2008. Sales increased in both Originals and Fashion (which includes Y-3 and Porsche Design). The launch of Style Essentials see adidas Strategy, p. 048 also contributed to this development. In euro terms, Sport Style sales grew 6% to € 1.535 billion in 2008 (2007: € 1.455 billion).

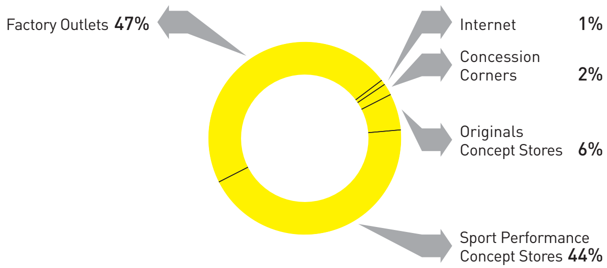
Currency-neutral own-retail sales up 24%

In 2008, adidas own-retail sales increased 24% on a currency-neutral basis. In euro terms, revenues grew 17% to € 1.432 billion from € 1.229 billion in 2007. This increase was driven by new store openings and mid-single-digit increases in comparable store sales. adidas own-retail activities made up 18% of adidas brand sales in 2008, up from 17% in the prior year. At December 31, 2008, the total number of adidas stores was 1,332, representing an increase of 329 (2007: 1,003 stores). The majority of new stores were opened in emerging markets with under-developed retail infrastructure. The major opening in 2008 was the world's biggest adidas store in Beijing. The store base at the end of 2008 comprised 796 concept stores, 381 factory outlets, 150 concession corners and 5 e-commerce stores.

2008 adidas net sales by region



2008 adidas own-retail sales by channel



Full year gross margin improves to record level of 48.6%

The adidas segment gross margin increased 1.2 percentage points to 48.6% in 2008 from 47.4% in 2007. This is the highest annual gross margin in the adidas segment since the IPO in 1995. This development was in line with Management's initial expectation of a gross margin improvement. The increase was primarily driven by an improving regional mix, further own-retail expansion and a more favourable product mix. As a result, adidas gross profit grew 13% to € 3.802 billion in 2008 versus € 3.370 billion in 2007.

Royalty and commission income stable

In 2008, adidas royalty and commission income remained stable at € 80 million (2007: € 80 million). Royalty and commission income relates to items such as cosmetics, watches and eyewear.

adidas own-retail stores

	2008	2007
Sport Performance Concept Stores	652	459
Originals Concept Stores	140	83
Sport Style Concept Stores	4	
Factory Outlets	381	317
Concession Corners	150	142
Internet	5	2
Total	**1,332**	**1,003**

Net other operating expenses and income stable

Net other operating expenses and income as a percentage of sales in the adidas segment remained stable at 35.6% (2007: 35.6%). Despite higher marketing expenses related to the UEFA EURO 2008™ and the Beijing 2008 Olympic Games, marketing working budget as a percentage of net sales decreased slightly compared to the prior year as a result of the segment's strong sales growth. In 2008, the adidas segment had higher operating overhead costs as a percentage of sales, mainly due to higher sales expenses in emerging markets related to sales growth. In euro terms, net other operating expenses and income grew 10% to € 2.784 billion in 2008 from € 2.530 billion in 2007.

Operating margin increases to 14.0%

In 2008, the adidas operating margin increased 1.1 percentage points to 14.0% (2007: 12.9%). This development was in line with Management's initial expectation of an operating margin improvement. The increase results from gross margin expansion and stable net other operating expenses and income as a percentage of sales. Operating profit for the adidas segment increased 19% to € 1.098 billion in 2008 versus € 920 million during the same period in the prior year.

adidas gross margin by quarter

in %

adidas operating profit by quarter

€ in millions

Reebok Business Performance

In 2008, the Reebok segment was impacted by the deteriorating economic environment in key markets and ongoing efforts to improve the positioning of the Reebok brand. Sales and profitability both developed below Management's initial expectations. Currency-neutral sales for the Reebok segment decreased 2%. In euro terms, segment sales decreased 8% to € 2.148 billion in 2008 from € 2.333 billion in 2007. The gross margin of the Reebok segment declined by 1.7 percentage points to 37.0% in 2008 from 38.7% in 2007. This was mainly a result of higher clearance sales in the second half of the year, compared to the previous year. Gross profit decreased 12% to € 795 million in 2008 versus € 902 million in 2007. Reebok's operating margin declined by 5.0 percentage points to negative 0.3% in 2008 from positive 4.7% in the prior year. This was due to the decline in gross margin and the increase in net other operating expenses and income as a percentage of sales. As a result, Reebok's operating profit decreased to negative € 7 million in 2008 versus positive € 109 million in the prior year.

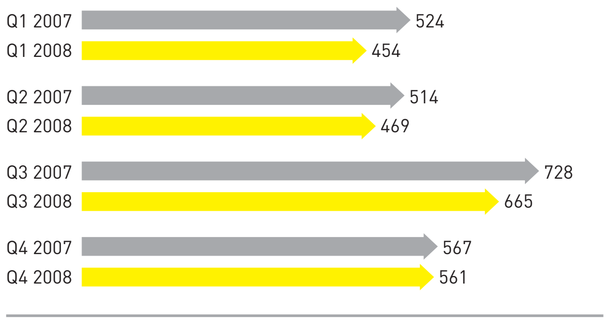
Reebok at a glance

€ in millions

	2008	2007	Change
Net sales	2,148	2,333	(8%)
Gross profit	795	902	(12%)
Gross margin	37.0%	38.7%	(1.7pp)
Operating profit	(7)	109	(106%)
Operating margin	(0.3%)	4.7%	(5.0pp)

Reebok net sales by quarter

€ in millions



New companies in Latin America impact sales and royalties

Effective April 1, 2008, the adidas Group acquired 99.99% of the shares of Reebok Productos Esportivos Brasil Ltda. (formerly Comercial Vulcabras Ltda.), the distribution company for Reebok products in Brazil and Paraguay. Effective June 2, 2008, Reebok also founded a new company in Argentina, in which the adidas Group holds 99.99% of the shares. This was part of the Group's strategy to bring the Reebok brand under direct control in all regions.

Segment sales decline 2% on a currency-neutral basis

In 2008, sales for the Reebok segment decreased 2% on a currency-neutral basis. This development was below Management's initial expectation of a low- to mid-single-digit sales increase. Currency-neutral footwear sales were stable compared to the prior year. Currency-neutral apparel sales, however, decreased, while hardware sales increased. Currency translation effects negatively impacted segment revenues in euro terms. Sales decreased 8% to € 2.148 billion in 2008 from € 2.333 billion in 2007.

Growth in emerging markets offset by lower sales in mature markets

In 2008, currency-neutral Reebok segment sales increased in both Asia and Latin America, but decreased in Europe and North America. In Europe, currency-neutral sales declined 3%, mainly as a result of a decline in the UK. This development could only be partly offset by strong growth in the region's emerging markets, such as Russia. Currency-neutral revenues in North America were down 16% as a result of declines in both the USA and Canada. In Asia, currency-neutral sales increased 7%. Double-digit growth in India and China was partly offset by a decline in Japan. Currency-neutral sales in Latin America increased 192%, due to the first-time consolidation of Reebok's new companies in the second quarter of 2008.

Currency translation effects negatively impacted sales in euro terms in all regions. In euro terms, segment sales in Europe decreased 8% to € 691 million in 2008 from € 748 million in 2007. In North America, revenues declined 22% to € 964 million in 2008 from € 1.231 billion in 2007. Sales in Asia decreased 1% to € 267 million in 2008 (2007: € 269 million), and in Latin America revenues increased 170% to € 226 million in 2008 (2007: € 84 million).

Currency-neutral sales of brand Reebok stable

Brand Reebok sales were almost unchanged compared to the prior year on a currency-neutral basis. An increase in the running category was offset by declines in lifestyle and in most major sports categories. In euro terms, sales decreased 6% to € 1.717 billion (2007: € 1.831 billion).

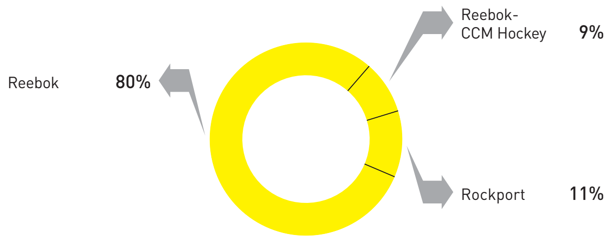
Currency-neutral sales of Reebok-CCM Hockey down 6%

Sales of Reebok-CCM Hockey decreased 6% on a currency-neutral basis in 2008. This was due to the decline in the licensed jersey business compared to the prior year. In euro terms, sales decreased 11% to € 188 million in 2008 versus € 210 million in the prior year.

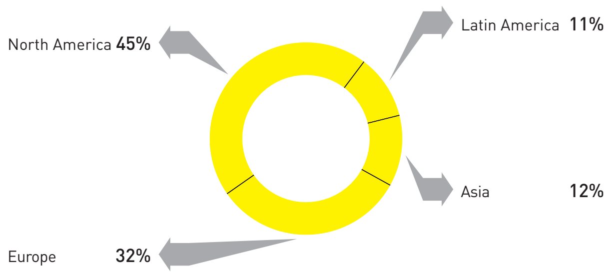
Rockport sales decline 10% on a currency-neutral basis

Rockport sales decreased 10% on a currency-neutral basis in 2008. This mainly reflects the challenging market environment in the USA, in particular in the department store and mall-based retail channels. In euro terms, Rockport revenues decreased 17% to € 243 million in 2008 (2007: € 291 million).

2008 Reebok net sales by division



2008 Reebok net sales by region



Currency-neutral own-retail sales grow 17%

In 2008, Reebok own-retail sales grew 17% on a currency-neutral basis. In euro terms, revenues increased 8% to € 379 million from € 350 million in 2007. The increase was largely driven by new store openings in emerging markets, especially Russia. Reebok own-retail activities made up 18% of Reebok segment sales in 2008, up from 15% in the prior year. The share of own-retail activities as a percentage of brand sales at Rockport was significantly above the segment average. During the year, the number of Reebok and Rockport stores increased by 123 to 647 (2007: 524). The store base at the end of 2008 comprised 253 concept stores and 327 factory outlets.

Reebok segment gross margin declines 1.7 percentage points

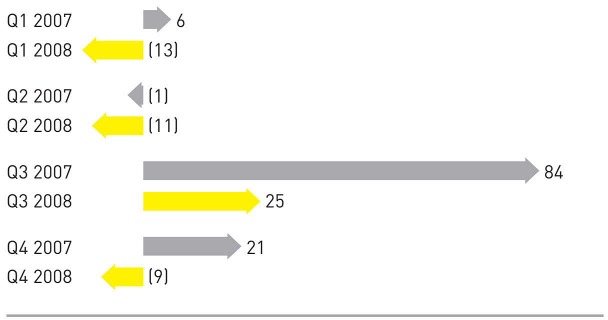
The gross margin of the Reebok segment decreased 1.7 percentage points to 37.0% in 2008 from 38.7% in 2007. This development was below Management's initial expectation of a gross margin increase. The segment gross margin was negatively affected by clearance initiatives in particular in the USA and the UK in the second half of the year. Reebok gross profit decreased 12% to € 795 million in 2008 versus € 902 million in 2007.

Reebok gross margin by quarter

in %

Reebok operating profit by quarter

€ in millions



Royalty and commission income decreases

In 2008, Reebok royalty and commission income decreased 29% to € 30 million from € 42 million in the prior year. The decline was largely due to the non-recurrence of royalties from distribution partners in Brazil/Paraguay and Argentina. The distribution partnerships in these countries were replaced by own companies whose sales were consolidated for the first time in 2008. Reebok's royalty and commission income primarily relates to royalty income for fitness equipment.

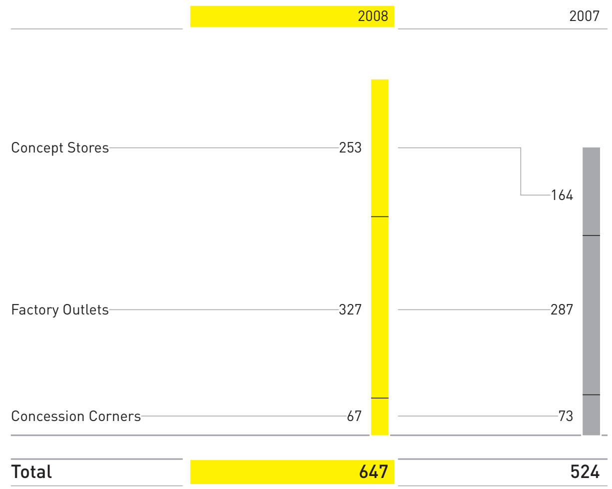
Net other operating expenses and income increase

Net other operating expenses and income as a percentage of sales increased by 2.9 percentage points to 38.7% in 2008 versus 35.8% in 2007. Reebok's revenue decline in 2008 could not be offset by a corresponding reduction in costs. On an absolute basis, Reebok's net other operating expenses and income decreased modestly to € 831 million in 2008 from € 835 million in the prior year.

Lower operating margin

In 2008, the operating margin of the Reebok segment decreased by 5.0 percentage points to negative 0.3% from positive 4.7% in the prior year. This development was below Management's initial expectation of an operating margin increase. This was due to a lower gross margin and higher net other operating expenses and income as a percentage of sales. As a result, Reebok's operating profit decreased to negative € 7 million in 2008 versus positive € 109 million in the prior year.

Reebok own-retail stores



TaylorMade-adidas Golf Business Performance

In 2008, sales growth in the TaylorMade-adidas Golf segment exceeded Management's initial expectations. Profitability developed in line with expectations. TaylorMade-adidas Golf revenues increased 7% on a currency-neutral basis. In euro terms, segment sales increased 1% to € 812 million in 2008 from € 804 million in 2007. The segment's gross margin decreased 0.5 percentage points to 44.3% (2007: 44.7%). This was mainly a result of lower margins in metalwoods. Gross profit remained almost stable at € 359 million (2007: € 360 million). The segment's operating margin increased 1.5 percentage points to 9.6% (2007: 8.1%). This was due to lower net other operating expenses and income as a percentage of sales which more than offset the decrease in gross margin. As a result, operating profit increased 20% to € 78 million from € 65 million in 2007.

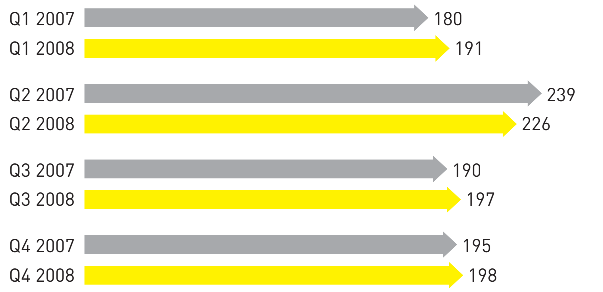
TaylorMade-adidas Golf at a glance

€ in millions

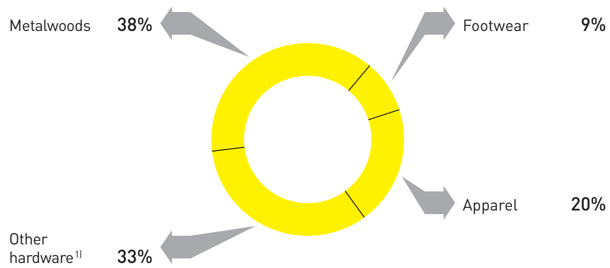
	2008	2007	Change
Net sales	812	804	1%
Gross profit	359	360	(0%)
Gross margin	44.3%	44.7%	(0.5pp)
Operating profit	78	65	20%
Operating margin	9.6%	8.1%	1.5pp

TaylorMade-adidas Golf net sales by quarter

€ in millions



2008 TaylorMade-adidas Golf net sales by product



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

Maxfli divestiture impacts reported results

Compared to the prior year, financial results of the TaylorMade-adidas Golf segment in 2008 do not include the results of the Maxfli business. This reflects the divestiture of the Maxfli brand on February 11, 2008. Maxfli was divested to improve the focus of the segment's golf ball business under the TaylorMade brand. The operating profit of the TaylorMade-adidas Golf segment was positively impacted by a one-time book gain of € 5 million.

Acquisition of Ashworth has no significant impact on sales in 2008

In November 2008, the TaylorMade-adidas Golf segment acquired Ashworth, Inc., a leader in cotton casual golf apparel. The Ashworth consolidation did not have a significant impact on the segment's sales. This transaction positively impacted the operating profit of the TaylorMade-adidas Golf segment due to a one-time book gain of € 21 million. However, this was partially offset by restructuring costs and other one-time expenses of € 7 million.

Currency-neutral sales increase 7%

In 2008, currency-neutral sales at TaylorMade-adidas Golf increased 7%. This development exceeded Management's initial expectations of mid-single-digit growth. Double-digit growth in adidas Golf and categories such as golf balls and putters more than offset a decline in metalwoods. Currency translation effects negatively impacted segment revenues in euro terms. Segment sales in euro terms increased 1% to € 812 million in 2008 from € 804 million in 2007.

Currency-neutral revenues grow at double-digit rates in almost all regions

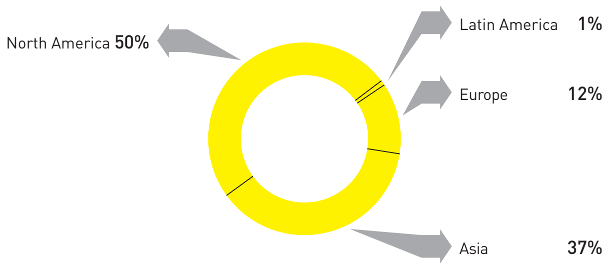
TaylorMade-adidas Golf currency-neutral sales grew in all regions in 2008. Sales in Europe increased 17% on a currency-neutral basis, driven by double-digit growth in all major countries, in particular in the UK. In North America, sales increased 3% on a currency-neutral basis, due to growth in both the USA and Canada. TaylorMade-adidas Golf sales in Asia increased 10% on a currency-neutral basis, driven by double-digit growth in Japan, China and South Korea. In Latin America, currency-neutral sales grew 38%, driven by double-digit growth in all major countries.

Currency translation effects negatively impacted segment revenues in euro terms. In euro terms, sales in Europe remained stable at € 95 million (2007: € 95 million). Revenues in North America decreased 4% to € 405 million in 2008 from € 422 million in 2007. In Asia, sales grew 8% to € 305 million in 2008 (2007: € 282 million), and in Latin America revenues increased 28% to € 7 million in 2008 (2007: € 6 million).

Gross margin decreases to 44.3%

TaylorMade-adidas Golf gross margin decreased 0.5 percentage points to 44.3% in 2008 (2007: 44.7%). This development was below Management's initial expectation of a gross margin improvement. The decrease was mainly due to lower metalwood margins as a result of the promotional environment in this category, in particular in the second half of the year. However, this was partly offset by a strong increase in golf ball margins. Gross profit remained almost stable at € 359 million (2007: € 360 million).

2008 TaylorMade-adidas Golf net sales by region

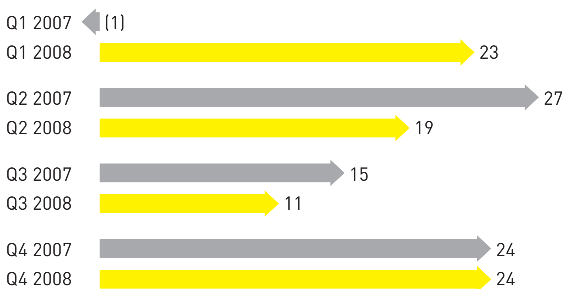


TaylorMade-adidas Golf gross margin by quarter

in %

TaylorMade-adidas Golf operating profit by quarter

€ in millions



Royalty and commission expenses increase 13%

Royalty and commission expenses at TaylorMade-adidas Golf increased 13% to € 20 million in 2008 (2007: € 18 million). This development was driven by higher adidas Golf sales, which generated higher intra-Group royalties paid to the adidas segment.

Net other operating expenses and income decrease

Net other operating expenses and income as a percentage of sales at TaylorMade-adidas Golf decreased 2.3 percentage points to 32.1% in 2008 from 34.4% in 2007. This improvement was mainly due to one-time book gains of € 21 million from the acquisition of Ashworth and € 5 million from the divestiture of the Maxfli business. In absolute terms, net other operating expenses and income decreased 6% to € 261 million in 2008 from € 277 million in 2007.

Operating margin expands by 1.5 percentage points

The TaylorMade-adidas Golf operating margin increased 1.5 percentage points to 9.6% in 2008 from 8.1% in 2007. This development was in line with Management's initial expectation of an operating margin improvement. This is mainly a result of lower net other operating expenses and income as a percentage of sales which more than compensated for the gross margin decline. Consequently, operating profit for TaylorMade-adidas Golf increased 20% to € 78 million in 2008 versus € 65 million in 2007.

Risk and Opportunity Report

The adidas Group continuously explores and develops opportunities to sustain and maximise 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 maximise 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 summarised 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 utilised 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.

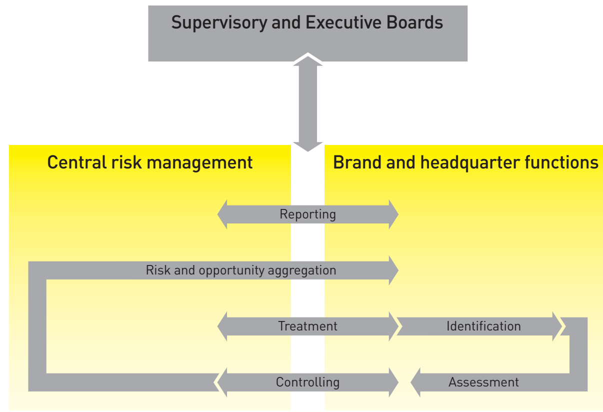
Risk and opportunity management system

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 optimised 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 utilises critical day-to-day management insight from local and regional business units. Support and strategic direction is provided by brand and global functions. Centralised 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. Centralised risk management is also responsible for providing line management with relevant tools and know-how to aggregate and control risks and opportunities utilising a consistent methodology.

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.

adidas Group risk and opportunity management system



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 catalogue 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 market research data is analysed and global relationships with independent trend and media agencies such as 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) potential contribution to 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 summarise these findings by utilising "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 materialises. 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 longer-term strategic prospects but also to 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 as described in 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 the 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 maximise 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 realisation 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 risk overview

	Probability of occurrence	Potential financial impact
External and industry risks		
Macroeconomic risks	High	High
Consumer demand risks	Medium	Medium
Industry consolidation risks	High	Medium
Political and regulatory risks	Low	Medium
Legal risks	Low	Medium
Risk from product counterfeiting and imitation	High	Low
Social and environmental risks	Low	Low
Natural risks	Low	Low
Strategic & operational risks		
Portfolio integration risks	Low	Low
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	Medium
Risk from loss of key promotion 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	Medium	Medium
Financing and liquidity risks	Low	High
Currency risks	Medium	Medium
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 utilisation of an extensive global event and partnership portfolio where demand is more predictable and less sensitive to macroeconomic influence.

In 2009, the Group expects global economic growth to slow considerably. North America and Europe are expected to remain in recession see Subsequent Events and Outlook, p. 120. Economic expansion in emerging markets, including China, Russia and India, is expected to continue, albeit at a more moderate rate compared to prior years. These markets have overtaken North America and Western Europe as the largest contributors to Group revenue growth. As a result of the current global macroeconomic uncertainty, we now assess the likelihood that adverse macroeconomic events could impact our business as high. We also now assess the potential financial impact of such events as high.

Consumer demand risks

Failure to anticipate and respond to changes in consumer demand for sporting goods products 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 utilise 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. 074. In addition, we also seek to enhance consumer demand for our brands and brand initiatives through extensive marketing, product and brand communication programmes. And we continue to focus on supply chain improvements to speed up creation-to-shelf timelines see Global Operations, p. 064. In 2009, the adidas Group will continue to refine the Reebok brand's communication programme in alignment with the brand's positioning see Reebok Strategy, p. 052.

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. 058, 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 behaviour such as price wars. Abnormal product discounting and reduced shelf space availability from retailers are the most common potential outcomes 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.

The economic slowdown in 2008 and negative outlook for 2009 may put further pressure on the sporting goods industry to consolidate. Several retailers and competitors released declining sales and earnings and reported financial difficulties during the year. Therefore, we now see risks from market consolidation as having a high likelihood of occurrence. We continue to view the potential impact on both Group sales and profitability as medium.

Political and regulatory risks

Political and regulatory risks include potential losses from expropriation, nationalisation, 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 proactively utilise a regionally diversified supplier base which establishes a certain protection against unforeseen changes in regulations and also allows us to shift production to other countries at an early stage if necessary see Global Operations, p. 064.

At the end of 2008, nearly all apparel-specific safeguard measures against China have expired based on the World Trade Organization (WTO) accession agreements. However, due to the current general economic climate, there are tendencies amongst various governments to seek protection against imports by applying trade defence instruments, such as anti-dumping measures on a broader scale. For example, in December 2008, Brazil opened a formal anti-dumping investigation into certain footwear originating in China. Similarly, since October 2008, the EU Commission is reviewing the existing anti-dumping measures against leather-upper footwear from China and Vietnam upon request of a group of footwear producers. During the investigation period, which is expected to last for most of 2009, the existing anti-dumping duties remain in place. The majority of our offering is technical athletic footwear. As these products are not affected by the measure, the current financial impact is minor and we have adapted our sourcing activities accordingly.

With regard to the medium-term risks of regulatory actions, we still continue to expect a carefully and interest-balanced global trade policy by the governments. One such example in the USA are potential new regulations pertaining to the pre-clearance and potential scanning of all transport containers at foreign ports prior to departure/arrival in the USA. These may require additional infrastructure investments to make our Group compliant with these initiatives. However, we do not expect the financial implications to be overly significant beyond the initial investment in systems to comply with the regulations. Therefore, we continue to regard the medium-term risk of further political and regulatory actions as having a low probability of occurrence. Nevertheless, an unexpected significant change in the political and 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. We have 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 continues to be 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 and imitation

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. 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 labelling with our authorised suppliers, continued development of these measures remains a high priority for 2009 and beyond.

Over eight million counterfeit adidas Group products were seized worldwide in 2008 (2007: over seven million). In addition, the adidas brand was awarded a positive judgement in a US lawsuit for imitation of the 3-Stripes trademark. This judgement is now under appeal by the opposing party. Two other lawsuits with major US retailers were settled amicably.

We continue to regard the likelihood of sustained counterfeiting and imitation 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 and imitation. We continue to assess the potential risk of counterfeiting and imitation 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. 067. 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. 067, and www.adidas-Group.com/sustainability.

We expect to further strengthen our supplier monitoring programme in 2009. 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 remains 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 minimise 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 materialise.

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 businesses, we face a risk of overestimating potential revenue and cost synergies as well as organisational execution risks. Organisational execution risks relate, for example, to the standardisation of functional business processes across the different brands and harmonisation of the Group's IT systems. To mitigate these risks, we implement dedicated integration teams to oversee our integration activities.

In 2008, the adidas Group acquired several companies, such as Textronics, Inc. and Ashworth, Inc. While these integrations were relatively small, the adidas Group benefited from past experience and strong integration processes. We therefore believe there continues to be a low likelihood of portfolio integration risk occurrence. And now that most of the synergies related to the Reebok integration have been realised, we regard the potential financial impact of these risks as low.

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 contemporise 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.

In 2008, we launched several Reebok product technologies and a new global brand campaign to improve the overall consumer experience for the Reebok brand see Reebok Strategy, p. 052. Nevertheless, given the difficult economic situation in North America and Europe, and the possibility that our revitalisation 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 in the medium term 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 reduces 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.

The current macroeconomic situation and its impact on consumer spending increase the risk of lower performance of our retail stores. We therefore believe the likelihood of major own-retail underperformance remains medium. Due to the strong growth of own-retail activities, we continue to assess the potential financial impact from own-retail underperformance, which may also involve impairment charges and store closures, as medium.

Risks from rising input costs

Raw material and labour costs account for approximately 70% of the Group's cost of sales. Prices of materials such as rubber, and those which closely correlate with the oil price, are especially subject to the risk of price changes. 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 are implementing further lean manufacturing techniques at our partner factories, eliminating time and cost from the procurement process, re-engineering our products where possible, and selectively increasing prices if necessary see Global Operations, p. 064. 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.

During 2008, raw material price volatility, including record oil prices, and the increase in labour costs in Asia negatively impacted our sourcing terms negotiated for 2009 production. As we begin planning for 2010, although raw material pricing has eased for the time being, renewed increase in volatility cannot be ruled out given the current macroeconomic uncertainty. Therefore, we continue to assess the medium-term risks from rising input costs as having a medium likelihood and a medium potential financial impact.

Supplier default risks

Over 95% of our product offering is sourced through independent suppliers mainly located in Asia see Global Operations, p. 064. 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. In 2008, the Group has again significantly reduced the number of independent manufacturers through the further rationalisation of our supplier organisation see Global Operations, p. 064. 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.

Therefore, 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 products, 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 2008, we recalled 1,000 CCM Hockey and Reebok Hockey helmets manufactured in Canada. The helmet's chinstrap could unexpectedly disengage while in use, posing a head and neck injury risk to consumers when the helmet falls. No injury was reported.

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 influence how they conduct business and the external impacts of the consumer environment in which they operate.

To limit these risks, we utilise a broad distribution strategy which includes expanding our controlled space activities. This enables us to reduce negative consequences resulting from sales shortfalls that can occur with key customers. Specifically, no customer at adidas, Reebok and TaylorMade-adidas Golf accounted for more than 10% of brand sales in 2008.

When necessary, we restrict or limit the distribution of our brands to protect brand image or product margins, and to streamline supply. In 2008, we continued our retail segmentation strategy. By segmenting product offer to our customers, we limit the risk of increased competition which can result in higher sales discounts. For example, in the course of 2008, the Group decided to limit the Reebok product offering to an important mall-based key account in North America.

Due to the challenging economic situation and difficulties at some major sporting goods retailers in developed markets, we continue to view the risk of 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. On a Group level, given the deterioration in several markets compared to the prior year, we now view the financial impact from customer risks as medium.

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 products. The adidas Group faces the risk of either losing key partnerships or having to accept unfavourable terms due to intensified competition for attractive contracts. During 2008, for example, the French Football Federation and adidas decided not to renew their promotion partnership.

To mitigate these inherent risks, we regularly seek to extend our most important partnership agreements before contract expiry. For example, in 2008 adidas extended contracts with two of the world's most recognised teams: AC Milan and the All Blacks see adidas Strategy, p. 048.

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.

Due to increasing competition for promotion partners witnessed over recent years, we continue to 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 2008, 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. 074. 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. Loss of key personnel in strategic positions, to competitors or others, is therefore a significant risk we face. In addition, as labour markets become increasingly competitive, we also 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. 070.

Our overall assessment of personnel risks remains unchanged compared to the prior year. Although we have grown our own-retail activities (where employee turnover is higher than the Group average) and increased our employee base in emerging markets (where higher levels of wage inflation increase the volatility of the employment market), the current economic environment is likely to reduce volatility of the overall employment market. Therefore, we continue to regard the occurrence likelihood of these risks as low. Should these risks materialise, 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 behaviour. 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 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. During 2008, all of our employees were trained on a Code of Conduct e-learning tool as part of our Global Compliance Programme. All new employees are also trained on this tool see Corporate Governance Report, p. 026. Participation is mandatory for all employees.

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

IT risks

Most of our business processes rely on IT systems, such as product marketing, order management, warehouse management, invoice processing, customer support or finance reporting. 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 pro-active maintenance and business continuity planning. We also ensure security of data by restricting user access and requiring password changes every 90 days on our most critical systems. We perform scheduled backups several times a day and one full backup daily, alternating between two different data centre 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 2008. 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 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. 182. 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 2008, 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 analysed for creditworthiness before standard payment and delivery terms and conditions are offered. This review utilises 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 prepayment 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 utilises 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 dependent 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 2008, no customer at either adidas, Reebok or TaylorMade-adidas Golf accounted for more than 10% of accounts receivable. However, compared to the prior year, the deterioration of the economic environment and a reduction in consumer confidence is expected to increase the risk of poor performance from retailers in 2009. As a consequence, we believe that our overall credit risk level from customers has increased in several key markets see Economic and Sector Development, p. 080. Therefore, we now estimate the likelihood and potential financial impact of credit risks from customers as medium.

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). In addition, the credit default swap premiums of our partner banks are monitored on a weekly basis. In case the defined threshold is exceeded, credit balances are shifted to banks compliant with the limit. During 2008, the credit default swap premiums for many banks increased dramatically, indicating higher risks.

Foreign-based adidas Group companies are authorised to work with banks rated "BBB+" or higher. Only in exceptional cases are subsidiaries authorised to work with banks rated lower than "BBB+". To limit risk in these cases, restrictions are clearly stipulated such as maximum cash deposit levels. Due to the current difficulties in financial markets, we believe the likelihood and potential financial impact of credit risks from these assets has increased to medium. Nevertheless, we believe our risk concentration is limited due to the broad distribution of our investment business with more than 25 banks. At December 31, 2008, no bank accounted for more than 16% of our investment business and the average concentration, including subsidiaries' short-term deposits in local banks, was 1%.

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, 2008					
Bank borrowings incl. commercial paper	748	—	—	—	748
Private placements	462	539	374	261	1,636
Convertible bond	408	—	—	—	408
Accounts payable	1,218	—	—	—	1,218
Other financial liabilities	25	1	—	2	28
Derivative financial liabilities	57	15	6	2	80
Total	**2,918**	**555**	**380**	**265**	**4,118**
As at December 31, 2007					
Bank borrowings incl. commercial paper	198	—	—	—	198
Private placements	254	684	435	461	1,834
Convertible bond	10	408	—	—	418
Accounts payable	849	—	—	—	849
Other financial liabilities	16	1	1	2	20
Derivative financial liabilities	88	62	8	2	160
Total	**1,415**	**1,155**	**444**	**465**	**3,479**

This leads to a maximum exposure of € 58 million in the event of default of any single bank. Furthermore, we held derivatives with a positive fair market value in the amount of € 213 million. The maximum exposure to any single bank resulting from these assets amounted to € 23 million and the average concentration was 4%.

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 unfavourable financing terms due to liquidity restraints. Our Group's Treasury department uses an efficient cash management system to manage liquidity risk. At December 31, 2008, Group cash and cash equivalents amounted to € 244 million (2007: € 295 million). Moreover, our Group maintains € 2.7 billion bilateral short-term credit lines and a € 2 billion committed medium-term syndicated loan facility with international banks, which does not include a market disruption clause. The € 4.7 billion in credit lines are designed to ensure sufficient liquidity at all times see Treasury, p. 093.

Future cash outflows arising from financial liabilities that are recognised 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.

Based on our available credit lines and business model, we continue to regard the occurrence probability of financing and liquidity risks, which could also lead to increased interest costs, as low. 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. Our main exposures are presented in the adjacent table. The exposure from firm commitments and forecasted transactions was calculated on a one-year basis. The 2007 figures have been restated to provide consistency of presentation.

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 fair value changes of our hedging instruments. 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 intercompany 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 2007 and 2008.

Based on this analysis, a 10% increase in the euro versus the US dollar at December 31, 2008, would have led to a € 10 million increase in net income. The more negative market values of the US dollar hedges would have decreased shareholders' equity by € 108 million. A 10% weaker euro at December 31, 2008 would have led to a € 13 million decrease in net income. Shareholders' equity would have increased by € 133 million. The impacts of fluctuations of the euro against the British pound and of the US dollar against the Japanese yen on net income and shareholders' equity are also included in accordance with IFRS requirements.

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

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

Exposure to foreign exchange risk [1)]

based on notional amounts, € in millions

	USD	GBP	JPY
As at December 31, 2008			
Exposure from firm commitments and forecasted transactions	(2,341)	323	339
Balance sheet exposure including intercompany exposure	(192)	(24)	(7)
Total gross exposure	**(2,533)**	**299**	**332**
Hedged with other cash flows	83	—	—
Hedged with currency options	457	(25)	(57)
Hedged with forward contracts	1,294	(197)	(185)
Net exposure	**(699)**	**77**	**90**
As at December 31, 2007			
Exposure from firm commitments and forecasted transactions	(1,810)	372	249
Balance sheet exposure including intercompany exposure	(65)	15	9
Total gross exposure	**(1,875)**	**387**	**258**
Hedged with other cash flows	136	0	0
Hedged with currency options	562	0	(142)
Hedged with forward contracts	1,124	(153)	(107)
Net exposure	**(53)**	**234**	**9**

1) Rounding differences may arise in totals.

Sensitivity analysis of foreign exchange rate changes

€ in millions

	USD	GBP	JPY
As at December 31, 2008			
	EUR +10%	EUR +10%	USD +10%
Equity	(108)	17	22
Net income	10	(1)	(1)
	EUR –10%	EUR –10%	USD –10%
Equity	133	(20)	(21)
Net income	(13)	0	1
As at December 31, 2007			
	EUR +10%	EUR +10%	USD +10%
Equity	(111)	9	28
Net income	5	(1)	(1)
	EUR –10%	EUR –10%	USD –10%
Equity	130	(11)	(26)
Net income	(6)	2	1

— Exchange rates are assumed at a year-end value instead of the more relevant sales-weighted average figure, which we utilise 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.

Utilising a centralised currency risk management system, our Group hedges currency needs for projected sourcing requirements on a rolling 12- to 24-month basis see Treasury, p. 093. Our goal is to have the vast majority of our hedging volume secured six months prior to the start of a given season. In the first half of 2008, we took advantage of the strong euro versus the US dollar to increase our hedging timeline from a rolling 12- to 18-month basis to a rolling 12- to 24-month basis. In rare instances, hedges are contracted beyond the 24-month horizon. The Group also largely hedges balance sheet risks. Due to our strong global position, we are able to minimise currency risk to a large extent by utilising natural hedges. Nevertheless, our net US dollar exposure after natural hedges calculated for the next year was roughly € 2.5 billion at year-end 2008, which we hedged using forward contracts, currency options and currency swaps. Our Group's Treasury Policy allows us to utilise hedging instruments, such as currency options or option combinations, which provide protection while – at the same time – retain the potential to benefit from future favourable exchange rate developments in the financial markets.

As 2009 hedging has almost been completed, it is clear that conversion rates on major currencies will be similar to those of 2008. However, volume forecast variances, greater currency volatility and a larger portion of our business in emerging markets create currency challenges in 2009. In addition, translation impacts from the conversion of non-euro-denominated results into our Group's functional currency, the euro, could lead to a material negative or positive impact on our Group's financial performance. Consequently, we believe the likelihood of currency risk impacting our 2009 financial performance and the potential financial impact have increased to medium.

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. 093.

In line with IFRS 7 requirements, we have analysed 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 recognised as a liability, has been re-calculated based on the hypothetical market interest rates as at December 31, 2008. 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 recognised in the sensitivity analysis.

— Other fixed-rate financial instruments are measured at amortised 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 2007 and 2008. A 100 basis point increase in interest rates at December 31, 2008 would have increased shareholders' equity by € 4 million (2007: € 6 million) and decreased net income by € 1 million (2007: € 2 million). A 100 basis point decrease of the interest rates at December 31, 2008 would have resulted in a € 5 million decrease in shareholders' equity (2007: € 7 million) and a € 1 million increase in net income (2007: € 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 light of the recent interest rates decrease in North America and Europe, and given the expected economic situation worldwide, we are expecting interest rates in 2009 to be stable or down from 2008. Therefore, we continue to project the likelihood of significant Group interest rate increases, which could have a low financial effect, as low.

Corporate opportunities overview

External and industry opportunities

- Favourable macroeconomic and fiscal developments
- Sports participation on the rise
- Increasing demand for functional apparel
- Women's segment offers long-term potential
- 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
- Personalisation and customisation replacing mass wear
- Breaking new ground in distribution
- Taking control of distribution rights
- Cost optimisation drives profitability improvements

Financial opportunities

- Favourable financial market changes

External and Industry Opportunities

Favourable 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 organisations 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 realise 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 capitalise on them.

Women's segment offers long-term potential

In our opinion, the women's sports market is one of the most attractive segments in the sporting goods industry with women accounting for more than a third of total spending on athletic footwear. The adidas Group has developed its Women's categories over the past years. Product offerings in both performance and lifestyle emphasise individuality, authenticity and style, in all three brand segments. Examples are adidas by Stella McCartney, the Avon Pink Ribbon collection at Reebok, and the Women's r7® CGB MAX at TaylorMade. Our Group still generates the majority of its revenues in men's and unisex categories. The women's category offers potential for further growth, with shape, colours and sports specific to women. In 2009, we will continue to expand our women's offer with, for example, the launch of a Reebok collection in partnership with Cirque du Soleil see Reebok Strategy, p. 052.

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. We estimate the global sports lifestyle market to be at least 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 with the adidas Sport Style division which continuously launches innovative concepts see adidas Strategy, p. 048. In 2008, the adidas segment launched Style Essentials in Asia and the USA, a new line of casual sportswear clothing. In 2009, with the launch of the adidas SLVR Label, adidas will expand its offer of pure fashion, sports-driven style. The Reebok brand will revive its Classics business in 2009 with the launch of new products and campaigns such as The Pump™ and "On the Move" see Reebok Strategy, p. 052. And at TaylorMade-adidas Golf, the acquisition of Ashworth provides a new platform to expand the segment's golf apparel business into the lifestyle market see TaylorMade-adidas Golf Strategy, p. 056.

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 industrialised countries. Now, rising real incomes and employment rates as well as positive demographic trends and a growing middle class are fuelling these economies – and subsequently our industry. This development is expected to continue in the near future. European and North American sporting goods brands are often seen as easily accessible, affordable luxury goods. Our Group currently generates more than 30% of sales in emerging markets, which reflects a higher exposure compared to many of our competitors. Further, we believe we have opportunities for further growth, in particular in China and Russia. Our growth in emerging markets is supported by our strong portfolio of partnerships: in China, the NBA, Yao Ming and the China Golf Association, in Russia, the Russian Basketball Federation and the Russian Football Union, and in India, the Twenty20 Cricket League. In addition, our various brand controlled space initiatives allow us to reach out to more consumers in markets where retail is still developing.

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 launched the adidas Grün Originals 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. In 2009, Reebok will also introduce a collection of eco-friendly NFL licensed apparel utilising 100% organic cotton and products made of recycled polyester. Besides this, we recently launched a programme called "Better Place" that targets adidas performance products see Sustainability, p. 067. Environmentally friendly products are of course also used in other categories, albeit to a lesser extent. For example, our adidas SLVR Label contains "green" components, even if the main focus of this line is not ecology. 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.

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. 046. We are able to utilise 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.

Personalisation and customisation 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. 046. adidas, Reebok and TaylorMade-adidas Golf all offer different personalisation and customisation platforms reflecting each brand's strategy. Key concepts include adidas' mi adidas, miCoach and mi Originals, Reebok Custom and the TaylorMade-adidas Golf myTPball online platform. After successfully implementing mi adidas in our performance stores in 2007, in 2008 we rolled out mi Originals to our concept stores. Reebok Custom is a web-based platform over which consumers can customise footwear. Shoes are then shipped within ten business days. With the myTPball programme, customers can design and order their own golf balls.

We expect the market for personalised and customised footwear, apparel and hardware to grow strongly and evolve further in the coming years. In September 2008, the adidas segment acquired Textronics, Inc., a specialist in the development of wearable sensors for use in fitness monitoring. The technology will first be utilised in adidas running apparel and expanded into other sports categories in the future. It will be an important facet of the miCoach offering as smart apparel products complement the miCoach technology accessories. miCoach aims to provide 360 degree personalised training regimes to consumers.

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 introduced e-commerce in the Netherlands as a test market for Europe in 2008. We also see opportunities to operate new shop formats. Examples of this are co-branded stores with partners such as the NBA (adidas) and NHL (Reebok). In July 2008, we opened the world's first adidas Brand Center in Beijing, taking the retail experience to a new level see adidas Strategy, p. 048. We also launched new store formats for adidas Originals called Atelier and Studio. Rockport is also planning to launch a new store format in 2009 see Reebok Strategy, p. 052. 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 utilise changes in consumption behaviour as they arise. In 2008, for example, we rolled out a unique shop-in-shop partnership between Reebok and a major retailer in the USA.

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 organisations see Group Strategy, p. 046. Nevertheless, in some markets, we work with distributors or joint venture partners, in particular at brand Reebok. In doing so, we capitalise 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. In 2008, we purchased/founded two Reebok companies in Latin America, in Brazil/Paraguay and Argentina. In 2009, we will take over the remaining 25% of Reebok distribution rights in Spain and consolidate adidas and Reebok's Spanish offices. Going forward, we will evaluate potential buyback opportunities on a case-by-case basis, considering opportunities as well as inherent risks.

Cost optimisation drives profitability improvements

Continued optimisation 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 generated cost synergies that support adidas and Reebok profitability development. 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 realise 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. 064. Another example is the reduction of the number of articles, which reduces workload in the creation area and warehouse costs, and allows us to offer more focused ranges to our retail partners.

Financial Opportunities

Favourable financial market changes

Favourable 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 see Treasury, p. 093.

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 jeopardise the viability of the Group as a going concern. Management remains confident that the Group's earnings power forms a solid basis for our future business development and provides the necessary resource to pursue the opportunities available to the Group.

Nonetheless, due to the current financial market and exchange rate volatility as well as uncertainty over the magnitude of spillover effects on private consumption, we believe that our risk profile has increased in comparison to the prior year. This reflects increases in both likelihood of occurrence and potential financial impact of certain individual risks as outlined in this report.

Subsequent Events and Outlook

In 2009, recessionary pressures in most key global markets are expected to have a negative impact on overall consumer demand and the sporting goods industry. Despite our strong market positions in most major markets, a regionally balanced sales mix and strength in innovation, we expect these developments to have a negative impact on the development of the adidas Group's financial results in 2009. As a result, we forecast adidas Group sales and earnings per share to decline in 2009.

Subsequent changes in the Group structure

Effective January 2009, the adidas Group acquired the remaining 5% of shares of its subsidiary in Greece, adidas Hellas A.E., Thessaloniki. Also effective January 2009, the adidas Group acquired the remaining 25% of shares of Reebok's subsidiary in Spain, Reebok Spain S.A., Alicante. Both transactions reflect the Group's strategy to gain control over distribution in maturing markets.

No other subsequent changes

Since the end of 2008, 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 2008.

Group business outlook affected by uncertain global macroeconomic development

Expectations for the development of the global economy and the sporting goods industry in 2009 are currently subject to a high degree of uncertainty. The unprecedented slowdown in economic activity recorded towards the end of 2008 has consequences currently not fully foreseeable. As a result, macroeconomic forecasts for 2009 given by various government bodies and research institutes differ widely in their assessment of how long and deep the expected economic downturn will be. In addition, the effect rising unemployment and lower consumer confidence could have on private consumption cannot be fully assessed. Consequently, the effect global macroeconomic developments could have on the adidas Group's business outlook is currently difficult to forecast, especially with regard to the second half of the year. Our outlook is hence based solely on the scenario of economic and sector development laid down in this report, acknowledging actual developments might significantly differ from this scenario. In addition, it is currently difficult to quantify the impact negative currency translation effects could have on the Group's top- and bottom-line performance. Due to the fact that many currencies such as the Russian ruble, the British pound and several currencies in Latin America have significantly depreciated against the euro towards the end of 2008 and at the beginning of 2009, we currently forecast these effects to have a significant negative impact on our Group's financial performance.

Global economic slowdown projected to intensify in 2009

According to the World Bank, in 2009 growth of the global economy is projected to slow to a level of around 1% due to the real-economy side effects of the banking crisis which intensified during the second half of 2008. Although several governments around the world are instigating policies to combat recessionary pressures, an outright global recession cannot be ruled out.

In Europe, GDP in the Euro Zone is expected to decline around 1.5% in 2009, driven by weakness in domestic consumption, a deteriorating export outlook as well as the impact of tighter financing conditions on investment. European emerging markets are forecasted to show modest growth of around 0.5% in 2009. Economies such as Russia and Turkey are expected to show a steep slowdown based on falling commodity prices and difficulties related to tightening credit markets which may lead to higher levels of unemployment.

In North America, GDP is also projected to decline approximately 1.5% versus the prior year. With consumer confidence at record lows and expected increases in unemployment throughout the year, lower consumer spending is forecasted to lead to a sharp decline in GDP particularly in the first half of 2009. A government stimulus package involving infrastructure spending is expected to lift the economy out of recession in the second half of the year.

In Asia, compared to 2008, growth excluding Japan is likely to slow slightly to a level of around 5% in 2009, the weakest since 2001. China and India are forecasted to be affected by lower industrial production growth, and a slowdown of exports. Japan's economy is forecasted to decline around 3% in 2009 versus 2008. Falling exports as well as a lack of stimulus for domestic consumption and the likelihood of stagflation make the Japanese macroeconomic landscape similar to that in the USA and the Euro Zone.

In Latin America, growth rates are likely to slow to a level of around 1% in 2009. Private consumption is expected to continue to increase in most major markets. Differences with regard to exposure to commodity prices and dependency on exports are likely to lead to a high variance of GDP development by country.

Low consumer spending to negatively impact the development of the global sporting goods industry

In 2009, we expect the global sporting goods industry to decline. In mature markets such as the USA and Western Europe, the decline is expected to be more pronounced due to low levels of consumer confidence and difficult trading conditions for retailers. This is likely to lead to a highly promotional environment in these markets. Emerging markets such as China are expected to be more resilient as opportunity for distribution expansion continues in these markets.

European sporting goods industry to decline compared to prior year

Due to the non-recurrence of positive effects related to the UEFA EURO 2008™ in the first half of the year, and ongoing difficult market conditions in major Western European markets such as the UK and Spain, we expect the sporting goods industry to decline in Europe in 2009. While the region's emerging markets are likely to be more resilient, we also anticipate a slowdown in consumer spending to impact sporting goods industry sales in these markets. In the second half of the year, the industry is expected to turn its attention to the run-up for the 2010 FIFA World Cup™, which should provide some positive impetus to industry sales towards the end of 2009.

North American sporting goods market to experience consolidation

As a result of the recession in the USA, we expect the North American sporting goods market to decline in 2009. According to the National Retail Federation, retail industry sales are expected to fall 0.5% compared to the prior year. Lower overall consumer spending and potential shifts in consumption patterns away from discretionary products are expected to lead to shifts in consumer priorities which we expect to also negatively impact the sporting goods industry. In addition, we anticipate further consolidation of the retail landscape as several smaller retailers succumb to financial pressure and many rationalise existing store bases.

Asian sporting goods industry negatively impacted by slowing domestic demand

Although we expect Asia to continue to be the fastest-growing sporting goods market in 2009, we anticipate growth rates to moderate considerably compared to the prior year. In China, industry growth is likely to moderate significantly in 2009, due to the exceptionally high rate of retail expansion in 2008, and high sell-in rates by sporting goods manufacturers ahead of the Beijing 2008 Olympics. Nevertheless, we expect the sporting goods industry in China to show continued growth in 2009, as underlying consumer trends remain positive and retail infrastructure continues to develop across the country. In Japan, however, we expect the sporting goods industry to decline, in line with private consumption expectations in that market.

Latin American sporting goods industry affected by depreciation of currencies against the dollar

With a majority of sporting goods in Latin America being purchased in US dollars, we expect demand for sporting goods to be negatively affected by the recent depreciation of currencies in the major countries of the region. In addition, there are currently concerns related to increasing trade barriers being potentially implemented in certain markets such as Brazil

see Risk and Opportunity Report, p. 107.

Consolidation of new businesses supports TaylorMade-adidas Golf and Reebok sales

Sales recorded in the TaylorMade-adidas Golf segment will be supported by the consolidation of Ashworth, Inc. revenues for the full twelve-month period. Ashworth, Inc., a US-based golf lifestyle apparel brand, has been consolidated within the adidas Group as of November 20, 2008. In addition, sales in the Reebok segment are expected to be positively influenced by the consolidation of sales from the brand's new companies in Latin America for the full twelve-month period.

adidas Group sales and earnings per share to decrease in 2009

We expect adidas Group sales to decline at a low- to mid-single-digit rate on a currency-neutral basis in 2009. Sales development will be negatively impacted by weaker consumer demand due to low levels of consumer confidence and rising unemployment in many major markets. Group currency-neutral sales in the emerging markets of Europe, Asia and Latin America are forecasted to develop better relative to mature markets such as Western Europe and North America.

In 2009, the adidas Group gross margin is forecasted to decline. A promotional environment in mature markets, as well as expected higher sourcing costs due to increased raw material and wage costs, in particular in the first half of the year, will contribute to this development. Further own-retail expansion at both adidas and Reebok is expected to partially offset these developments.

In 2009, the Group's operating expenses as a percentage of sales are expected to increase. Higher expenses for controlled space initiatives in the adidas and Reebok segments will drive increases, partially compensated by positive effects from efficiency improvements throughout our organisation. Marketing working budget expenses as a percentage of sales are forecasted to be at or below the prior year level. Operating income is expected to decline. This will mainly be driven by the non-recurrence of book gains from acquisitions and disposals in the TaylorMade-adidas Golf segment in the prior year.

We expect the number of employees within the adidas Group to be around the prior year level. A hiring freeze implemented in autumn 2008 for all Group and brand functions and initiatives to streamline our organisation are forecasted to offset new hirings related to further retail expansion in emerging markets.

The adidas Group will continue to spend around 1% of sales on research and development in 2009. Areas of particular focus include training, running, football and basketball 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 remain stable in 2009.

In 2009, we expect the operating margin for the adidas Group to decline. This forecast reflects our projection of a Group gross margin decline and an increase in operating expenses as a percentage of sales.

As a result of lower interest rate expenses in line with the planned reduction of net borrowings, we forecast lower financial expenses in 2009. The Group tax rate is expected to be slightly above the prior year level (2008: 28.8%).

As a result of these developments, net income attributable to shareholders is projected to decline in 2009. Basic and diluted earnings per share are expected to decline at a lower rate than net income attributable to shareholders due to a lower weighted average number of shares outstanding compared to the prior year.

adidas backlogs decrease 6% currency-neutral

Backlogs for the adidas brand at the end of 2008 decreased 6% versus the prior year on a currency-neutral basis. In euro terms, adidas backlogs declined 4%. This development reflects the difficult retail environment in many major markets. In addition, order backlogs in Europe were negatively impacted by the non-recurrence of strong prior year orders for football products supported by the UEFA EURO 2008™. Differences in order timing had a negative effect on the development of backlogs in Asia. Footwear backlogs decreased 4% in currency-neutral terms (– 2% in euros). Growth in North America could not offset declines in Europe and Asia. Apparel backlogs decreased 6% on a currency-neutral basis (– 4% in euros) with declines in all regions. Backlogs do not include the segment's own-retail business. We also expect the share of at-once business in the adidas sales mix to grow as a result of increasing uncertainty among retailers regarding future market development. As a result, order backlogs are no longer a reliable indicator for expected sales development.

adidas order backlogs (currency-neutral) [1]

Development by product category and region in %

	Europe	North America	Asia	Total
Footwear	(3)	4	(11)	(4)
Apparel	(4)	(5)	(8)	(6)
Total [2]	**(5)**	**0**	**(10)**	**(6)**

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	(7)	8	(1)	(2)
Apparel	(9)	(1)	4	(4)
Total [2]	**(9)**	**4**	**1**	**(4)**

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

Brand adidas sales to decline in 2009

We project a low- to mid-single-digit sales decline on a currency-neutral basis for brand adidas in 2009. Revenues in both the adidas Sport Performance and adidas Sport Style divisions are forecasted to decrease. In the Sport Performance division, revenues in the football category in particular are forecasted to decline as a result of the non-recurrence of strong sales in connection with the UEFA EURO 2008™. Sport Style sales are expected to be negatively affected by challenging market conditions in many major markets. Incremental sales from the further segmentation of the brand's product range to effectively address specific consumer groups are forecasted to partly offset this development see adidas Strategy, p. 048.

Reebok order backlogs (currency-neutral) [1]

Development by product category and region in %

	Europe	North America	Asia	Total
Footwear	(12)	(22)	(11)	(10)
Apparel	(22)	(50)	(16)	(33)
Total [2]	**(15)**	**(29)**	**(13)**	**(17)**

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	(18)	(19)	(7)	(11)
Apparel	(25)	(49)	(12)	(33)
Total [2]	**(20)**	**(26)**	**(9)**	**(18)**

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

Reebok backlogs decline

Currency-neutral Reebok backlogs at the end of 2008 were down 17% versus the prior year. In euro terms, this represents a decline of 18%. Footwear backlogs decreased 10% in currency-neutral terms (–11% in euros) as a result of declines in all regions. Apparel backlogs declined 33% on a currency-neutral basis driven by lower orders for licensed apparel in particular in North America (–33% in euros). These developments largely reflect challenging market conditions in Reebok's major markets. Due to the exclusion of the own-retail business and the high share of at-once business in Reebok's sales mix, order backlogs in this segment are not indicative of expected sales development.

Reebok segment sales to be at least stable

Reebok segment sales are projected to be at least stable compared to the prior year on a currency-neutral basis in 2009. The brand's key focus categories, Women's Fitness and Men's Sport, are expected to develop significantly better compared to other categories due to new product launches and campaigns in 2009 **see Reebok Strategy, p. 052**. In the Classics category, we will continue to visibly upgrade and improve the brand's product offering. The consolidation of sales from Reebok's new companies in Latin America for the full twelve-month period is projected to support revenue development.

TaylorMade-adidas Golf sales to increase at a low-single-digit rate

We expect the consolidation of Ashworth, Inc. for the full 12-month period to support a currency-neutral low-single-digit sales increase at TaylorMade-adidas Golf in 2009. On a comparable basis, however, excluding Ashworth, sales are projected to decline despite a strong product pipeline **see TaylorMade-adidas Golf Strategy, p. 056**. This will be a result of the challenging market situation in North America. 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.

2009 Product Launch Schedule

Product	Brand	Launch Date
adiPure football boot	adidas	January
CC Genius tennis shoe	adidas	January
adidas tennis rackets	adidas	January
Style Essentials footwear	adidas	January
adidas Originals Vespa footwear and apparel collection	adidas	January
Terrex outdoor footwear and apparel	adidas	February
adidas SLVR Label footwear and apparel	adidas	February
Gazelle running footwear and apparel	adidas	March
UEFA Champions League Finale Ball "Rome"	adidas	April
F50i football boot	adidas	June
Supernova™ Sequence 2 running shoe	adidas	June
Remix basketball footwear and apparel	adidas	June
adidas TECHFIT™ Tuned Compression	adidas	June
Men's training FreeRunning footwear and apparel	adidas	June
UEFA Champions League 09/10 season ball	adidas	July
2010 FIFA World Cup™ federation home jerseys	adidas	November
2010 FIFA World Cup™ match ball	adidas	December
EasyTone™ training shoe	Reebok	January
Playcool X apparel	Reebok	January
SelectRide™ running and training shoe	Reebok	February
Reebok Cirque du Soleil footwear and apparel collection	Reebok	February
Premier Trinity KFS IV running shoe	Reebok	July
Premier Verona KFS II running shoe	Reebok	July
DresSports® 2	Rockport	September
Octo Gun stick line	CCM Hockey	April
Glove line	CCM Hockey	April
U+™ Pro Skate	CCM Hockey	April
KFS protective equipment	Reebok Hockey	April
KFS hockey gloves	Reebok Hockey	April
10K Sickick II stick	Reebok Hockey	April
8.0.8 O-Stick	Reebok Hockey	October
R9™ drivers	TaylorMade-adidas Golf	March
R9™ fairway woods	TaylorMade-adidas Golf	March
R9™ Rescue	TaylorMade-adidas Golf	March
Burner® 09 irons	TaylorMade-adidas Golf	March

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. 058. Our goal is to reduce operating working capital as a percentage of sales in 2009. Inventory management will be a focus area in this respect. Based on tight control of inventory ageing, optimising inventory levels for fast replenishment is at the forefront of our activities to ensure we are able to satisfy short-term retailer demand on an at-once basis.

Investment level to be between € 300 and € 400 million

In 2009, investments in tangible and intangible assets are expected to amount to € 300 million to € 400 million (2008: € 380 million). Investments will focus on adidas and Reebok controlled space initiatives, in particular in emerging markets. These investments will account for almost 50% of total investments in 2009. Other areas of investment include the further development of the adidas Group Headquarters in Herzogenaurach, Germany and the increased deployment of SAP and other IT systems in major subsidiaries within the Group. 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. All investments within the adidas Group in 2009 are expected to be fully financed through cash generated in our operating businesses.

Excess cash to be used to reduce net debt

In 2009, we expect continued strong cash flows from operating activities. 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 optimise the Group's free cash flow in 2009. We intend to largely use excess cash to reduce net borrowings, which we forecast to be below the prior year level. As a result, we expect to make progress towards achieving our medium-term financial leverage target of below 50% (2008: 64.6%).

adidas Group 2009 outlook

Currency-neutral sales growth	low- to mid-single-digit decline
Gross margin	decline
Operating margin	decline
Earnings per share	decline

Efficient liquidity management in place for 2009 and beyond

Efficient liquidity management continues to be a priority for the adidas Group in 2009. 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 committed and uncommitted credit facilities see Treasury, p. 093. Consequently, we do not plan any significant financing initiatives in 2009.

Management to propose unchanged dividend of € 0.50

We are committed to maintaining the Group's dividend payout ratio corridor of between 15 and 25% of net income attributable to shareholders. At our Annual General Meeting on May 7, 2009, we intend to propose an unchanged dividend per share of € 0.50 for the financial year 2008. Management has decided to maintain the dividend level in light of the tough business environment and our focus on reducing net borrowings. Based on the number of shares outstanding at the end of 2008, the dividend payout will decrease 2% to € 97 million (2007: € 99 million). This represents a payout ratio of 15% versus 18% in 2007.

Potential changes in legal structure due to subsidiary mergers

In 2009, we will continue to evaluate the merger of adidas and Reebok subsidiaries in various countries on a case-by-case basis. In doing so, we strive to realise operational and financial efficiencies with a view to maximising long-term growth opportunities for our Group. In markets where third parties act as distributors for our brands or control a stake in our subsidiaries we may consider the buyback of distribution rights, the buyout of minority stakes or the setting up of joint ventures for our brands.

Increasing momentum for adidas Group in 2010 and beyond

In line with the projections of the OECD, the World Bank and independent researchers, we expect the global macroeconomic environment to recover in 2010, although growth rates are estimated to remain well below 2008 levels. We forecast this development to support the operational performance of our Group in 2010. Under this assumption, we project adidas Group sales and net income to improve in 2010 compared to 2009 levels. Football sales related to the 2010 FIFA World Cup™ will support revenues in the adidas segment. We also forecast our initiatives to revitalise the Reebok brand to gain traction. Finally, the TaylorMade-adidas Golf segment is projected to benefit from leading market positions in key categories, supported by continuously bringing new product innovations to the consumer as well as leveraging the benefit we anticipate gaining from the Ashworth acquisition.

Key goals for long-term success

In addition, the Group will continue to work towards reaching our priority goals to achieve long-term sustainable shareholder value creation. These include:

Expand presence in emerging markets: Emerging economies in Asia, Europe and Latin America have consistently grown at stronger rates than more mature markets over the last several years. We believe these markets continue to represent the most significant long-term opportunity to our industry as a whole. Rising standards of living, increasing disposable income and positive demographic trends should continue to support increasing private consumption in these markets. Therefore, assuming constant exchange rates, our Group sees the opportunity to increase our representation in emerging markets to over 35% of Group sales.

Intensify controlled space focus: We intend to increase our controlled space initiatives to at least 35% of Group sales in the coming years. This includes new openings of adidas and Reebok own-retail stores, the further extension of our mono-branded store base in China, as well as new shop-in-shop initiatives with retail partners in several markets around the world.

Leverage growth and operational scale through to bottom line: A higher exposure to emerging markets as well as expanding controlled space activities are important levers to improving brand presence, increasing sell-through and driving higher Group profitability. Our continued focus on innovation and design leadership and marketing excellence is an important Group priority to protect and increase the image and consumer appeal of all our brands. This is particularly important in the Reebok segment, as we work to support the revitalisation of the Reebok brand. Taking these opportunities together with our continuous efforts to reduce organisation complexity and further integrate Group structures to take advantage of our global scale, we believe there is significant potential to increase the Group's operating margin to over 11%.

Increase financial flexibility: We intend to further decrease net borrowings to achieve a financial leverage of below 50% in the medium term. Excess cash will be largely used to achieve this goal and reduce exposure to financing risks. A strong balance sheet and a lower level of debt also increase our flexibility to realise value-generating medium- and long-term opportunities in the best interests of our shareholders as they arise.

Lionel Messi

adidas

Lionel Messi has accumulated an impressive number of titles and achievements throughout the past recent years: Spanish Champion in 2005 and 2006, UEFA Champions League winner in 2006, 2nd place FIFA Player of the Year 2007, gold medal at the Beijing Olympic Games. Impressive but never enough. His goal: To lead Argentina to the World Cup in South Africa – and win it for his home country. His game plan: "Believe in myself and the strength of my team."

4

We define ourselves through our products. High-profile technologies and unique designs are the key factors for our success. Our researchers, developers and designers push the limits of innovation. Have the right idea at the right time. Launch desirable products when consumers demand it. Introduce at least one major innovation every year. This is the strategy of our success. The following pages introduce some of our most exciting and important products and campaigns for 2009. And they make it clear: Our game plan is set.

TECHFIT PowerWEB

adidas

adidas TECHFIT PowerWEB includes exclusive adidas technology. Through the use of advanced materials and construction, adidas TECHFIT PowerWEB compression garments give athletes the ultimate advantage whether exploding out of the blocks, attacking the board or powering through the defence.

+4.0 % jump*

adidas TECHFIT PowerWEB compression garments support and stabilise core muscle groups, helping athletes achieve dynamic and agile movements.

+1.1 % speed*

adidas TECHFIT PowerWEB converts the energy of an athlete's movement into increased speed generation.

+5.3 % power*

When optimal pressure is applied to the muscles through adidas TECHFIT PowerWEB, the blood vessels compress, increasing blood flow which improves the supply of oxygen.

* adidas TECHFIT PowerWEB compared to conventional sportswear. Proven in research undertaken by the University of Calgary Human Performance Laboratory and adidas research.

F50 TUNIT™

adidas

For over 50 years, adidas has played a major role in all significant football product innovations. This gives adidas a degree of credibility that no other brand can claim. Footballers and fans know that adidas lives for football, and that they can rely on our products. adidas football boots will support the brand in further expanding its football market leadership position in 2009.

100 % fit

Engineered lightweight TUNIT™ microfibre synthetic upper for perfect fit.

100 % flexibility

The F50 TUNIT™ features a fully adaptable TRAXION® outsole and comes with firm ground, hard ground and soft ground studs.

1st

The F50 TUNIT™ is the world's first fully customisable football boot with exchangeable studs, chassis and upper.

Messi's No. 1

The F50 TUNIT™ is Messi's boot of choice.

Supernova™ Sequence 2

adidas

The all-new Supernova™ Sequence 2 provides all the support your feet need, while offering a smooth and comfortable ride. Enjoy a perfect transition thanks to FORMOTION™ heel units adapting to your individual footstrike: an experience that's one step ahead.

360°

GEOFIT™ frame for increased comfort on every step of the way.

3D FORMOTION™

Reduces impact force and pronation velocity.

100%

Full forefoot adiPRENE®+ for a dynamic push-off.

Vespa Gran Lusso

adidas

From the stylish streets of Milan to the modern looks of Brighton, pop icon scooter manufacturer Vespa and the 3-Stripes come together to present a new proposition to the market. The collection offers footwear and apparel referencing classic and contemporary looks and colours made for both classic scooter riders and all fans of casual and clean design.

6 decades of heritage

Both brands, Vespa and adidas, reference six decades of rich heritage.

50s and 60s inspired

Strongly inspired by the 50s and 60s, the Vespa Gran Lusso sneaker is the stand-out piece of the sneaker and apparel collection.

Perfect merge

Vespa and adidas – two authentic lifestyle brands, both focused on design – this is what you could call the perfect merge.

Air Cooled Training

adidas

CLIMACOOL® is a series of material placements and constructions that work together to help maintain an athlete's body temperature at a desired 37 degrees. In 2009, adidas will communicate a complete men's training offer which will be supported by a campaign highlighting the key benefits of the CLIMACOOL® offering. The central theme of the campaign "Air Cooled Training" emphasises that when your body is air cooled, you stay cool, comfortable and dry.

NBA Tested. Brotherhood Ready.

adidas

adidas Basketball kicked off the 2008/2009 NBA season with the next chapter in Brotherhood: "NBA Tested. Brotherhood Ready". This campaign brought together NBA All-Stars Gilbert Arenas, Dwight Howard, Tracy McGrady, Tim Duncan and Kevin Garnett to introduce the two styles of player that make up a Brotherhood: Creators and Commanders. Based on a series of films, the campaign was showcased through TV, Internet, magazines and prominent retail destinations worldwide.

Outdoor Campaign 2009

adidas

To strengthen adidas' positioning as the athletic brand in the outdoor market, adidas is launching a new range of products aimed specifically at outdoor athletes. The world record-breaking speed-climbing Huber brothers, Alexander and Thomas, are the epitome of speed and agility on the mountainside and are ideal testimonials for the new range of adidas Terrex footwear and apparel. The campaign launches in March 2009.

Celebrate Originality

adidas

2009 marks the 60th anniversary of adidas. In keeping with this important milestone, adidas unveiled its largest global brand campaign ever for adidas Originals under the banner of "Celebrate Originality". The campaign is set against the backdrop of a house party hosting an eclectic mix of people from the worlds of music, fashion and sport. The campaign launched in the USA in November 2008 and in the rest of the world in January 2009.

adidas SLVR Label Campaign

adidas

The adidas SLVR Label's key message is "Simply perfect". The campaign highlights the new label's connection to adidas as well as the values of all adidas SLVR Label products. adidas SLVR Label is clean, simple, inclusive and sophisticated. It brings creative solutions to reduce complexity. The adidas SLVR Label will be promoted through advertising in select fashion and lifestyle magazines, on websites as well as through outdoor executions in specific local markets.

EasyTone™

Reebok

EasyTone™ is Reebok's new technology for women's fitness that allows women to "take the gym with them". EasyTone™ helps tone key leg muscles with balance pods that are built under the heel and forefoot of the shoes. With every step, the balance pods are designed to create natural instability. By forcing muscles to adapt, the shoe naturally encourages toning of key leg muscles.

28 %

more muscle activity for the gluteus maximus

The EasyTone™ activates the gluteus maximus more than a traditional walking shoe.

11 %

more activity for key muscles in the calves and hamstrings

The EasyTone™ activates key leg muscles and tones them with every step, acting as your personal gym-on-the-go.

SelectRide™

Reebok

In February 2009, Reebok launched a revolutionary shoe called SelectRide™. This is an innovative footwear technology that meets the versatile needs of today's athletes. Through its adjustable air-inflated underfoot cushioning system, the SelectRide™ technology creates two shoes in one - a running shoe or a training shoe at the push of a button. The shoe also features Reebok's SmoothFit™ technology, providing an amazing fit through the elimination of seams in the interior of the shoe. SelectRide™ launched in the United States, supported by an integrated marketing campaign featuring eight of Reebok's top athletes such as Peyton and Eli Manning and Yao Ming.

100 % seamless

With a seamless interior, the SmoothFit™ technology of the SelectRide™ eliminates irritation and maximises performance.

1 second to change

The SelectRide™ can be changed from a running shoe into a training shoe with just one click.

The Pump™

Reebok

Pump™ is Reebok's most recognisable product technology and was first introduced in a basketball shoe called "The Pump™" in 1989. The technology includes an internal inflation mechanism that regulates a unique cushioning fit in the upper. The Pump™ will celebrate its 20th anniversary in 2009. To honour the heritage and design of The Pump™, Reebok will launch a limited edition of The Pump™ anniversary shoes with exclusive retail collaboration partners starting late 2009.

20 retailers

Reebok has partnered with 20 selected retailers around the world to develop custom collaborations of The Pump™ that will be exclusively designed and launched in their stores in limited quantities.

20 years

Reebok celebrates another mile-stone of its sports heritage in 2009: the 20th anniversary of the iconic Pump™.

22 %

more aerodynamic

The unique architecture in the lower part of the shaft makes the Reebok 8.0.8 O-Stick 22% more aerodynamic than a regular stick.

8.0.8 O-Stick

Reebok Hockey

The 8.0.8 O-Stick has more aerodynamic arches which provide less drag than ever before and increase the stick speed and power. It also includes Griptone, the new Reebok proprietary grip enhancing control for better reaction speed.

120 points

The number of points NHL super-star and 8.0.8 user Pavel Datsyuk accumulated in the 2007–2008 regular season and playoffs with the Reebok O-Stick.

68 players

A total of 68 NHL players wear the U+™ Pro Skate.

U+™ Pro Skate

CCM Hockey

The U+™ Pro is now recharged: The new felt tongue fuses to your foot shape and the quarter shield enhances durability. Additional ankle comfort optimises foot fusion and the new heel pocket construction improves heel lock. U+™ foam is extremely reactive when heated, cooling down to the shape of your foot.

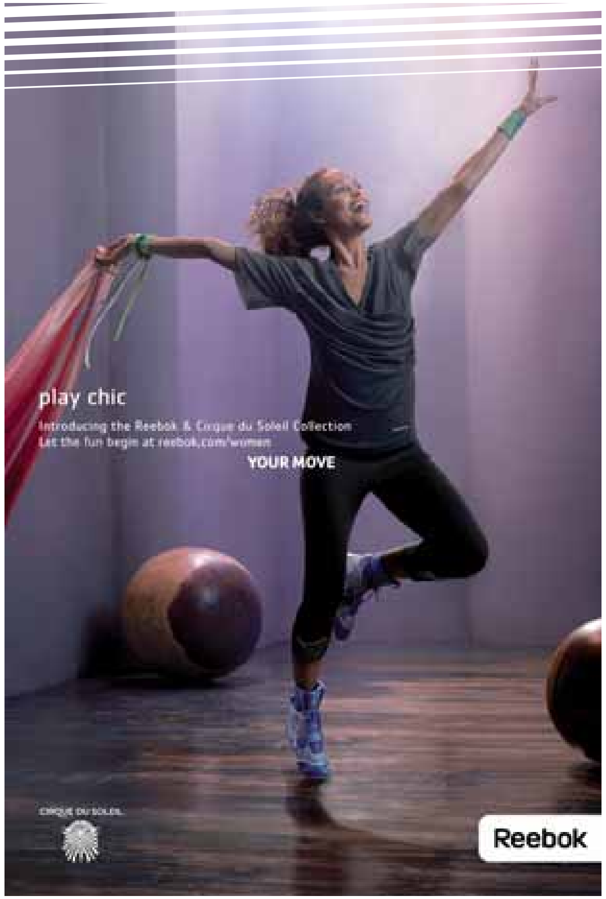
<700 g

The U+™ Pro Skate is the first sub-700 g skate in the market.

JUKARI Fit to Fly™

Reebok

In 2008, Reebok and Cirque du Soleil entered into a revolutionary partnership. Together, a new workout experience for women was created – fusing the intriguing world of Cirque du Soleil with Reebok's expertise in fitness. In February 2009, Reebok and Cirque du Soleil launched JUKARI Fit to Fly™ – offering women an entirely new way to work out. Integral to this experience is the new equipment – the FlySet™, enabling a diverse repertoire of movements. JUKARI Fit to Fly™ is inspired by the imaginative movements of Cirque du Soleil artists, brought to life through a systematic progression of exercises. By combining these exercises with fluid choreography, the workout experience aims to improve strength and flexibility. Along with these physical elements, JUKARI Fit to Fly™ incorporates the joy of movement, the fun that comes with training together and the artistic flair of Cirque du Soleil. Communication of the new workout experience started with a global marketing campaign in February 2009.



Cirque du Soleil Collection

Reebok

Alongside JUKARI Fit to Fly™ is a fully integrated women's footwear and apparel range, the "Reebok Cirque du Soleil Collection". It combines the performance demands of the workout experience with the creativity and artistry of Cirque du Soleil. The collection has a style expression that is forward-looking, exploratory and very feminine.

On The Move

Reebok

In 2009, Reebok will launch a new collection of women's apparel and footwear called "On The Move", inspired by Reebok's years of leadership in women's fitness. Created for the needs of a woman's busy lifestyle, the products are versatile and can be mixed and matched. The collection was designed specifically for a woman's body and how she moves. The "On The Move" collection is the perfect fusion between performance and style.

Manifesto – Choose to Walk

Rockport

Rockport's spring 2009 advertising campaign underscores the brand's commitment to style and authenticity. Rockport empowers consumers to do more, be more, live more, with stylish shoes engineered to feel good. The global campaign will be executed across all markets through print, online and outdoor advertising.

R9™ Driver

TaylorMade-adidas Golf

The new R9™ driver unites two TaylorMade technologies to promote phenomenal distance and accuracy. Flight Control Technology (FCT) allows players to adjust the clubface angle, loft and lie each by 2°, while Movable Weight Technology™ (MWT®) permits players to adjust the clubhead's centre of gravity. The combined effect of FCT and MWT® promotes up to 75 yards of side-to-side trajectory change.

8 distinct head positions

The new R9™ driver delivers 8 distinct head positions giving players the power to adjust the loft, lie and face angle.

24 driver configurations

The adjustable head and the movable weights enable players to optimise their own driver.

3 movable weights

Movable Weight Technology™ lets players change the head's centre of gravity.

The Set is Dead

TaylorMade-adidas Golf

To promote the new Burner® family of irons, the multi-platform campaign "The Set is Dead" will launch in 2009. Irons have for too long been engineered as a set – without heed to the shortcomings of this approach. TaylorMade realised that because long-irons, middle-irons and short-irons serve different purposes they should be designed separately so that each delivers a specific type of performance. "The Set is Dead" is a declaration of TaylorMade's new way of creating high-performance irons.

Alexander Ovechkin

Reebok

Alexander Ovechkin is currently one of the most exciting stars in the NHL and 2008 was his year: He led the NHL with 11 winners and 22 power-play goals, plus he eclipsed the NHL record of 63 goals by a left-winger. Deservingly, he was named Most Valuable NHL Player. His goal: To win everything, every possible title. "To reach it, my game plan is to not just play, but to control the game. To not just play but to learn from every game and every move."

Consolidated Financial Statements

5

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 16, 2009

Herbert Hainer
CEO and Chairman

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 recognised 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, 2008 to December 31, 2008. 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 16, 2009
KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Bernd Erle
German Public Auditor

Rainer Gebele
German Public Auditor

Consolidated balance sheet (IFRS)

€ in millions

	Note	Dec. 31, 2008	Dec. 31, 2007	Change in %
Cash and cash equivalents	5	244	295	(17.3)
Short-term financial assets	6	141	86	64.1
Accounts receivable	7	1,624	1,459	11.3
Inventories	8	1,995	1,629	22.5
Income tax receivables	28	110	60	82.9
Other current assets	9	789	529	49.1
Assets classified as held for sale	3	31	80	(60.2)
Total current assets		**4,934**	**4,138**	**19.3**
Property, plant and equipment	10	886	702	26.2
Goodwill	11	1,499	1,436	4.3
Trademarks	12	1,390	1,291	7.6
Other intangible assets	12	204	194	4.9
Long-term financial assets	13	96	103	(6.8)
Deferred tax assets	28	344	315	9.2
Other non-current assets	14	180	147	24.9
Total non-current assets		**4,599**	**4,188**	**9.8**
Total assets		**9,533**	**8,325**	**14.5**
Short-term borrowings	15	797	186	328.3
Accounts payable		1,218	849	43.5
Income taxes	28	321	285	12.9
Accrued liabilities and provisions	16	1,008	1,025	(1.7)
Other current liabilities	17	295	266	10.6
Liabilities classified as held for sale	3	6	4	33.8
Total current liabilities		**3,645**	**2,615**	**39.3**
Long-term borrowings	15	1,776	1,960	(9.4)
Pensions and similar obligations	18	132	124	6.3
Deferred tax liabilities	28	463	450	2.9
Non-current accrued liabilities and provisions	16	65	73	(11.3)
Other non-current liabilities	19	52	69	(23.3)
Total non-current liabilities		**2,488**	**2,676**	**(7.0)**
Share capital		194	204	(5.0)
Reserves		(10)	161	(104.9)
Retained earnings		3,202	2,658	20.4
Shareholders' equity	21	**3,386**	**3,023**	**12.0**
Minority interests	20	14	11	25.5
Total equity		3,400	3,034	12.1
Total liabilities and equity		**9,533**	**8,325**	**14.5**

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, 2008	Year ending Dec. 31, 2007	Change
Net sales	30	**10,799**	**10,299**	**4.9%**
Cost of sales		5,543	5,417	2.3%
Gross profit		**5,256**	**4,882**	**7.7%**
(% of net sales)		48.7%	47.4%	1.3pp
Royalty and commission income		89	102	(12.7%)
Other operating income	10, 12, 24	103	80	28.4%
Other operating expenses	10, 12, 25	4,378	4,115	6.4%
(% of net sales)		40.5%	40.0%	0.6pp
Operating profit		**1,070**	**949**	**12.7%**
(% of net sales)		9.9%	9.2%	0.7pp
Financial income	27	37	36	5.4%
Financial expenses	27	203	170	19.2%
Income before taxes		**904**	**815**	**11.0%**
(% of net sales)		8.4%	7.9%	0.5pp
Income taxes	28	260	260	0.4%
(% of income before taxes)		28.8%	31.8%	(3.0pp)
Net income		**644**	**555**	**16.0%**
(% of net sales)		6.0%	5.4%	0.6pp
Net income attributable to shareholders		**642**	**551**	**16.4%**
(% of net sales)		5.9%	5.4%	0.6pp
Net income attributable to minority interests		2	4	(38.9%)
Basic earnings per share (in €)	29	3.25	2.71	19.9%
Diluted earnings per share (in €)	29	3.07	2.57	19.6%

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, 2008	Year ending Dec. 31, 2007
Operating activities:			
Income before taxes		904	815
Adjustments for:			
Depreciation and amortisation	10, 12, 13, 25	234	215
Unrealised foreign exchange gains, net		(46)	(23)
Interest income	27	(37)	(27)
Interest expense	27	178	166
Gains on sale of property, plant and equipment, net		(7)	(7)
Other non-cash income	24	(21)	—
Operating profit before working capital changes		**1,205**	**1,139**
Increase in receivables and other current assets		(236)	(66)
(Increase)/Decrease in inventories		(324)	26
Increase in accounts payable and other current liabilities		374	97
Cash provided by operations before interest and taxes		**1,019**	**1,196**
Interest paid		(176)	(161)
Income taxes paid		(346)	(255)
Net cash provided by operating activities		**497**	**780**
Investing activities:			
Purchase of trademarks and other intangible assets		(60)	(55)
Proceeds from sale of other intangible assets		8	10
Purchase of property, plant and equipment		(316)	(230)
Proceeds from sale of property, plant and equipment		27	30
Acquisition of further investments in subsidiaries	4	(6)	(7)
Acquisition of subsidiaries and other business units net of cash acquired	4, 31	(50)	(2)
Purchase of short-term financial assets		(59)	(47)
Purchase of investments and other long-term assets		(25)	(11)
Interest received		37	27
Net cash used in investing activities		**(444)**	**(285)**

Consolidated statement of cash flows (IFRS)

€ in millions

	Note	Year ending Dec. 31, 2008	Year ending Dec. 31, 2007
Financing activities:			
Proceeds from/Repayments of long-term borrowings		588	(315)
Dividend to shareholders of adidas AG	21	(99)	(85)
Dividend to minority shareholders		(0)	(1)
Exercised share options		0	0
Repurchase of adidas AG shares		(409)	—
Cash repayments of short-term borrowings		(186)	(109)
Net cash used in financing activities		**(106)**	**(510)**
Effect of exchange rates on cash		2	(1)
Decrease in cash and cash equivalents		(51)	(16)
Cash and cash equivalents at beginning of year	5	295	311
Cash and cash equivalents at year-end	5	**244**	**295**

Rounding differences may arise in percentages and totals.
The accompanying Notes are an integral part of these consolidated financial statements.

Consolidated statement of recognised income and expense

€ in millions

	Note	Year ending Dec. 31, 2008	Year ending Dec. 31, 2007
Net gain/(loss) on cash flow hedges, net of tax	23	149	(38)
Actuarial gain of defined benefit plans, net of tax	18	2	10
Currency translation		78	(237)
Net income recognised directly in equity		**229**	**(265)**
Net income after taxes		644	555
Total income and expense recognised in the financial statements		**873**	**290**
Attributable to shareholders of adidas AG		871	286
Attributable to minority interests		2	4

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 brands into three segments: adidas, Reebok and TaylorMade-adidas Golf.

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.

1 General

The accompanying consolidated financial statements of adidas AG and its subsidiaries (collectively the "adidas Group" or the "Group") as at December 31, 2008, 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, 2008 are:
— IAS 39/IFRS 7 Amendments – Reclassification of Financial Instruments (effective date: July 1, 2008): These amendments had no impact on the Group's financial statements.
— IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective date: March 1, 2007): This interpretation had no impact on the Group's financial statements.
— IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective date: January 1, 2008): 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, 2008, and have not been applied in preparing these consolidated financial statements are:
— IAS 1 Presentation of Financial Statements – Revised (effective date: January 1, 2009): This amendment is not expected to have any material impact on the Group's financial statements.
— IAS 23 Borrowing Costs – Revised (effective date: January 1, 2009): This amendment is not expected to have any material impact on the Group's financial statements.
— IAS 32/IAS 1 Amendments – Puttable Financial Instruments and Obligations Arising on Liquidation (effective date: January 1, 2009): These amendments are not expected to have any material impact on the Group's financial statements.
— IFRS 1/IAS 27 Amendments – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective date: January 1, 2009): These amendments are not expected to have any material impact on the Group's financial statements.
— IFRS 2 Amendment – Share-based Payment – Vesting Conditions and Cancellations (effective date: January 1, 2009): This amendment is not expected to have any impact on the Group's financial statements.
— IFRS 8 Operating Segments (effective date: January 1, 2009): This new standard is not expected to have any impact on the Group's financial statements.
— IFRIC 13 Customer Loyalty Programmes (effective date: July, 2008): This interpretation is not expected to have any material impact on the Group's financial statements.
— Improvements to IFRSs (2007) (effective date: January 1, 2009): These improvements are not expected to have any material 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, 2008 and 2007, respectively:

Number of consolidated companies

	2008	2007
January 1	171	168
Newly founded/consolidated companies	10	6
Divestments/exclusion from consolidation	(3)	(1)
Merged companies	(2)	(2)
Purchased companies	14	—
December 31	190	171

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 in the electronic platform of the German Federal Gazette.

The first-time consolidation of purchased companies had a material impact in 2008 see Note 4.

Within the scope of the first-time consolidation, all acquired assets and liabilities are recognised in the balance sheet at fair value. A debit difference between the acquisition cost 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 recognised 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 unrealised 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	
	2008	2007	2008	2007
USD	1.4702	1.3709	1.3917	1.4721
GBP	0.7956	0.6845	0.9525	0.7334
JPY	152.39	161.19	126.14	164.93

Derivative financial instruments

The Group uses derivative financial instruments, such as 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 recognised in the balance sheet at fair value, and subsequently also measured at their fair value. The method of recognising 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 recognised 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 effective, as defined in IAS 39, are recognised in equity. When the effectiveness is not 100%, the ineffective portion of the fair value is recognised 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 recognised 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 recognised 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 recognised 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 firm commitments and 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 recognised 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 realisable 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 labour and the components of the manufacturing overheads which can reasonably be attributed. The net realisable 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 utilising the "straight-line method", except where the "declining-balance method" is more appropriate in light of the actual utilisation 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 repairs and maintenance are expensed as incurred. Renewals and improvements are capitalised 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 recognised 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 recognised in goodwill is not reversible. With respect to other assets, an impairment loss recognised 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 amortisation) if no impairment loss had been recognised.

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 recognised 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 recognised on a straight-line basis over the term of the lease.

Identifiable intangible assets

Acquired intangible assets are valued at cost less accumulated amortisation (except for assets with indefinite useful lives) and impairment losses. Amortisation 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 2008, 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 in discounting the royalty savings after tax and adding a tax amortisation benefit, resulting from the amortisation 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 1.7% (2007: 2.5%). 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 an after-tax rate and reflects the specific equity and country risk. The applied discount rate is 8.3% (2007: 7.5%).

If expenditures for internally generated intangible assets qualify for recognition, these are not expensed as incurred.

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 amortisation 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 major 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
January 1, 2008	**748**	**406**	**282**	**1,436**
Additions	18	—	—	18
Currency effects	24	19	2	45
December 31, 2008	**790**	**425**	**284**	**1,499**

In 2008, 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 value in use. This calculation uses cash flow projections based on the financial planning covering a five-year period in total in the case of the cash-generating unit Reebok and a four-year period in total in the case of the cash-generating units adidas and TaylorMade-adidas Golf. Cash flows beyond this period are extrapolated using steady growth rates of 1.7% (2007: 2.0% to 2.5%). 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 8.2% and 8.8% (2007: between 7.5% and 8.4%).

The recoverable amount of the cash-generating unit Reebok exceeds its carrying amount by € 108 million. This cash-generating unit is sensitive to the following areas: a net sales decrease of 5% over the five-year financial planning period or an increase of the discount rate by 0.3 percentage points (by applying a discount rate of 8.4%) would lead to an impairment.

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 € 81 million and € 84 million on product research and development for the years ending December 31, 2008 and 2007, respectively.

Financial assets

All purchases and sales of financial assets are recognised 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. Realised and unrealised 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 unrealised gains and losses are recognised in equity unless they are impaired.

Borrowings and other liabilities

Borrowings and other liabilities are recognised at fair value using the "effective interest method", net of transaction costs incurred. In subsequent periods, long-term borrowings are stated at amortised cost using the "effective interest method". Any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the term of the borrowing.

The fair value of the liability component of the Group's convertible bond was determined using a market interest rate for a comparable straight bond at time of issuance. This amount is presented as part of long-term borrowings on an amortised 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 recognised where a present obligation (legal or constructive) to third parties has been incurred which is likely to lead to an outflow of resources, and 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 recognised 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 recognises 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 recognised income and expense.

Recognition of revenues

Sales are recognised 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 recognised 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 finalised, and upon completion are expensed in full. Significant TV media buying costs are expensed over the original duration of the broadcast.

Promotional expenses that involve payments, including one-time up-front payments for promotional contracts, are expensed systematically over the term of the agreement.

Interest

Interest is recognised as income or expense as incurred (using the "effective interest method") and is not capitalised.

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 recognise 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 recognised to the extent that it is probable that the company concerned will generate sufficient taxable income to realise the associated benefit.

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised 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 33. 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, derivatives see Note 23 as well as deferred taxes see Note 28.

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 as of December 31, 2007 following a Memorandum of Understanding signed by the Group's Management on December 21, 2006. At December 31, 2007, the respective disposal groups contained assets of € 60 million less liabilities of € 4 million. In the meantime, assets of adidas AG and assets of Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG as well as part of the assets of GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG have been transferred to property, plant and equipment due to a change in conditions. For the years ending December 31, 2008 and 2007, depreciation in the amount of € 1 million and € 2 million, respectively, has been reflected for the assets transferred to property, plant and equipment. The remaining part of GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG continues to be presented as held-for-sale due to a Memorandum of Understanding of a new investor. At December 31, 2008, these assets classified as held-for-sale amounted to € 12 million. Contract finalisation is expected in 2009.

Furthermore, the previous adidas and Reebok warehouses in the UK have been classified as assets held-for-sale due to the proposed move of storage and distribution facilities to a new shared warehouse (December 31, 2008: € 5 million; December 31, 2007: € 10 million). In 2008, impairment losses in the amount of € 2 million were recognised in other operating expenses. Furthermore, the assets lost in value due to the devaluation of the British pound. The selling process commenced in April 2007 and contract finalisation is expected in 2009.

In addition, a Rockport warehouse in the USA is classified as held-for-sale as a result of the intention to sell and the existence of a purchase offer (€ 4 million). Contract finalisation is expected in 2009.

Due to the intention to sell and several existing letters of intent, Gekko Brands, LLC, which was acquired within the scope of the acquisition of Ashworth, Inc., is classified as a disposal group held-for-sale. The selling process commenced in December 2008, and contract finalisation is expected in 2009. At December 31, 2008, this disposal group contains assets of € 10 million less liabilities of € 6 million.

In connection with the planned divesture of the Maxfli golf ball brand, the carrying amount of this trademark was also classified as an asset held-for-sale (€ 7 million) at December 31, 2007. The selling negotiations commenced in September 2007, and the contract was executed in February 2008.

Assets classified as held-for-sale

€ in millions

	Dec. 31, 2008	Dec. 31, 2007
Accounts receivable and other current assets	14	33
Inventories	4	—
Property, plant and equipment, net	10	40
Trademarks and other intangible assets, net	3	7
Total	**31**	**80**

Liabilities classified as held-for-sale

€ in millions

	Dec. 31, 2008	Dec. 31, 2007
Accounts payable and other current liabilities	2	2
Accrued liabilities and provisions	1	2
Deferred tax liabilities	3	—
Total	**6**	**4**

4 Acquisition/disposal of subsidiaries as well as assets and liabilities

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 acquisition had the following effect on the Group's assets and liabilities:

Saxon Athletic Manufacturing, Inc.'s net assets at the acquisition date

€ in millions

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Accounts receivable	1	—	1
Inventories	1	—	1
Borrowings	(1)	—	(1)
Other current liabilities	(1)	—	(1)
Net assets	**0**	**—**	**0**
Goodwill arising on acquisition			2
Purchase price settled in cash			**2**
Cash and cash equivalents acquired			—
Cash outflow on acquisition			**2**

Pre-acquisition carrying amounts were based on applicable IFRS standards.

The acquired subsidiary contributed € 0 million to the Group's net income for the period from February to December 2008.

Effective January 10, 2008, adidas AG acquired an additional 22.5% of the shares of its subsidiary for the adidas brand in Greece, adidas Hellas A.E., Thessaloniki (Greece), for a purchase price in the amount of € 6 million, thus taking its controlling stake to over 95%.

Effective April 1, 2008, adidas International B.V. acquired 99.99% of the shares of Reebok Productos Esportivos Brasil Ltda. (formerly Comercial Vulcabras Ltda.) for a purchase price in the amount of BRL 6 million. Based in Jundiai (Brazil), Reebok Productos Esportivos Brasil Ltda. (formerly Comercial Vulcabras Ltda.) is a marketing company for Reebok products in Brazil.

The acquisition had the following effect on the Group's assets and liabilities:

Reebok Productos Esportivos Brasil Ltda.'s net assets at the acquisition date

€ in millions

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Inventories	2	—	2
Other current assets	0	—	0
Net assets	**2**	**—**	**2**
Goodwill arising on acquisition			—
Purchase price settled in cash			**2**
Cash and cash equivalents acquired			—
Cash outflow on acquisition			**2**

Pre-acquisition carrying amounts were based on applicable IFRS standards.

If this acquisition had occurred on January 1, 2008, total Group net sales would have been € 10.8 billion and net income would have been € 641 million for the year ending December 31, 2008.

The acquired subsidiary contributed € 6 million to the Group's net income for the period from April to December 2008.

Effective September 5, 2008, adidas International, Inc. acquired 100% of the shares of Textronics, Inc. for a purchase price in the amount of US $ 35 million. Based in Wilmington/Delaware (USA), Textronics, Inc. is a specialist in the development of wearable sensors for use in fitness and health monitoring.

The acquisition had the following effect on the Group's assets and liabilities (based on a preliminary purchase price allocation):

Textronics, Inc.'s net assets at the acquisition date

€ in millions

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Cash and cash equivalents	0	—	0
Inventories	0	—	0
Other current assets	0	—	0
Property, plant and equipment, net	0	—	0
Trademarks and other intangible assets, net	—	9	9
Deferred tax assets	—	3	3
Accounts payable	(0)	—	(0)
Other current liabilities	(0)	—	(0)
Deferred tax liabilities	—	(3)	(3)
Net assets	**0**	**9**	**9**
Goodwill arising on acquisition			16
Purchase price settled in cash			**25**
Cash and cash equivalents acquired			0
Cash outflow on acquisition			**25**

Pre-acquisition carrying amounts were based on applicable IFRS standards.

The following valuation methods for the acquired assets were applied:

— Trademarks and other intangible assets: The "relief-from-royalty" method was applied for trademarks/trade names. The fair value was determined by discounting the royalty savings after tax and adding a tax amortisation benefit, resulting from the amortisation of the acquired asset. For the valuation of core technology, 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 amortisation benefit. The "income approach" was applied for covenants not-to-compete by comparing the estimated prospective cash flows with and without the agreements in place. The value of the covenants not-to-compete is the difference between these discounted cash flows being discounted to present value at the 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 recognised as goodwill. Any acquired asset that did not meet the identification and recognition criteria for an asset was included in the amount recognised as goodwill.

The goodwill arising on this acquisition was allocated to the cash-generating unit adidas and is managed in the local functional currency.

If this acquisition had occurred on January 1, 2008, total Group net sales would have been € 10.8 billion and net income would have been € 640 million for the year ending December 31, 2008.

The acquired subsidiary contributed net losses of € 1 million to the Group's net income for the period from September to December 2008.

Effective November 20, 2008, as a result of a takeover bid, Taylor Made Golf Co., Inc. acquired 100% of the shares of Ashworth, Inc., including all direct and indirect holdings for a purchase price of US $ 30 million. Based in Carlsbad/California (USA), Ashworth is a well-established golf lifestyle apparel brand.

The acquisition had the following effect on the Group's assets and liabilities (based on a preliminary purchase price allocation):

Ashworth, Inc.'s net assets at the acquisition date

€ in millions

	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on acquisition
Cash and cash equivalents	2	—	2
Accounts receivable	20	—	20
Inventories	27	3	30
Other current assets	2	—	2
Property, plant and equipment, net	21	2	23
Trademarks and other intangible assets, net	3	34	37
Deferred tax assets	1	4	5
Borrowings	(37)	—	(37)
Accounts payable	(15)	—	(15)
Income taxes	(0)	—	(0)
Accrued liabilities and provisions	(6)	(1)	(7)
Other current liabilities	(2)	—	(2)
Deferred tax liabilities	0	(14)	(14)
Net assets	**16**	**28**	**44**
Negative goodwill arising on acquisition (recognised in the income statement)			21
Purchase price settled in cash			**23**
Cash and cash equivalents acquired			2
Cash outflow on acquisition			**21**

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. Realised 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 "indirect cost method" of the cost approach was applied for the valuation of property, plant and equipment. The comparison method of the market approach was exclusively applied to the valuation of embroidery machines. In the "indirect cost method" of the cost approach, the cost of reproduction new for each asset or group of assets was determined by indexing the original capitalised cost. If necessary, allowances have been taken into account for physical depreciation, functional and economic obsolescence. The "comparison method" of the market approach was applied by estimating prices of comparable embroidery machines in terms of age, make and model. Indirect cost estimates such as freight, installation and set-up were also included in the valuation.

— Trademarks and other intangible assets: The "relief-from-royalty method" was applied for trademarks/trade names. The fair value was determined by discounting the royalty savings after tax and adding a tax amortisation benefit, resulting from the amortisation of the acquired asset. For the valuation of customer relationships, 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 amortisation benefit. The "cost approach" was applied for apparel designs. These were valued as the cost to recreate the current design plus the opportunity cost measured as the cash flow impact between having pre-existing designs versus having to recreate the designs plus amortisation tax benefit. The "discounted cash flow method" was applied for covenants not-to-compete by comparing the estimated prospective cash flows with and without the subject agreements in place. The value of the covenants not-to-compete is the difference between these discounted cash flows being discounted to present value at the appropriate discount rate. For the valuation of backlogs, the "income approach" was used. The corresponding cash flows were based on the estimated exhaustion of the backlog, and discounted with an appropriate discount rate. Charges for the use of contributory assets and an amortisation tax benefit were also included in the calculation.

The negative goodwill resulted from the excess of net assets (fair values assigned to all assets acquired less liabilities assumed) versus the acquisition cost paid, due to a massive decrease in the share price of the company acquired, also taking the respective deferred taxes into consideration.

If this acquisition had occurred on January 1, 2008, total Group net sales would have been € 10.9 billion and net income would have been € 611 million for the year ending December 31, 2008.

Mainly due to restructuring costs and other one-time expenses, the acquired subsidiary contributed losses of € 13 million to the Group's total operating result since the inclusion in the consolidated financial statements. Contribution to net income cannot be disclosed due to the integration of financing and tax activities.

On November 9, 2007, the Group acquired the assets and liabilities of Mitchell & Ness, Inc., based in Philadelphia/Pennsylvania (USA), 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 a purchase price allocation.

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 recognised 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, 2008	Dec. 31, 2007
Accounts receivable, gross	1,743	1,570
Less: allowance for doubtful accounts	119	111
Accounts receivable, net	**1,624**	**1,459**

Movement in allowances for doubtful accounts

€ in millions

	2008	2007
Allowances at January 1	**111**	**112**
Additions	49	78
Additions – Ashworth, Inc. acquisition	4	—
Reversals	(22)	(64)
Write-offs charged against the allowance accounts	(21)	(10)
Currency translation differences	(2)	(4)
Other changes	0	(1)
Allowances at December 31	**119**	**111**

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, 2008	**163**	**77**	**20**	**10**	**10**
Dec. 31, 2007	166	64	15	12	6

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 recognisable for accounts receivable that are neither past due nor impaired.

8 Inventories

Inventories by major classification are as follows:

Inventories

€ in millions

	Dec. 31, 2008			Dec. 31, 2007		
	Gross value	Allowance for obsolescence	Net value	Gross value	Allowance for obsolescence	Net value
Finished goods and merchandise on hand	1,463	82	1,381	1,187	75	1,112
Goods in transit	566	—	566	468	—	468
Raw materials	40	2	38	40	3	37
Work in progress	10	—	10	12	—	12
Inventories	**2,079**	**84**	**1,995**	**1,707**	**78**	**1,629**

Goods in transit mainly relate to shipments from suppliers in Asia to subsidiaries in Europe, Asia and the Americas. The allowance for obsolescence mainly relates to gross inventories on hand which amounted to € 491 million and € 431 million as at December 31, 2008 and 2007, respectively see also Note 2.

9 Other current assets

Other current assets consist of the following:

Other current assets

€ in millions

	Dec. 31, 2008	Dec. 31, 2007
Prepaid expenses	292	274
Tax receivables other than income taxes	82	68
Financial assets		
Interest rate derivatives	1	—
Currency options	22	23
Forward contracts	156	11
Security deposits	66	38
Other financial assets	43	50
Sundry	129	67
Other current assets, gross	**791**	**531**
Less: allowance	2	2
Other current assets, net	**789**	**529**

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, 2008	Dec. 31, 2007
Land and buildings	489	430
Technical equipment and machinery	140	115
Other equipment, furniture and fittings	847	629
	1,476	**1,174**
Less: accumulated depreciation	656	514
	820	**660**
Construction in progress, net	66	42
Property, plant and equipment, net	**886**	**702**

Depreciation expenses were € 165 million and € 145 million for the years ending December 31, 2008 and 2007, respectively see also Note 25. Impairment losses which are included within depreciation and amortisation (shown in other operating expenses see also Note 25) were € 6 million and € 3 million for the years ending December 31, 2008 and 2007, 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 2008, assets amounting to € 41 million and € 3 million in connection with the unrealised sale of disposal groups see Note 3 were transferred from "assets classified as held-for-sale" to "land and buildings" and "other equipment, furniture and fittings" within property, plant and equipment respectively.

The reclassified depreciation expenses consist of depreciation subsequently reflected see also Note 3 and the formerly reclassified depreciation which has now been taken back.

Contractual commitments for the acquisition of property, plant and equipment mainly relate to building projects in Herzogenaurach amounting to € 32 million.

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 and TaylorMade businesses as well as recent and previous acquisitions of subsidiaries in the United States, Australia/New Zealand, Netherlands/Belgium and Italy.

Goodwill

€ in millions

	Dec. 31, 2008	Dec. 31, 2007
Goodwill, gross	1,499	1,436
Less: impairment	—	—
Goodwill, net	**1,499**	**1,436**

The majority of goodwill which primarily relates to the acquisition of the Reebok business in 2006 is denominated in US dollars. A positive currency translation effect of € 45 million and negative € 80 million was recorded for the years ending December 31, 2008 and 2007, respectively.

From January 1, 2005, goodwill is tested annually for impairment. There was no impairment expense for the years ending December 31, 2008 and 2007. The Group determines whether goodwill impairment is necessary at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use 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, 2008	Dec. 31, 2007
Trademarks, gross	1,390	1,291
Less: accumulated amortisation	0	—
Trademarks, net	**1,390**	**1,291**
Software, patents and concessions, gross	517	441
Less: accumulated amortisation	313	247
Other intangible assets, net	**204**	**194**
Trademarks and other intangible assets, net	**1,594**	**1,485**

Intangible asset amortisation expenses were € 61 million and € 64 million for the years ending December 31, 2008 and 2007, respectively see also Note 25.

At December 31, 2008, trademarks related to the Reebok acquisition as well as the Ashworth acquisition with indefinite useful lives amounted to € 1,359 million (December 31, 2007: € 1,285 million) and € 21 million. 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 units Reebok as well as TaylorMade-adidas Golf.

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 trademarks. 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, 2008 and 2007.

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 existing contractual settlements were used in order to reasonably estimate the fair value as at December 31, 2008. 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 € 0 million and € 4 million for the years ending December 31, 2008 and 2007, respectively. In the prior year, these are related to impairments of other financial assets to cover anticipated risks of default see also Note 27.

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, 2008	Dec. 31, 2007
Prepaid expenses	108	105
Financial assets		
Interest rate derivatives	8	4
Currency options	19	3
Forward contracts	7	—
Security deposits	23	22
Other financial assets	2	1
Sundry	13	12
Other non-current assets	**180**	**147**

Prepaid expenses mainly include prepayments for long-term promotional contracts and service contracts see also Note 32 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 bearer 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 put at par 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, bondholders 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 increased by € 427 million in 2008 compared to a decrease of € 432 million in 2007.

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, 2008 are denominated in euros (2008: 57%; 2007: 51%) and US dollars (2008: 39%; 2007: 45%).

Month-end weighted average interest rates on borrowings in all currencies ranged from 4.8% to 5.4% in 2008 and from 5.2% to 5.6% in 2007.

As at December 31, 2008, the Group had cash credit lines and other long-term financing arrangements totalling € 6.5 billion (2007: € 6.3 billion); thereof unused credit lines accounted for € 3.9 billion (2007: € 4.1 billion). In addition, the Group had separate lines for the issuance of letters of credit in an amount of approximately € 0.3 billion (2007: € 0.2 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, 2008, and December 31, 2007, actual shareholders' equity was well above the amount of the minimum equity covenant. Likewise, the relevant amount of net income clearly exceeded net loss covenants.

The amounts disclosed as borrowings represent outstanding borrowings under the following arrangements with aggregated expiration dates as follows:

Gross borrowings as at December 31, 2008

€ 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	—	—	748	—	748
Private placements	404	462	332	234	1,432
Convertible bond	393	—	—	—	393
Total	**797**	**462**	**1,080**	**234**	**2,573**

In accordance with the long-term funding strategy, the bank borrowings and commercial paper with short-term maturities are also classified as long-term borrowings as they represent permanent funding volumes that are covered by the committed long-term syndicated loan.

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**

The private placements with a maturity of up to one year are shown as short-term borrowings in the balance sheet as at December 31, 2008. The practice of shifting short-term private placements to long-term borrowings due to syndicated loan refinancing ceased in 2008. The prior year end amount has been reclassified in order to ensure comparability.

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, 2008	Currency translation differences	Usage	Reversals	Changes in companies consolidated	Additions	Transfers	Dec. 31, 2008	Thereof non-current
Marketing	40	2	20	—	—	32	—	54	—
Employee benefits	48	1	27	1	1	20	—	42	13
Returns, allowances, warranty	126	6	89	7	—	78	—	114	1
Taxes, other than income taxes	9	—	4	—	—	7	1	13	—
Other provisions	131	—	45	6	6	38	(1)	123	14
Total provisions	**354**	**9**	**185**	**14**	**7**	**175**	**—**	**346**	**28**
Goods and services not yet invoiced	320	12	236	8	—	239	—	327	—
Marketing	147	(3)	90	3	—	104	—	155	4
Payroll and commissions	168	—	100	5	—	94	—	157	23
Other accruals	109	2	44	1	—	22	—	88	10
Total accrued liabilities	**744**	**11**	**470**	**17**	**—**	**459**	**—**	**727**	**37**
Total accrued liabilities and provisions	**1,098**	**20**	**655**	**31**	**7**	**634**	**—**	**1,073**	**65**

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 € 2 million (December 31, 2007: € 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, 2008	Dec. 31, 2007
Liabilities due to personnel	30	29
Tax liabilities other than income taxes	80	55
Liabilities due to social security	10	8
Deferred income	18	14
Financial liabilities		
Interest rate derivatives	—	—
Currency options	15	26
Forward contracts	42	63
Other financial liabilities	22	14
Sundry	78	57
Other current liabilities	**295**	**266**

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 recognised post-employment benefit obligations arising from defined benefit 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, 2008	Dec. 31, 2007
Net liability	119	111
thereof defined benefit liability	124	115
thereof defined benefit asset	(5)	(4)
thereof adidas AG:		
Defined benefit liability	102	99
Defined benefit asset	(5)	(4)
Similar obligations	8	9
Pensions and similar obligations	**127**	**120**
thereof defined benefit liability	**132**	**124**
thereof defined benefit asset	**(5)**	**(4)**

Defined contribution plans

The total expense for defined contribution plans amounted to € 33 million in 2008 (2007: € 39 million).

Defined benefit plans

Given the diverse Group structure, different defined benefit plans exist, comprising a variety of post-employment benefit arrangements. The benefit plans generally provide payments in case of death, disability or retirement to former employees and their survivors. The liabilities arising from defined benefit plans are partly covered by plan assets.

Actuarial assumptions

in %

	Dec. 31, 2008	Dec. 31, 2007
Discount rate	5.9	5.6
Salary increases	4.3	3.5
Pension increases	2.0	1.8
Expected return on plan assets	5.0	5.7

The actuarial assumptions as at the balance sheet date are used to determine the defined benefit liability at that date and the pension expense for the upcoming financial year.

The actuarial assumptions for employee turnover and mortality are based on empirical data, the latter for Germany on the Heubeck 2005 G mortality tables.

Since January 1, 2005, due to application of the amendment to IAS 19 "Employee Benefits" issued in December 2004, the Group recognises actuarial gains or losses arising in defined benefit plans during the financial year immediately outside the income statement in the statement of recognised income and expense (SoRIE). The actuarial gain recognised in this statement for 2008 amounts to € 3 million (2007: € 18 million). The cumulative recognised actuarial losses amounted to € 9 million (2007: € 12 million) see also Note 21.

The expected return on plan assets assumption is set separately for the various benefit plans. The return on plan assets for the funded benefit plan in Germany is based on the overall surplus sharing of the insurance company.

Pension expenses for defined benefit plans

€ in millions

	Year ending Dec. 31, 2008	Year ending Dec. 31, 2007
Current service cost	12	12
Interest cost	9	7
Expected return on plan assets	(4)	(4)
Pension expenses	**17**	**15**

Of the total pension expenses, an amount of € 12 million (2007: € 12 million) relates to employees in Germany. The pension expense is recorded within the operating expenses whereas the production-related part thereof is recognised within the cost of sales.

Defined benefit obligation

€ in millions

	2008	2007
Defined benefit obligation as at January 1	**171**	**170**
Currency translation differences	(4)	2
Current service cost	12	12
Interest cost	9	7
Contribution by plan participants	1	—
Pensions paid	(6)	(6)
Actuarial gain	(11)	(14)
Defined benefit obligation as at December 31	**172**	**171**

Status of funded and unfunded obligations

€ in millions

	Dec. 31, 2008	Dec. 31, 2007
Present value of unfunded obligation	120	114
Present value of funded obligation	52	57
Present value of total obligations	**172**	**171**
Fair value of plan assets	(53)	(60)
Recognised net liability for defined benefit obligations	**119**	**111**
thereof defined benefit liability	**124**	**115**
thereof defined benefit asset	**(5)**	**(4)**

The calculations of assets and liabilities recognised 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 interest rates, 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 recognised in the balance sheet in future periods.

Movement in plan assets

€ in millions

	2008	2007
Fair value of plan assets at January 1	**60**	**46**
Currency translation differences	(5)	(3)
Pensions paid	(2)	(1)
Contributions by the employer	3	10
Contributions by plan participants	1	—
Actuarial (loss)/gain	(8)	4
Expected return on plan assets	4	4
Fair value of plan assets at December 31	**53**	**60**

In 2009, the expected payments consisting of benefits paid immediately by the company and contributions paid by the company into plan assets amount to € 8 million. In 2008, the actual return on plan assets is negative € 4 million (2007: € 7 million).

Constitution of plan assets

€ in millions

	Dec. 31, 2008	Dec. 31, 2007
Equity instruments	15	28
Bonds	11	5
Real estate	1	—
Pension plan reinsurance	16	16
Other assets	10	11
Fair value of plan assets	**53**	**60**

Historical development

€ in millions

	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Present value of defined benefit obligation	172	171	170	131	118
Fair value of plan assets	53	60	46	—	—
Thereof: defined benefit assets	(5)	(4)	(2)	—	—
Deficit in plan	**124**	**115**	**126**	**131**	**118**
Experience adjustments	2	(1)	4	1	—
Difference between expected and actual return on plan assets	(8)	4	—	—	—

19 Other non-current liabilities

Other non-current liabilities consist of the following:

Other non-current liabilities

€ in millions

	Dec. 31, 2008	Dec. 31, 2007
Finance lease obligations	2	3
Liabilities due to personnel	10	6
Deferred income	17	14
Financial liabilities		
Interest rate derivatives	9	10
Currency options	13	16
Forward contracts	1	16
Other financial liabilities	—	1
Sundry	—	3
Other non-current liabilities	**52**	**69**

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 € 17 million at December 31, 2008 (2007: € 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 six subsidiaries as at December 31, 2008 and three subsidiaries as at December 31, 2007 see Shareholdings/Attachment II to these Notes.

These subsidiaries were partly acquired in connection with the acquisition of the Reebok business and partly through purchases in 2008.

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 result for these minorities is reported within financial expenses.

21 Shareholders' equity

On December 31, 2007, the nominal capital of adidas AG amounted to € 203,628,960 and was divided into 203,628,960 no-par-value bearer shares ("shares") and was fully paid in.

On January 15, 2008, the stock capital increased to a total of € 203,644,960 divided into 203,644,960 shares, as a result of the exercise of a total of 4,000 stock options in November 2007 and the issuance of 16,000 shares associated with the Management Share Option Plan (MSOP) of adidas AG.

On July 2, 2008, 5,511,023 treasury shares were cancelled. These shares had been repurchased based on the authorisation to repurchase adidas AG shares granted to the Executive Board by the Annual General Meeting held on May 10, 2007. Hence, the stock capital was reduced by € 5,511,023 from € 203,644,960 to € 198,133,937, divided into 198,133,937 shares. Consequently, retained earnings decreased by € 224,437,927.18.

On July 4, 2008, the stock capital increased to a total of € 198,178,337 divided into 198,178,337 shares, as a result of the exercise of a total of 11,100 stock options in May 2008 and the issuance of 44,400 shares associated with the Company's Management Share Option Plan (MSOP). On October 6, 2008, the stock capital again increased as a result of the exercise of a total of 2,100 stock options in August 2008 and the issuance of 8,400 shares associated with the Company's Management Share Option Plan (MSOP).

On December 15, 2008, 4,671,225 treasury shares were cancelled. These shares had been repurchased based on the authorisation to repurchase adidas AG shares granted to the Executive Board by the Annual General Meeting held on May 8, 2008. Hence, the stock capital was reduced by € 4,671,225 from €198,186,737 to € 193,515,512, divided into 193,515,512 shares. Consequently, retained earnings decreased by € 174,766,717.89.

At the balance sheet date, the stock capital of adidas AG amounted to a total of € 193,515,512 and was divided into 193,515,512 shares. The stock capital is fully paid in.

Except for the cancellation of shares on July 2, 2008, which had already been entered on August 12, 2008, the corresponding adjustment of the amount of stock capital resulting from the above transactions up to and including December 31, 2008 has been entered into the Commercial Register on February 11, 2009.

There were no other changes in stock capital since the balance sheet date. On February 16, 2009, the stock capital of adidas AG therefore amounted to € 193,515,512 and was divided into 193,515,512 shares.

Each share grants one vote and, starting from the beginning of the year it was issued, is also entitled to a dividend. Treasury shares held directly or indirectly are not entitled to dividend payment in accordance with § 71 b German Stock Corporation Act (Aktiengesetz – AktG). On February 16, 2009, adidas AG did not hold any treasury shares.

The number of shares in circulation is as follows:

Development of number of shares in circulation

	Change in number of shares +/(–)	Number of shares
Number of no-par-value shares issued as at Jan. 1, 2008		**203,628,960**
Capital increase and issuance of no-par-value shares on January 15, 2008 based on MSOP exercises in November 2007	+16,000	203,644,960
Capital reduction from cancellation of 5,511,023 treasury shares on July 2, 2008 based on the authorisation to repurchase adidas AG shares granted on May 10, 2007	(5,511,023)	198,133,937
Capital increase and issuance of no-par-value shares on July 4, 2008 based on MSOP exercises in May 2008	+44,400	198,178,337
Capital increase and issuance of no-par-value shares on October 6, 2008 based on MSOP exercises in August 2008	+8,400	198,186,737
Capital reduction from cancellation of 4,671,225 treasury shares on December 15, 2008 based on the authorisation to repurchase adidas AG shares granted on May 8, 2008	(4,671,225)	193,515,512
Number of no-par-value shares issued as at Dec. 31, 2008		**193,515,512**

Authorised Capital

The Executive Board of adidas AG did not make use of the existing amounts of Authorised Capital of up to € 96,062,500 corresponding to 96,062,500 shares in 2008 or in the period beyond the balance sheet date up to and including February 16, 2009.

As at the balance sheet date, the Authorised 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 stock 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 (Authorised Capital 2005/I);

and until May 15, 2011

— by issuing new shares against contributions in cash or in kind once or several times by no more than a maximum of € 12,000,000 and, subject to Supervisory Board approval, to exclude shareholders' subscription rights (Authorised Capital 2008);

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 (Authorised Capital 2006). The authorisation 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 stock capital together with the pro-rata amount in the stock 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 authorised 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 stock capital existing on the date of entry of this authorisation into the Commercial Register or – if this amount is lower – as at the respective date on which the authorisation is used.

Contingent Capital

The following description of the Contingent Capital is based on § 4 sections 5, 6 and 7 of the Articles of Association applicable 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 (MSOP) 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 17,200 stock options and the issuance of 68,800 shares within the exercise periods ending in January, July and October 2008 for 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 € 1,294,748 and was divided into 1,294,748 shares.

The corresponding adjustment of the nominal amount of Contingent Capital 1999/I, resulting from the above transactions up to and including December 31, 2008, was entered into the Commercial Register on February 11, 2009.

There has been no further decrease in Contingent Capital 1999/I in January 2009, as the stock options associated with the Management Share Option Plan (MSOP) of the Company could no longer be exercised after October 2008.

On February 16, 2009, the nominal value of Contingent Capital 1999/I amounted to € 1,294,748 and was divided into 1,294,748 shares.

Contingent Capital 2003/II

As at the balance sheet date, the stock 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). Shares from this contingent capital will be issued only to the extent that 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 authorised, 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 authorisation of the Executive Board by resolution of the Annual General Meeting dated May 8, 2003, in the version of the resolution of the Annual General Meeting 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.

In the financial year 2008, 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 and up to and including February 16, 2009.

Contingent Capital 2006

At the balance sheet date, the stock capital was conditionally increased by up to a further € 20,000,000 divided into no more than 20,000,000 shares (Contingent Capital 2006). The contingent capital increase will be implemented only to the extent that 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 authorisation of the Executive Board by the resolution of the Annual General Meeting 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 authorised, subject to Supervisory Board approval, to fully exclude 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 in accordance with § 186 section 3 sentence 4 in conjunction with § 221 section 4 sentence 2 AktG has been observed.

In the financial year 2008, the Executive Board of adidas AG did not issue any shares from the Contingent Capital 2006 in the period beyond the balance sheet date and up to and including February 16, 2009.

Repurchase of adidas AG shares

On January 30, 2008, the Executive Board initiated a share buyback programme which was based on the authorisation to repurchase adidas AG shares granted by the Annual General Meeting held on May 10, 2007, and which was continued on May 21, 2008 based on the authorisation to repurchase adidas AG shares granted to the Executive Board by the Annual General Meeting held on May 8, 2008, see also Disclosures pursuant to § 315 Section 4 of the German Commercial Code and Explanatory Report (Handelsgesetzbuch – HGB), p. 096.

Between January 30, 2008 and May 2, 2008, adidas AG repurchased 5,511,023 shares with an overall value of € 229,948,950.18 (excluding incidental purchasing costs) in accordance with the authorisation granted on May 10, 2007. This corresponds to 2.71% of the stock capital at the date of the Annual General Meeting held on May 10, 2007. The average purchase price amounted to € 41.73.

On May 21, 2008, the share buyback programme was continued on the basis of the authorisation to repurchase adidas AG shares granted to the Executive Board by the Annual General Meeting held on May 8, 2008. The overall number of treasury shares repurchased up to and including October 22, 2008 on the basis of this authorisation amounted to 4,671,225. This corresponds to 2.29% of the stock capital at the date of the Annual General Meeting held on May 8, 2008. The overall purchase price amounted to € 179,437,942.89 (excluding incidental purchasing costs) whereas the average purchase price amounted to € 38.41.

Between January 30 and October 22, 2008, adidas AG repurchased an overall amount of 10,182,248 shares at an average purchase price of € 40.21. This corresponds to 5% of the stock capital of adidas AG at the date of initiation of the programme. The total buyback volume amounted to € 409,386,893.07 (excluding incidental purchasing costs). On October 22, 2008, the share buyback programme was completed.

On July 2, 2008, 5,511,023 treasury shares repurchased between January 30, 2008 and May 2, 2008 on the basis of the authorisation granted on May 10, 2007, were cancelled, thus reducing the stock capital. Consequently, the stock capital of the Company was reduced by € 5,511,023 from € 203,644,960 to € 198,133,937.

Similarly, on December 15, 2008, 4,671,225 treasury shares repurchased between May 21, 2008 and October 22, 2008 on the basis of the authorisation granted on May 8, 2008, were cancelled, thus reducing the stock capital. Consequently, the stock capital of the Company was reduced by € 4,671,225 from € 198,186,737 to € 193,515,512.

Since all shares repurchased were cancelled, adidas AG did not hold any treasury shares on February 16, 2009.

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 convertible bonds 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. Meanwhile, the conversion price has been 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, however 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 to which the holders of the bonds have rights, due to security provided by Contingent Capital. There were 7,999 bonds outstanding at December 31, 2008 and February 16, 2009, respectively.

Changes in the percentage of voting rights

Pursuant to § 160 section 1 number 8 AktG, the contents of notifications which indicate that investments have exceeded or fallen below a certain threshold and which have been notified to the Company in accordance with the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) need to be disclosed.

The contents of these notifications reflecting investments exceeding or falling below one of the thresholds set out in the WpHG are as follows:

Invesco Ltd., London, United Kingdom, informed the Company on October 2, 2008 that:

1) on September 30, 2008, the voting interest of Invesco Ltd., Atlanta, Georgia, USA, in adidas AG fell below the threshold of 3% and amounted to 2.98% of the voting rights (5,894,813 shares) on this date. All of these voting rights are attributable to Invesco Ltd. in accordance with § 22 section 1 sentence 1 number 6 WpHG in conjunction with § 22 section 1 sentence 2 WpHG.

2) on September 30, 2008, the voting interest of IVZ Callco Inc., Toronto, Canada, in adidas AG fell below the threshold of 3% and amounted to 2.98% of the voting rights (5,894,813 shares) on this date. All of these voting rights are attributable to IVZ Callco Inc. in accordance with § 22 section 1 sentence 1 number 6 WpHG in conjunction with § 22 sentence 2 WpHG.

3) on September 30, 2008, the voting interest of AIM Canada Holdings Inc., Toronto, Canada, in adidas AG fell below the threshold of 3% and amounted to 2.98% of the voting rights (5,894,813 shares) on this date. All of these voting rights are attributable to AIM Canada Holdings Inc. in accordance with § 22 section 1 sentence 1 number 6 WpHG in conjunction with § 22 section 1 sentence 2 WpHG.

4) on September 30, 2008, the voting interest of Invesco Inc., Toronto, Canada, in adidas AG fell below the threshold of 3% and amounted to 2.98% of the voting rights (5,894,813 shares) on this date. All of these voting rights are attributable to Invesco Inc. in accordance with § 22 section 1 sentence 1 number 6 WpHG in conjunction with § 22 section 1 sentence 2 WpHG.

5) on September 30, 2008, the voting interest of Invesco Holdings Company Limited, London, UK, in adidas AG fell below the threshold of 3% and amounted to 2.98% of the voting rights (5,894,813 shares) on this date. All of these voting rights are attributable to Invesco Holdings Company Limited in accordance with § 22 section 1 sentence 1 number 6 WpHG in conjunction with § 22 section 1 sentence 2 WpHG.

6) on September 30, 2008, the voting interest of AIM Funds Management Inc., Toronto, Canada, in adidas AG fell below the threshold of 3% and amounted to 2.98% of the voting rights (5,894,813 shares) on this date. All of these voting rights are attributable to AIM Funds Management Inc. in accordance with § 22 section 1 sentence 1 number 6 WpHG.

Due to concerns of the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) regarding formal requirements, the aforementioned notifications have not been disclosed so far.

Fidelity International, Tadworth, Great Britain, informed the Company by letter on December 15, 2008 pursuant to § 21 section 1 sentence 1 WpHG that on December 12, 2008, the voting interest of FMR LLC, Boston, Massachusetts, USA, in adidas AG exceeded the threshold of 3% and amounted to 3.08% of the voting rights (6,108,384 shares) on this date. All of these voting rights are attributable to FMR LLC in accordance with § 22 section 1 sentence 1 number 6 WpHG in conjunction with § 22 section 1 sentence 2 WpHG.

The Capital Research and Management Company, Los Angeles, USA, informed the Company by letter on January 5, 2009, pursuant to § 21 section 1 sentence 1 WpHG, that on December 19, 2008, their voting interest in adidas AG exceeded the threshold of 5% and amounted to 5.01% of the voting rights (9,695,127 shares) on this date. All of these voting rights are attributable to the Capital Research and Management Company, in accordance with § 22 section 1 sentence 1 number 6 WpHG.

Euro Pacific Growth Fund, Los Angeles, USA informed the Company by letter on January 19, 2009 in accordance with § 21 section 1 WpHG that on January 13, 2009, their voting interest in adidas AG exceeded the threshold of 3% and amounted to 3.11% of the voting rights (6,021,253 shares) on this date.

The Bank of New York Mellon Corporation, New York, USA informed the Company by letter on February 3, 2009 in accordance with § 21 section 1 WpHG that on January 14, 2009, their voting interest in adidas AG exceeded the threshold of 3% and amounted to 3.05% of the voting rights (5,901,424 shares) on this date. All of these voting rights are attributable to the Bank of New York Mellon Corporation in accordance with § 22 section 1 sentence 1 number 6 WpHG in conjunction with § 22 section 1 sentence 2 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 a higher return on equity that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The primary Group's financial leverage target is below 50% net debt to equity.

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 reserves: comprise the cumulative net change of actuarial gains or losses of defined benefit plans, expenses recognised for share option plans as well as fair values of available-for-sale financial assets.

— Retained earnings: comprise the accumulated profits less dividends paid.

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 2007 was € 0.50 per share (total amount: € 99 million) approved by the 2008 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 2008 to be made from retained earnings of € 237 million reported as at December 31, 2008. The subsequent remaining amount will be carried forward.

193,515,512 dividend-entitled shares exist as at December 31, 2008, which would lead to a dividend payment of € 97 million.

Consolidated statement of changes in equity

€ in millions

	Note	Share capital	Capital reserve	Cumulative translation adjustments	Hedging reserve	Other reserves [1]	Retained earnings	Total shareholders' equity	Minority interests	Total equity
Balance at December 31, 2006		**204**	**737**	**(273)**	**(20)**	**(18)**	**2,199**	**2,828**	**8**	**2,836**
Net income recognised directly in equity				(237)	(38)	10		(265)	(0)	(265)
Net income							551	551	4	555
Total recognised income and expense for the period				**(237)**	**(38)**	**10**	**551**	**286**	**4**	**290**
Dividend payment	21						(85)	(85)	(1)	(86)
Exercised share options	33	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**
Net income recognised directly in equity				78	149	2		229	(0)	229
Net income							642	642	2	644
Total recognised income and expense for the period				**78**	**149**	**2**	**642**	**871**	**2**	**873**
Dividend payment	21						(99)	(99)	(0)	(99)
Exercised share options	33	0						0		0
Repurchase of treasury shares	21	(10)	(399)					(409)		(409)
Newly founded joint ventures								—	1	1
Reclassifications of minorities in accordance with IAS 32	20						(0)	(0)		(0)
Balance at December 31, 2008		**194**	**338**	**(432)**	**91**	**(6)**	**3,202**	**3,386**	**14**	**3,400**

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. The contracts regarding these leases with expiration dates of between one and sixteen years partly include renewal options and escalation clauses. Rent expenses, which partly depend on net sales, amounted to € 422 million and € 337 million for the years ending December 31, 2008 and 2007, respectively.

Future minimum lease payments for minimum lease durations are as follows:

Minimum lease payments for operating leases

€ in millions

	Dec. 31, 2008	Dec. 31, 2007
Within 1 year	213	212
Between 1 and 5 years	516	432
After 5 years	340	192
Total	**1,069**	**836**

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 € 5 million and € 6 million was included in property, plant and equipment as at December 31, 2008 and 2007, respectively. Interest expenses were € 2 million (2007: € 2 million) and depreciation expenses were € 1 million (2007: € 2 million) for the year ending December 31, 2008.

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, 2008	Dec. 31, 2007
Lease payments falling due:		
Within 1 year	2	2
Between 1 and 5 years	2	3
After 5 years	1	1
Total lease payments	**5**	**6**
Less: estimated amount representing interest	0	1
Obligation under finance leases	**5**	**5**
Thereof falling due:		
Within 1 year	2	2
Between 1 and 5 years	2	2
After 5 years	1	1

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, 2008	Dec. 31, 2007
Within 1 year	49	48
Between 1 and 5 years	48	62
After 5 years	—	—
Total	**97**	**110**

Carrying amounts of financial instruments as at December 31, 2008, according to categories of IAS 39 and their fair values

€ in millions

	Category according to IAS 39	Carrying amount Dec. 31, 2008	Amortised cost	Fair value recognised in equity	Fair value recognised in net income	Measurement according to IAS 17	Fair value Dec. 31, 2008
Assets							
Cash and cash equivalents	n.a.	244	244				244
Short-term financial assets	FAHfT	141			141		141
Accounts receivable	LaR	1,624	1,624				1,624
Other current assets							
Derivatives being part of a hedge	n.a.	147		146	1		147
Derivatives not being part of a hedge	FAHfT	32			32		32
Other financial assets	LaR	109	109				109
Long-term financial assets							
Available-for-sale financial assets	AfS	89		89			89
Loans	LaR	7	7				7
Other non-current assets							
Derivatives being part of a hedge	n.a.	24		16	8		24
Derivatives not being part of a hedge	FAHfT	10			10		10
Other financial assets	LaR	25	25				25
Assets classified as held for sale	LaR	2	2				2
Liabilities							
Short-term borrowings							
Private placements	FLAC	404	404				407
Convertible bond	FLAC	393	393				484
Accounts payable	FLAC	1,218	1,218				1,218
Accrued liabilities and provisions	FLAC	364	364				364
Other current liabilities							
Derivatives being part of a hedge	n.a.	36		36			36
Derivatives not being part of a hedge	FLHfT	21			21		21
Finance lease obligations	n.a.	2				2	2
Other financial liabilities	FLAC	22	22				22
Long-term borrowings							
Bank borrowings incl. commercial paper	FLAC	748	748				748
Private placements	FLAC	1,028	1,028				1,047
Convertible bond	FLAC	—	—				—
Other non-current liabilities							
Derivatives being part of a hedge	n.a.	9		7	2		9
Derivatives not being part of a hedge	FLHfT	14			14		14
Finance lease obligations	n.a.	3				3	3
Other financial liabilities	FLAC	—	—				—
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		183					
thereof: designated as such upon initial recognition (Fair Value Option – FVO)		—					
thereof: Held for Trading (FAHfT)		183					
Loans and Receivables (LaR)		1,767					
Available-for-Sale financial assets (AfS)		89					
Financial Liabilities measured at Amortised Cost (FLAC)		4,179					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		35					

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	Amortised cost	Fair value recognised in equity	Fair value recognised 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							
Short-term borrowings							
Private placements	FLAC	186	186				186
Convertible bond	FLAC	—	—				—
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	1,378	1,378				1,394
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 Amortised Cost (FLAC)		3,361					
Financial Liabilities at fair value through profit or loss Held for Trading (FLHfT)		27					

Due to the short-term maturities of cash and cash equivalents, short-term financial assets, accounts receivable and payable as well as other current receivables and payables, their respective 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, and adjusted by an adidas Group specific credit risk premium.

Fair values of 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 market conditions at the balance sheet date. The fair value of a currency option is determined using generally accepted models to calculate option prices, such as the "Garman-Kohlhagen-model". The fair market value of an option is influenced not only by the remaining term of the option, but also by other determining factors such as the actual foreign exchange rate and the volatility of the underlying foreign currency base.

Net gains or (losses) of financial instruments

recognised in the consolidated income statement, € in millions

	Year ending Dec. 31, 2008	Year ending Dec. 31, 2007
Financial assets or financial liabilities at fair value through profit or loss	(6)	(1)
thereof: designated as such upon initial recognition	—	—
thereof: classified as held for trading	(6)	(1)
Loans and receivables	(27)	(18)
Available-for-sale financial assets	—	—
Financial liabilities measured at amortised cost	11	6

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 amortised 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. 107.

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. At December 2008, the Group had contracted currency options with premiums paid totalling an amount of € 5 million (December 31, 2007: € 7 million). The effective part of the currency hedges is directly recognised 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 € 9 million (2007: negative € 10 million) for currency options and an amount of € 85 million (2007: negative € 51 million) for forward contracts were recorded in hedging reserves. A total amount of € 6 million impacted net income in 2008 (2007: € 12 million).

The total time value of the currency options not being part of a hedge in an amount of negative € 2 million (2007: negative € 9 million) was recorded in the income statement in 2008.

The total net amount of US dollar purchases versus other currencies was US$ 3.6 billion and US$ 3.0 billion in the years ending December 31, 2008 and 2007, respectively.

The notional amounts of all outstanding currency hedging instruments, which are mainly related to cash flow hedges, are summarised in the following table:

Notional amounts of all currency hedging instruments

€ in millions

	Dec. 31, 2008	Dec. 31, 2007
Forward contracts	2,904	2,317
Currency options	487	562
Total	**3,391**	**2,879**

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, 2008	Dec. 31, 2007
Forward contracts	1,732	1,885
Currency options	457	562
Total	**2,189**	**2,447**

The fair value of all outstanding currency hedging instruments is as follows:

Fair value

€ in millions

	Dec. 31, 2008		Dec. 31, 2007	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Forward contracts	163	(43)	11	(79)
Currency options	40	(24)	5	(23)
Total	**203**	**(67)**	**16**	**(102)**

A total net fair value of € 111 million (2007: negative € 61 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 fair value of € 9 million (2007: negative € 7 million) mainly related to liquidity swaps for cash management purposes and forward contracts hedging intercompany dividend receivables 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 2009. As at December 31, 2008, inventories were adjusted by negative € 7 million as at December 31, 2008, which will be recognised in the income statement in 2009.

In hedging reserves, an amount of negative € 3 million (2007: 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 quantitative financial models based on market conditions prevailing at the balance sheet date.

The fair values of the derivatives were determined applying the "zero method". The "zero method" is a theoretical model for the determination of forward rates based on deposit and swap interest rates. An alternative method is the "par method" which uses actively traded forward rates that reflect market inefficiencies. A comparison of the fair valuation based on the alternative methods revealed no substantive differences.

Financial instruments for the hedging of interest rate risk

In 2005 and 2006, the Group arranged long-term financing mainly at fixed rates to support the Reebok acquisition. As a result, the Group is well protected against rising interest rates. In 2008, an additional forward starting interest rate swap was entered into with a nominal amount of US$ 16 million.

Interest rate hedges which were outstanding as at December 31, 2008 and 2007, respectively expire as detailed below:

Expiration dates of interest rate hedges

€ in millions

	Dec. 31, 2008	Dec. 31, 2007
Within 1 year	23	—
Between 1 and 3 years	184	162
Between 3 and 5 years	105	150
After 5 years	83	68
Total	**395**	**380**

The above summary for 2008 includes the notional amount of two long-term US dollar interest rate swaps in an amount of € 83 million (2007: € 68 million resulting from one US dollar interest rate swap), one long-term and one short-term cross-currency interest rate swap for an amount of € 33 million (2007: € 33 million) and four long-term euro interest rate swaps for an amount of € 279 million (2007: € 279 million). Both cross-currency interest rate swaps and one long-term US dollar interest rate swap are classified as fair value hedges, while the four euro interest rate swaps are classified as cash flow hedges.

The additional forward starting US dollar interest rate swap with a notional amount of US$ 16 million was entered into in 2008 in anticipation of a lease that is expected to be finalised in the fourth quarter of 2009. This swap is not part of a hedge relationship. The negative fair value at December 31, 2008 of € 2 million was recorded in the income statement.

The existing interest rate swaps and cross-currency interest rate swaps had a total negative fair value of € 7 million (2007: negative € 10 million) and a total positive fair value of € 8 million (2007: € 4 million) as at December 31, 2008.

Fair value risks from financing with private placements in US dollars, Japanese yen and Australian dollars are hedged with cross-currency interest rate swaps in Japanese yen and Australian dollars and one US dollar interest rate swap amounting to a total notional equivalent of € 105 million (2007: € 101 million). The aim of cross-currency swap hedges in Australian dollars and Japanese yen was to turn the financing into euro while retaining the financing method. The intent of the US dollar interest rate swap was to obtain variable financing. The total positive € 7 million fair value (2007: negative € 7 million), which was recorded directly in the income statement as incurred, was compensated by negative fair value effects of the hedged items in an amount of € 7 million (2007: € 6 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 (2007: € 279 million). The goal of these hedges is to lower exposure to increasing short-term euro interest rates. The negative fair value of € 6 million (2007: negative € 1 million) was credited in hedging reserves.

Notes to the Consolidated Income Statement

24 Other operating income

Other operating income consists of the following:

Other operating income

€ in millions

	Year ending Dec. 31, 2008	Year ending Dec. 31, 2007
Income from accounts receivable previously written off	2	1
Income from release of accruals and provisions	28	20
Gains from disposal of fixed assets	10	21
Income from the recognition of negative goodwill see Note 4	21	—
Other revenues	42	38
Total	**103**	**80**

25 Other operating expenses

Operating expenses include expenses for sales, marketing, research and development, as well as for logistics and central finance and administration. In addition, they include depreciation on tangible assets and amortisation on intangible assets, with the exception of goodwill amortisation and other depreciation and amortisation 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 2008, marketing working budget accounted for approximately 33% (2007: 33%) of the total operating expenses.

Total depreciation and amortisation expense for tangible and intangible assets (excluding goodwill) was € 234 million and € 211 million for the years ending December 31, 2008 and 2007, respectively. Thereof, € 6 million and € 7 million were recorded within the cost of sales as they are directly attributable to the production costs of goods sold.

Other operating expenses
€ in millions

	Year ending Dec. 31, 2008	Year ending Dec. 31, 2007
Marketing working budget	1,429	1,378
Marketing overhead [1]	376	327
Sales force [1]	1,179	1,045
Logistics [1]	565	535
Research and development [1]	81	84
Central expenses for finance and administration divisions [1]	748	746
Total	**4,378**	**4,115**
Thereof:		
Depreciation and amortisation	228	204

1) Including personnel and administration expenses.

26 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 € 5,486 million and € 5,317 million for the years ending December 31, 2008 and 2007, respectively.

Personnel expenses

Personnel expenses were as follows:

Personnel expenses
€ in millions

	Year ending Dec. 31, 2008	Year ending Dec. 31, 2007
Wages and salaries	1,123	1,040
Social security contributions	110	92
Pension expense	50	54
Personnel expenses	**1,283**	**1,186**

Personnel expenses which are directly attributable to the production costs of goods are included within the cost of sales.

27 Financial income/financial expenses

Financial result consists of the following:

Financial income

€ in millions

	Year ending Dec. 31, 2008	Year ending Dec. 31, 2007
Interest income from financial instruments measured at amortised cost	30	23
Interest income from financial instruments at fair value through profit or loss	7	4
Interest income from non-financial assets	—	—
Net foreign exchange gains	—	7
Fair value gains from available-for-sale investments	—	—
Other	0	2
Financial income	**37**	**36**

Financial expenses

€ in millions

	Year ending Dec. 31, 2008	Year ending Dec. 31, 2007
Interest expense on financial instruments measured at amortised cost	(178)	(163)
Interest expense on financial instruments at fair value through profit or loss	—	(1)
Interest expense on provisions and non-financial liabilities	—	(2)
Net foreign exchange losses	(25)	—
Other	—	(4)
Financial expenses	**(203)**	**(170)**

Interest income from financial instruments, measured at amortised 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. Unrealised 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 amortised 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 € 0 million and € 4 million for the years ending December 31, 2008 and 2007, 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.

28 Income taxes

adidas AG and its German subsidiaries are subject to German corporate and trade taxes. For the year ending December 31, 2008, the statutory corporate income tax rate of 15% plus a surcharge of 5.5% thereon is applied to earnings. The municipal trade tax is approximately 11.6% of taxable income.

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, 2008	Dec. 31, 2007
Deferred tax assets	344	315
Deferred tax liabilities	(463)	(450)
Deferred tax assets, net	**(119)**	**(135)**

The movements of deferred taxes are as follows:

Movement of deferred taxes

€ in millions

	2008	2007
Deferred tax assets, net as at January 1	**(135)**	**(190)**
Deferred tax income	71	26
Change in consolidated companies see Note 4 [1]	(9)	—
Change in deferred taxes on assets classified as held-for-sale see Note 3 [2]	3	—
Change in deferred taxes attributable to effective portion of qualifying hedging instruments recorded in equity see Note 23	(41)	11
Currency translation differences	(5)	25
Change in deferred taxes attributable to actuarial gains and losses recorded in equity see Note 18	(3)	(7)
Deferred tax assets, net as at December 31	**(119)**	**(135)**

1) Relates to the acquisition of Ashworth, Inc. and Textronics, Inc. for the year ending December 31, 2008.
2) Relates to the disposal group Gekko Brands, LLC which is classified as held-for-sale for the year ending December 31, 2008.

Gross Group deferred tax assets and liabilities before valuation allowances and appropriate offsettings are attributable to the items detailed in the table below:

Deferred taxes

€ in millions

	Dec. 31, 2008	Dec. 31, 2007
Non-current assets	88	75
Current assets	100	112
Accrued liabilities and provisions	140	143
Accumulated tax loss carry-forwards	91	8
Deferred tax assets	**419**	**338**
Non-current assets	444	420
Current assets	45	47
Accrued liabilities and provisions	49	6
Deferred tax liabilities	**538**	**473**
Deferred tax assets, net	**(119)**	**(135)**

The acquisitions of Ashworth, Inc. and Textronics, Inc. were accounted for under the "purchase method" see Note 4. Deferred tax liabilities were recorded representing the difference between the fair value and the tax basis of acquired assets.

Deferred tax assets are recognised only to the extent that the realisation of the related benefit is probable. When estimating the probability, suitable fiscal structural measures are taken into consideration along with past performance and the prospects of the respective business for the foreseeable future.

Deferred tax assets, whose realisation of the related tax benefits is not probable, increased on a currency-neutral basis and after considering initial consolidation effects from € 195 million to € 212 million for the year ending December 31, 2008. These amounts mainly relate to tax losses and unused foreign tax credits of the USA tax group. Remaining unrecognised deferred tax assets relate to companies operating in certain emerging markets, since the realisation of the related benefit is not considered probable.

The Group does not recognise 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 shareholdings in the subsidiaries.

Tax expenses

Tax expenses are split as follows:

Income tax expenses

€ in millions

	Year ending Dec. 31, 2008	Year ending Dec. 31, 2007
Current tax expenses	331	286
Deferred tax (income)	(71)	(26)
Income tax expenses	**260**	**260**

The effective tax rate of the Group differs from an anticipated tax rate of 30% and 40% for the years ending December 31, 2008 and 2007, respectively, as follows:

Tax rate reconciliation

	Year ending Dec. 31, 2008		Year ending Dec. 31, 2007	
	€ in millions	in %	€ in millions	in %
Expected income tax expenses	271	30.0	326	40.0
Tax rate differentials	(72)	(7.9)	(122)	(15.0)
Non-deductible expenses	45	4.9	57	7.0
Losses for which benefits were not recognisable and changes in valuation allowances	2	0.2	8	1.0
Changes in tax rates	1	0.1	(19)	(2.4)
Other, net	1	0.1	2	0.2
	248	**27.4**	**252**	**30.8**
Withholding tax expenses	12	1.4	8	1.0
Income tax expenses	**260**	**28.8**	**260**	**31.8**

The line "changes in tax rates" reflects changes enacted in German and non-German tax rates which are utilised in the calculation of deferred taxes. In 2007, the total change related mainly to a UK tax rate reduction effective in 2008.

29 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 33. 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, 2008 and 2007, 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

	Year ending Dec. 31, 2008	Year ending Dec. 31, 2007
Net income attributable to shareholders (€ in millions)	642	551
Weighted average number of shares	197,562,346	203,594,975
Basic earnings per share (in €)	**3.25**	**2.71**
Net income attributable to shareholders (€ in millions)	642	551
Interest expense on convertible bond, net of taxes (€ in millions)	13	12
Net income used to determine diluted earnings per share (€ in millions)	**655**	**563**
Weighted average number of shares	197,562,346	203,594,975
Weighted share options	86,542	187,887
Weighted assumed conversion convertible bond	15,684,315	15,684,315
Weighted average number of shares for diluted earnings per share	**213,333,203**	**219,467,177**
Diluted earnings per share (in €)	**3.07**	**2.57**

30 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 centralised 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 headquarters 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 TaylorMade-adidas Golf segment includes the brands TaylorMade, adidas Golf and Ashworth.

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 realised. 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 as well as amortisation and depreciation relate to segment assets.

Primary segmental information by brand

€ in millions

	adidas		Reebok		TaylorMade-adidas Golf		HQ/Consolidation		adidas Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Net sales to third parties	7,821	7,113	2,148	2,333	812	804	18	49	10,799	10,299
Gross profit	3,802	3,370	795	902	359	360	300	250	5,256	4,882
in % of net sales	48.6%	47.4%	37.0%	38.7%	44.3%	44.7%	—	—	48.7%	47.4%
Operating profit	1,098	920	(7)	109	78	65	(99)	(145)	1,070	949
in % of net sales	14.0%	12.9%	(0.3)%	4.7%	9.6%	8.1%	—	—	9.9%	9.2%
Assets	3,872	3,329	3,033	2,913	748	629	1,880	1,454	9,533	8,325
Liabilities	1,041	900	355	421	127	106	4,610	3,865	6,133	5,292
Capital expenditure	189	150	53	57	15	12	123	70	380	289
Capital expenditure from acquisitions of subsidiaries	27	—	—	—	59	—	—	—	86	—
Amortisation and depreciation	117	104	60	60	11	12	33	25	221	201
Impairment	5	2	1	1	—	—	—	—	6	3

Secondary segmental information by region

€ in millions

	Europe		North America		Asia		Latin America		HQ/Consolidation		adidas Group	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Net sales to third parties	4,665	4,369	2,520	2,929	2,662	2,254	893	657	59	89	10,799	10,299
Assets	2,319	1,819	1,659	1,489	962	772	547	285	4,046	3,960	9,533	8,325
Capital expenditure	102	105	45	34	61	49	29	10	143	91	380	289
Capital expenditure from acquisitions of subsidiaries	—	—	86	—	—	—	—	—	—	—	86	—

Region Europe also includes Middle East and Africa, Region Asia also includes the Pacific region.

31 Additional cash flow information

In 2008, 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 Saxon Athletic Manufacturing, Inc., Reebok Productos Esportivos Brasil Ltda. (formerly Comercial Vulcabras Ltda.), Textronics, Inc. and Ashworth, Inc. see Note 4.

In 2007, this line item includes the acquisition of the assets and liabilities of Mitchell & Ness, Inc., based in Philadelphia/Pennsylvania (USA), as part of an asset deal see Note 4.

32 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, 2008	Dec. 31, 2007
Within 1 year	386	443
Between 1 and 5 years	1,082	1,134
After 5 years	611	176
Total	**2,079**	**1,753**

Commitments with respect to advertising and promotion maturing after five years have remaining terms of up to 14 years from December 31, 2008.

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.

33 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 authorised 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, 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
Outstanding as at Jan. 1, 2008		**0**	**—**	**0**	**—**	**8,650**	**4.00**	**19,000**	**4.00**	**5,900**	**4.00**
Forfeited during the period		0	—	0	—	600	4.00	850	5.20	0	—
Exercised during the period											
May 2008[1]	173.92	0	—	0	—	4,950	4.00	5,150	4.00	1,000	4.00
Aug. 2008[1]	154.44	0	—	0	—	0	—	1,800	6.40	300	4.00
Nov. 2008[1]	0.00	0	—	0	—	0	—	0	—	0	—
Expired during the period		0	—	0	—	3,100	4.00	0	—	0	—
Outstanding as at Dec. 31, 2008		**0**	**—**	**0**	**—**	**0**	**—**	**11,200**	**6.40**	**4,600**	**4.00**
Exercisable as at Dec. 31, 2008		0	—	0	—	0	—	11,200	6.40	4,600	4.00

1) Due to the share split effective May 2007, one option grants the right to purchase four shares. Accordingly, the share price information refers to four shares each.

The remaining contractual lives for stock options outstanding at the end of the period are presented as follows: 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 favourably 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 any 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.

34 Other information

Employees

The average numbers of employees are as follows:

Employees

	Year ending Dec. 31, 2008	Year ending Dec. 31, 2007
Own retail	16,071	11,180
Sales	4,133	4,065
Logistics	5,395	4,550
Marketing	3,308	2,842
Central functions and administration	3,160	2,929
Production	2,118	1,910
Research and development	1,058	973
Information technology	886	769
Total	**36,129**	**29,218**

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) relates to services rendered after September 30, 2007.

Effective October 1, 2008, KPMG Switzerland and KPMG Spain are part of KPMG Europe LLP and are thus affiliated companies of KPMG Germany as defined under § 271 section 2 HGB. The disclosure requirement for audit and accounting services fees provided by KPMG Switzerland and KPMG Spain relates to services rendered after September 30, 2008.

In 2008, adidas AG recorded € 1.2 million (2007: € 1.2 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 € 0.2 million (2007: € 0.1 million), € 0.0 million (2007: € 0.0 million) and € 0.1 million (2007: € 0.5 million), respectively.

Remuneration of the Supervisory Board and the Executive Board of adidas AG

Supervisory Board

Pursuant to the Articles of Association, the Supervisory Board members' fixed annual payment amounted to € 0.9 million (2007: € 0.3 million).

No members of the Supervisory Board were granted loans in 2008.

Executive Board

In 2008, the overall compensation of the members of the Executive Board (all short-term benefits) totalled € 8.4 million (2007: € 10.6 million). Post-employment benefits (costs for accrued pension entitlements for members of the Executive Board) totalled € 0.4 million (2007: € 0.5 million).

In 2008, former members of the Executive Board received pension payments totalling € 1.7 million (2007: € 1.7 million).

Pension provisions for pension obligations relating to former members of the Executive Board amount in total to € 36.4 million (2007: € 37.6 million).

No members of the Executive Board were granted loans in 2008.

Members of the Executive Board have not been granted any stock options since 2003. In 2008, current and former members of the Executive Board exercised zero stock options (2007: 2,800). Details of the Management Share Option Plan are also included in these Notes see Note 33.

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.

35 Information relating to the German Corporate Governance Code

Information pursuant to § 161 German Stock Corporation Act (AktG)

On February 11, 2009, 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.

36 Events after the balance sheet date

Group-specific subsequent events

Effective January 1, 2009, the adidas Group acquired the remaining 25% of shares of Reebok's subsidiary in Spain, Reebok Spain S.A., Alicante.

Effective January 23, 2009, the adidas Group acquired the remaining 5% of shares of its subsidiary in Greece, adidas Hellas A.E., Thessaloniki.

Date of authorisation for issue

The Executive Board of adidas AG approved the consolidated financial statements for submission to the Supervisory Board on February 16, 2009. It is the Supervisory Board's task to examine the consolidated financial statements and give their approval and authorisation for issue.

Herzogenaurach, February 16, 2009
The Executive Board of adidas AG

Statement of movements of intangible and tangible assets and financial assets

€ in millions

	Goodwill	Trademarks	Software, patents and concessions	Total intangible assets	Land and buildings
Acquisition cost					
January 1, 2007	1,516	1,454	447	3,417	484
Currency effect	(80)	(156)	(29)	(265)	(31)
Additions	—	—	59	59	24
Increase in companies consolidated	—	—	—	—	—
Transfers to assets held for sale	—	(7)	(1)	(7)	(20)
Decrease in companies consolidated	—	—	—	—	—
Transfers	—	—	—	—	3
Disposals	—	—	(35)	(35)	(30)
December 31, 2007/January 1, 2008	1,436	1,291	441	3,169	430
Currency effect	45	75	12	131	5
Additions	0	0	60	60	21
Increase in companies consolidated	18	27	20	65	12
Transfers from assets held for sale	—	—	—	—	44
Transfers to assets held for sale	—	(3)	—	(4)	(6)
Decrease in companies consolidated	—	—	—	—	—
Transfers	—	—	(10)	(10)	10
Disposals	—	0	(6)	(6)	(27)
December 31, 2008	1,499	1,390	517	3,406	489
Accumulated depreciation/amortisation					
January 1, 2007	—	—	224	224	104
Currency effect	—	—	(15)	(15)	(9)
Additions	—	—	64	64	22
Impairment	—	—	—	—	1
Write-ups	—	—	—	—	—
Increase in companies consolidated	—	—	—	—	—
Transfers to assets held for sale	—	—	(1)	(1)	(10)
Decrease in companies consolidated	—	—	—	—	—
Transfers	—	—	—	—	—
Disposals	—	—	(25)	(25)	(16)
December 31, 2007/January 1, 2008	—	—	247	247	92
Currency effect	—	—	10	10	2
Additions	—	0	61	61	25
Impairment	—	—	—	—	1
Write-ups	—	—	—	—	—
Increase in companies consolidated	—	—	—	—	—
Transfers from assets held for sale	—	—	—	—	3
Transfers to assets held for sale	—	—	—	—	—
Decrease in companies consolidated	—	—	—	—	—
Transfers	—	—	—	—	(1)
Disposals	—	—	(4)	(4)	(8)
December 31, 2008	—	0	313	313	116
Net carrying amount					
December 31, 2006	1,516	1,454	223	3,193	380
December 31, 2007	1,436	1,291	194	2,922	338
December 31, 2008	1,499	1,390	204	3,093	373

Rounding differences may arise in percentages and totals,

	Technical equipment and machinery	Other equipment, furniture and fittings	Construction in progress	Total tangible assets	Shares in affiliated companies	Participations	Other financial assets	Total financial assets
	118	**567**	**18**	**1,187**	**—**	**—**	**129**	**129**
	(10)	(38)	(2)	(81)	—	—	(2)	(2)
	21	127	57	230	—	—	6	6
	—	—	—	—	—	—	—	—
	(3)	(7)	—	(30)	—	—	—	—
	—	—	—	—	—	—	—	—
	8	17	(28)	—	—	—	—	—
	(19)	(37)	(3)	(89)	—	—	(3)	(3)
	115	**629**	**42**	**1,216**	**—**	**—**	**130**	**130**
	(4)	2	3	7	—	—	1	1
	17	183	94	316	—	—	2	2
	4	8	—	23	—	—	—	—
	—	5	—	49	—	—	—	—
	—	(1)	—	(7)	—	—	—	—
	—	—	—	—	—	—	—	—
	14	58	(72)	10	—	—	—	—
	(6)	(36)	(2)	(71)	—	—	(10)	(10)
	140	**847**	**66**	**1,542**	**—**	**—**	**123**	**123**
	55	**339**	**—**	**498**	**—**	**—**	**23**	**23**
	(8)	(30)	—	(47)	—	—	—	—
	14	109	—	145	—	—	—	—
	—	2	—	3	—	—	4	4
	—	(1)	—	(1)	—	—	—	—
	—	—	—	—	—	—	—	—
	(2)	(7)	—	(19)	—	—	—	—
	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
	(15)	(34)	—	(65)	—	—	—	—
	44	**378**	**—**	**514**	**—**	**—**	**27**	**27**
	—	7	—	9	—	—	—	—
	15	124	—	165	—	—	—	—
	—	5	—	6	—	—	—	—
	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
	—	2	—	5	—	—	—	—
	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
	(3)	4	—	—	—	—	—	—
	(6)	(29)	—	(42)	—	—	—	—
	50	**490**	**—**	**656**	**—**	**—**	**27**	**27**
	63	228	18	689	—	—	106	106
	71	251	42	702	—	—	103	103
	90	**357**	**66**	**886**	**—**	**—**	**96**	**96**

as of December 31, 2008

Company and Domicile			Currency	Equity (currency units in thousands)	Share in capital held by[7]	in %
1	GEV Grundstücksgesellschaft Herzogenaurach mbH & Co. KG	Herzogenaurach (Germany)	EUR	(706)	directly	90
2	GEV Grundstücks-Beteiligungsgesellschaft Herzogenaurach mbH	Herzogenaurach (Germany)	EUR	33	directly	100
3	adidas Versicherungs-Vermittlungs GmbH[12]	Herzogenaurach (Germany)	EUR	26	directly	100
4	adidas Beteiligungsgesellschaft mbH[12]	Herzogenaurach (Germany)	EUR	354,103	directly	100
5	Immobilieninvest und Betriebsgesellschaft Herzo-Base Verwaltungs GmbH	Herzogenaurach (Germany)	EUR	29	directly	100
6	Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG	Herzogenaurach (Germany)	EUR	2,234	directly	100
7	World of Commerce Management GmbH[6]	Herzogenaurach (Germany)	EUR	25	directly	100
8	World of Commerce GmbH & Co. KG[6]	Herzogenaurach (Germany)	EUR	1	directly	100
9	Hotel Herzo-Base GmbH & Co. KG[6]	Herzogenaurach (Germany)	EUR	1	directly	100
10	Herzo-Base Management GmbH[6]	Herzogenaurach (Germany)	EUR	25	directly	100
11	Factory Outlet Herzo-Base GmbH & Co. KG[6]	Herzogenaurach (Germany)	EUR	1	directly	100
12	Reebok Deutschland GmbH	Herzogenaurach (Germany)	EUR	21,700	76	75
					106	25
13	ASL – American Sports & Leisure Vertriebs GmbH[12]	Herzogenaurach (Germany)	EUR	1,226	12	100
14	Reebok-CCM Hockey GmbH	Kirchheim-Heimstetten (Germany)	EUR	3,310	112	100
Europe (incl. Africa and Middle East)						
15	adidas sport gmbh	Cham (Switzerland)	CHF	20,311	directly	100
16	Sarragan AG	Cham (Switzerland)	CHF	193	directly	100
17	adidas Austria GmbH	Klagenfurt (Austria)	EUR	16,198	directly	95.89
					15	4.11
18	adidas Holding S.A.	Metz-Tessy (France)	EUR	330,748	65	100
19	adidas France S.a.r.l.	Landersheim (France)	EUR	107,948	18	100
20	adidas International B.V.	Amsterdam (Netherlands)	EUR	5,509,558	directly	93.97
					19	6.03
21	adidas International Trading B.V.	Amsterdam (Netherlands)	EUR	653,297	20	100
22	adidas International Marketing B.V.	Amsterdam (Netherlands)	EUR	233,364	20	100
23	adidas International Finance B.V.	Amsterdam (Netherlands)	EUR	6,770	20	100
24	adidas Benelux B.V.	Amsterdam (Netherlands)	EUR	11,637	directly	100
25	adidas Belgium N.V.	Brussels (Belgium)	EUR	9,215	24	100
26	adidas (UK) Ltd.[1]	Stockport (Great Britain)	GBP	29,206	65	100
27	adidas (ILKLEY) Ltd.[1][6]	Stockport (Great Britain)	GBP	—	26	100
28	Larasport (U.K.) Ltd.[1][6]	Stockport (Great Britain)	GBP	—	26	100
29	Sarragan (U.K.) Ltd.[1][6]	Stockport (Great Britain)	GBP	—	26	100
30	adidas Trefoil Trading (U.K.) Ltd.[1][6]	Stockport (Great Britain)	GBP	—	29	100
31	Three Stripes Ltd.[1][6]	Stockport (Great Britain)	GBP	—	26	50
					27	50

1) Sub-group adidas UK 2) Sub-group Reebok International Ltd. 3) Sub-group India 4) Sub-group Mexico, adidas
5) Sub-group Mexico, Reebok 6) Companies with no active business 7) The number refers to the number of the company
8) Sub-group Onfield 9) Sub-group Reebok-CCM Hockey, Inc. 10) Sub-group Sports Holdings Corporation
11) Sub-group Reebok International Limited 12) Profit and loss transfer agreement 13) Sub-group Taylor Made Golf Co., Inc.

Company and Domicile			Currency	Equity (currency units in thousands)	Share in capital held by[7]	in %
32	Taylor Made Golf Ltd.	Basingstoke (Great Britain)	GBP	(5,015)	20	100
33	adidas (Ireland) Ltd.	Dublin (Ireland)	EUR	14,256	20	100
34	adidas International Re Ltd.	Dublin (Ireland)	EUR	7,881	20	100
35	adidas Espana S.A.	Zaragoza (Spain)	EUR	34,533	4	100
36	adidas Italy S.p.A	Monza (Italy)	EUR	53,816	20	100
37	adidas Portugal S.A.	Lisbon (Portugal)	EUR	2,888	20	100
38	adidas Norge AS	Lillestrom (Norway)	NOK	72,608	directly	100
39	adidas Sverige AB	Stockholm (Sweden)	SEK	85,990	directly	100
40	adidas Suomi Oy	Helsinki (Finland)	EUR	3,479	20	100
41	adidas Danmark A/S	Them (Denmark)	DKK	9,427	20	100
42	adidas CR s.r.o.	Prague (Czech Republic)	CZK	231,200	directly	100
43	adidas Budapest Kft.	Budapest (Hungary)	HUF	1,114,604	directly	85
44	adidas Bulgaria EAD	Sofia (Bulgaria)	BGN	2,611	directly	100
45	adidas Ltd.	Moscow (Russia)	USD	342,573	17	100
46	adidas Poland Sp. z o. o.	Warsaw (Poland)	PLN	88,030	directly	100
47	adidas Romania S.R.L.	Bucharest (Romania)	RON	29,722	20	100
48	adidas Baltics SIA	Riga (Latvia)	EUR	362	20	100
49	adidas Slovakia s.r.o.	Bratislava (Slovak Republic)	SKK	250,238	directly	100
50	adidas Trgovina d.o.o.	Ljubljana (Slovenia)	EUR	1,352	directly	100
51	SC adidas-Ukraine	Kiev (Ukraine)	USD	69,049	directly	100
52	adidas Hellas A.E.	Thessaloniki (Greece)	EUR	8,456	directly	95
53	adidas Spor Malzemeleri Satis ve Pazarlama A.S.	Istanbul (Turkey)	TRY	139,918	20	100
54	a-RET Tekstil ve Deri Ürünleri Tic. A.S.	Istanbul (Turkey)	TRY	9,296	21	100
55	adidas Emerging Market L.L.C.	Dubai (United Arab Emirates)	USD	48,406	19	49
					indirectly	51
56	adidas Emerging Markets FZE	Dubai (United Arab Emirates)	USD	272	20	100
57	adidas Imports & Exports Ltd.	Cairo (Egypt)	USD	5,476	58	100
58	adidas Sporting Goods Ltd.	Cairo (Egypt)	USD	14,018	21	10
					20	90
59	adidas Egypt Ltd.[6]	Cairo (Egypt)	USD	(1,832)	directly	100
60	adidas Israel Ltd.	Tel Aviv (Israel)	ILS	1,916	directly	100
61	adidas (South Africa) (Pty) Ltd.	Cape Town (South Africa)	ZAR	152,268	directly	100
62	adidas (Cyprus) Limited	Nicosia (Cyprus)	EUR	3,285	directly	100
63	Rockport (Europe) B.V.	Amsterdam (Netherlands)	USD	5,964	107	100
64	Reebok Finance Limited[6] [11]	Bolton (Great Britain)	GBP	—	106	100
65	Reebok International Limited[11]	Bolton (Great Britain)	GBP	804,770	20	65.1
					106	34.9

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Company and Domicile			Currency	Equity (currency units in thousands)	Share in capital held by[7]	in %
66	Reebok Spain S.A.	Alicante (Spain)	EUR	45,861	106	75
67	American Sports & Leisure (CZ) s.r.o	Prague (Czech Republic)	CZK	10,823	directly	100
68	Reebok Poland S.A.	Warsaw (Poland)	PLN	78,153	106	100
69	RBK Holdings Limited[11]	Bolton (Great Britain)	GBP	—	106	89
					125	11
70	Reebok International Finance B.V.	Amsterdam (Netherlands)	USD	1,305	106	100
71	Reebok Sports Limited	Bolton (Great Britain)	USD	1,848	65	100
72	J.W. Foster & Sons (Athletic Shoes) Limited[6] [11]	Bolton (Great Britain)	GBP	—	65	100
73	The Rockport Company Limited[6] [11]	Bolton (Great Britain)	GBP	—	65	100
74	Reebok Eastern Trading Limited[6]	Bolton (Great Britain)	USD	3,112	65	100
75	Reebok Pensions Management Limited[11]	Bolton (Great Britain)	GBP	—	65	100
76	Reebok Europe Holdings Private Unlimited Company	Bolton (Great Britain)	GBP	56,825	65	100
77	Reebok Austria GmbH	Bergheim (Austria)	EUR	7,271	71	1
					76	99
78	ASL American Sports and Leisure Vertriebs GmbH	Bergheim (Austria)	EUR	713	77	100
79	Reebok Italia Srl	Monza (Italy)	EUR	8,345	36	100
80	Reebok Europe B.V.	Amsterdam (Netherlands)	EUR	15,847	76	100
81	Reebok Nederland (Retail) B.V.	Amsterdam (Netherlands)	EUR	(1,124)	24	100
82	Reebok Ireland Limited	Dublin (Ireland)	EUR	8,268	33	100
83	Reebok France S.A.	Voisins Le Bretonneux (France)	EUR	9,295	76	100
84	Reebok France Retail SARL	Voisins Le Bretonneux (France)	EUR	(470)	83	100
85	Reebok Belgium S.A.	Brussels (Belgium)	EUR	4,652	76	100
86	Reebok Portugal, Artigos Desportivos, S.A.	Povoa de Santo Adriao (Portugal)	EUR	23,775	76	100
87	Nordic Hockey Company AB[10]	Malung (Sweden)	SEK	—	113	100
88	Reebok Jofa AB	Malung (Sweden)	SEK	117,945	87	100
89	Reebok Jofa AS	Gressvik (Norway)	NOK	12,603	87	100
90	Reebok Finland OY	Forssa (Finland)	EUR	22,603	87	100
91	adidas LLP	Almaty (Republic of Kazakhstan)	USD	4,964	directly	100
92	adidas Serbia d.o.o.	New Belgrade (Serbia)	RSD	(3,919)	20	100
93	adidas Croatia d.o.o.	Zagreb (Croatia)	HRK	1,498	20	100
94	adidas Levant Ltd.	Dubai (United Arab Emirates)	JOD	2,071	56	55
North America						
95	adidas North America, Inc.	Portland, Oregon (USA)	USD	4,307,286	20	100
96	adidas America, Inc.	Portland, Oregon (USA)	USD	(318)	95	100
97	adidas Promotional Retail Operations, Inc.	Portland, Oregon (USA)	USD	31,690	95	100
98	adidas Sales, Inc.	Portland, Oregon (USA)	USD	93,749	95	100

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Company and Domicile			Currency	Equity (currency units in thousands)	Share in capital held by[7]	in %
99	adidas Village Corporation	Portland, Oregon (USA)	USD	13,982	95	100
100	adidas International, Inc.	Portland, Oregon (USA)	USD	38,635	95	100
101	adidas Team, Inc.	Portland, Oregon (USA)	USD	155	95	100
102	Taylor Made Golf Co., Inc.[13]	Carlsbad, California (USA)	USD	76,508	95	100
103	adidas Canada Ltd.	Concord, Ontario (Canada)	CAD	73,726	directly	100
104	Campus Athletic, Inc.	Brantford, Ontario (Canada)	CAD	(1,249)	103	100
105	Saxon Athletic Manufacturing, Inc.	Brantford, Ontario (Canada)	CAD	2,235	103	99.85
					104	0.15
106	Reebok International Ltd.[2]	Canton, Massachusetts (USA)	USD	(1,031,920)	95	100
107	The Rockport Company, LLC	Wilmington, Delaware (USA)	USD	237,866	106	100
108	RC Investments Ltd.	Montreal (Canada)	CAD	2,245	106	100
109	Reebok Canada Inc.	Montreal (Canada)	CAD	44,304	106	100
110	The Reebok Worldwide Trading Company, LLC	Wilmington, Delaware (USA)	USD	11,051	106	100
111	Reebok-CCM Hockey, Inc.[9]	Wilmington, Delaware (USA)	USD	148,477	106	100
112	Sports Holdings Corp.[10]	Wilmington, Delaware (USA)	USD	(18,333)	111	100
113	WAP Holdings Inc.[10]	Wilmington, Delaware (USA)	USD	—	112	100
114	Reebok-CCM Hockey U.S., Inc.	Montpelier, Vermont (USA)	USD	4,537	111	64
					112	36
115	Sport Maska Inc.	New Brunswick (Canada)	CAD	72,354	111	100
116	SLM Trademark Acquisition Corp.[9] [6]	Dover, Delaware (USA)	USD	—	111	100
117	SLM Trademark Acquisition Canada Corporation[9] [6]	New Brunswick (Canada)	CAD	—	116	100
118	CCM Holdings (1983) Inc.	Montreal (Canada)	CAD	6,317	117	100
119	Consumer Infomarketing, Inc.[9] [6]	Delaware (USA)	USD	—	111	100
120	Smedley Industries, Inc.[9] [6]	Delaware (USA)	USD	—	111	100
121	Toy Factory, Inc.[9] [6]	New Jersey (USA)	USD	—	120	100
122	Reebok Aviation, LLC[6]	Wilmington, Delaware (USA)	USD	7,248	106	100
123	Reebok CHC, Inc.[6] [2]	Stoughton, Massachusetts (USA)	USD	—	106	100
124	RFC, Inc.	Wilmington, Delaware (USA)	USD	18	106	100
125	Reebok Securities Holdings LLC[2]	Wilmington, Delaware (USA)	USD	—	106	100
126	Sports Licensed Division of the adidas Group, LLC	Boston, Massachusetts (USA)	USD	100,921	106	99
					125	1
127	Onfield Apparel Group, LLC[8]	Dover, Delaware (USA)	USD	—	106	99
					128	1
128	Reebok Onfield, LLC[8]	Dover, Delaware (USA)	USD	—	106	100
129	RBK Thailand, Inc.[2]	Boston, Massachusetts (USA)	USD	369	106	100
130	Textronics, Inc.	Wilmington, Delaware (USA)	USD	11,073	100	100
131	Ashworth, Inc.[13]	Carlsbad, California (USA)	USD	—	102	100

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Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[7]	in %
132 Ashworth Acquisition Corp.[13]	Wilmington, Delaware (USA)	USD	—	131	100
133 Ashworth U.K. Ltd.[13]	Bristol (Great Britain)	USD	—	131	100
134 Ashworth Store I, Inc.[13]	Wilmington, Delaware (USA)	USD	—	131	100
135 Ashworth Store II, Inc.[13]	Wilmington, Delaware (USA)	USD	—	131	100
136 Ashworth EDC, LLC[13]	Wilmington, Delaware (USA)	USD	—	131	100
137 Gekko Brands, L.L.C.[13]	Montgomery, Alabama (USA)	USD	—	132	100
138 Kudzu, LLC[13]	Montgomery, Alabama (USA)	USD	—	137	100
139 The Game, LLC[13]	Montgomery, Alabama (USA)	USD	—	137	100
140 Sunice Holdings, Inc.[13]	Wilmington, Delaware (USA)	USD	—	131	100
Asia					
141 adidas Sourcing Ltd.	Hong Kong (China)	USD	458,423	21	100
142 adidas Services Limited	Hong Kong (China)	USD	3,234	20	100
143 adidas Hong Kong Ltd.	Hong Kong (China)	HKD	145,871	directly	100
144 adidas (Suzhou) Co. Ltd.	Suzhou (China)	CNY	59,018	4	100
145 adidas Sports (China) Co. Ltd.	Suzhou (China)	CNY	1,390,964	4	100
146 adidas (China) Ltd.	Shanghai (China)	CNY	78,621	20	100
147 adidas Japan K.K.	Tokyo (Japan)	JPY	26,665,820	65	100
148 Taylor Made Golf Co., Ltd.	Tokyo (Japan)	JPY	9,586,710	65	100
149 adidas Korea Ltd.	Seoul (Korea)	KRW	47,092,012	directly	100
150 adidas Korea Technical Services Ltd.	Pusan (Korea)	KRW	(6,009,126)	141	100
151 Taylor Made Korea Ltd.	Seoul (Korea)	KRW	12,831,632	directly	100
152 adidas India Private Ltd.[3]	New Delhi (India)	INR	(785,053)	20	1
				directly	99
153 adidas India Marketing Private Ltd.[3]	New Delhi (India)	INR	—	20	8.6
				152	91.4
154 P.T. adidas Indonesia Ltd.	Jakarta (Indonesia)	IDR	5,535,273	20	99
				directly	1
155 adidas (Malaysia) Sdn. Bhd.	Kuala Lumpur (Malaysia)	MYR	25,534	directly	60
				20	40
156 adidas Philippines Inc.	Manila (Philippines)	PHP	153,220	directly	100
157 adidas Singapore Pte. Ltd.	(Singapore)	SGD	22,812	directly	100
158 adidas Taiwan Limited	Taipei (Taiwan)	TWD	408,978	20	100
159 adidas Holding (Thailand) Co., Ltd.	Bangkok (Thailand)	THB	21,555	directly	49
				indirectly	51
160 adidas (Thailand) Co., Ltd.	Bangkok (Thailand)	THB	615,160	directly	49.99
				159	50.01
161 adidas Australia Pty. Ltd.	Mulgrave (Australia)	AUD	27,903	20	100

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Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[7]	in %
162 adidas New Zealand Ltd.	Auckland (New Zealand)	NZD	5,370	directly	100
163 adidas Technical Services Private Limited	New Delhi (India)	USD	133	141	100
164 Reebok Korea Ltd.	Seoul (Korea)	KRW	13,008,164	65	100
165 RIL Shanghai Company Limited	Shanghai (China)	CNY	783	65	100
166 Reebok India Company Unlimited	New Delhi (India)	INR	991,469	173	93.15
167 Smedley Industries (Hong Kong) Limited[9] [6]	Hong Kong (China)	HKD	—	120	100
168 Reebok Trading (Far East) Ltd.	Hong Kong (China)	USD	42,563	106	100
169 Reebok (China) Services Limited	Hong Kong (China)	USD	7,558	168	100
170 Zhuhai adidas Technical Services Ltd.	Zhuhai (China)	USD	1,194	141	100
171 RIL Taiwan Services Ltd.	Hong Kong (China)	USD	1,418	168	100
172 RIL Indonesia Services Limited	Hong Kong (China)	USD	1,982	168	100
173 Reebok (Mauritius) Company Limited	Port Louis (Mauritius)	USD	2,242	106	99
				110	1
Latin America					
174 adidas Argentina S.A.	Buenos Aires (Argentina)	ARS	137,474	20	95
				4	5
175 adidas do Brasil Ltda.	São Paulo (Brazil)	BRL	316,798	4	100
176 ASPA do Brasil Ltda.	São Paulo (Brazil)	BRL	(42,897)	141	100
177 adidas Chile Ltda.	Santiago de Chile (Chile)	CLP	32,461,677	directly	99
				3	1
178 adidas Colombia Ltda.	Bogota (Columbia)	COP	41,313,513	directly	100
179 adidas de Mexico S.A. de C.V.[4]	Mexico City (Mexico)	MXN	290,444	directly	100
180 adidas Industrial S.A. de C.V.[4]	Mexico City (Mexico)	MXN	—	directly	100
181 adidas Latin America S.A.	Panama City (Panama)	USD	(13,050)	directly	100
182 Concept Sport S.A.	Panama City (Panama)	USD	444	20	100
183 3 Stripes S.A. (adidas Uruguay)[6]	Montevideo (Uruguay)	UYU	(436)	directly	100
184 adidas Corporation de Venezuela, S.A.[6]	Caracas (Venezuela)	VEF	(17)	directly	100
185 Reebok de Mexico, S.A. de C.V.[5]	Neucalpan de Juarez (Mexico)	MXN	(137,216)	106	100
186 Amserv, S.A. de C.V.[5]	Neucalpan de Juarez (Mexico)	MXN	—	185	100
187 Vector Servicios, S.A. de C.V.[5]	Neucalpan de Juarez (Mexico)	MXN	—	185	100
188 Reebok Productos Esportivos Brasil Ltda.	Jundiai (Brazil)	BRL	16,970	20	99.99
189 adisport Corporation	San Juan (Puerto Rico)	USD	(415)	20	100
190 Reebok Argentina S.A.	Buenos Aires (Argentina)	ARS	7,511	20	89.99
				21	10.00

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adidas Group segmental information: ten-year overview

€ in millions

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Brands										
adidas										
Net sales	7,821	7,113	6,626	5,861	5,174	4,950	5,105	4,825	4,672	4,427
Gross profit	3,802	3,370	3,059	2,654	2,284	2,008	2,004	1,845	1,907	1,827
Gross margin	48.6%	47.4%	46.2%	45.3%	44.1%	40.6%	39.2%	38.2%	40.8%	41.1%
Operating profit [1]	1,098	920	788	693	564	365	343	352	391	431
Operating margin [1]	14.0%	12.9%	11.9%	11.8%	10.9%	7.4%	6.7%	7.3%	8.3%	9.6%
Operating assets	3,872	3,329	3,211	2,536	2,089	2,172	2,294	1,954	2,286	1,987
Reebok [2]										
Net sales	2,148	2,333	2,473	—	—	—	—	—	—	—
Gross profit	795	902	865	—	—	—	—	—	—	—
Gross margin	37.0%	38.7%	35.0%	—	—	—	—	—	—	—
Operating profit	(7)	109	86	—	—	—	—	—	—	—
Operating margin	(0.3%)	4.7%	3.5%	—	—	—	—	—	—	—
Operating assets	3,033	2,913	3,217	—	—	—	—	—	—	—
TaylorMade-adidas Golf [3]										
Net sales	812	804	856	709	633	637	707	545	441	327
Gross profit	359	360	376	312	298	290	345	281	221	160
Gross margin	44.3%	44.7%	43.9%	44.0%	47.0%	45.5%	48.8%	51.5%	49.5%	48.4%
Operating profit [1]	78	65	73	50	48	67	74	63	44	30
Operating margin [1]	9.6%	8.1%	8.5%	7.1%	7.5%	10.6%	10.5%	11.5%	10.0%	9.2%
Operating assets	748	629	656	692	619	391	433	316	219	156

1) Figures prior to 2004 exclude royalty and commission income and goodwill amortisation.
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.

adidas Group segmental information: ten-year overview

€ in millions

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Regions [4] [5]										
Europe										
Net sales	4,665	4,369	4,162	3,166	3,068	3,365	3,200	3,066	2,860	2,723
North America										
Net sales	2,520	2,929	3,234	1,561	1,332	1,562	1,960	1,818	1,906	1,826
Asia										
Net sales	2,662	2,254	2,020	1,523	1,192	1,116	1,166	1,010	875	663
Latin America										
Net sales	893	657	499	319	224	179	163	178	171	126

1) Figures prior to 2004 exclude royalty and commission income and goodwill amortisation.
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5) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.

	2008	2007	2006[1]	2005	2004	2003	2002	2001	2000	1999
Income Statement Data (€ in millions)										
Net sales[2]	10,799	10,299	10,084	6,636	5,860	6,267	6,523	6,112	5,835	5,354
Gross profit[2]	5,256	4,882	4,495	3,197	2,813	2,814	2,819	2,601	2,528	2,352
Royalty and commission income[2]	89	102	90	47	42	42	46	42	43	35
Other operating income[2]	103	80	55	36	n/a	n/a	n/a	n/a	n/a	n/a
Other operating expenses[2]	4,378	4,115	3,759	2,573	n/a	n/a	n/a	n/a	n/a	n/a
Total operating income and expenses[2]	4,275	4,035	3,704	2,537	2,236	2,324	2,343	2,126	2,091	1,870
Operating profit[2][3]	1,070	949	881	707	584	490	477	475	437	482
Financial result[2][4]	(166)	(135)	(158)	(52)	(59)	(49)	(87)	(102)	(94)	(84)
Income before taxes[2][4]	904	815	723	655	526	438	390	376	347	398
Income taxes[2]	260	260	227	221	193	167	148	147	140	153
Minority interests[2][4]	(2)	(4)	(13)	(8)	(7)	(11)	(14)	(21)	(25)	(18)
Net income attributable to shareholders[5]	642	551	483	383	314	260	229	208	182	228
Income Statement Ratios										
Gross margin[2]	48.7%	47.4%	44.6%	48.2%	48.0%	44.9%	43.2%	42.6%	43.3%	43.9%
Other operating income and expenses as a percentage of net sales[2]	39.6%	39.2%	36.7%	38.2%	38.2%	37.1%	35.9%	34.8%	35.8%	34.9%
Operating margin[2][3]	9.9%	9.2%	8.7%	10.7%	10.0%	7.8%	7.3%	7.8%	7.5%	9.0%
Interest coverage[2]	7.4	6.8	5.9	18.4	10.2	8.4	6.4	4.9	4.6	6.1
Effective tax rate[2]	28.8%	31.8%	31.4%	33.7%	36.7%	38.0%	37.9%	39.0%	40.3%	38.4%
Net income attributable to shareholders as a percentage of net sales[5]	5.9%	5.4%	4.8%	5.8%	5.4%	4.2%	3.5%	3.4%	3.1%	4.3%
Balance Sheet Data (€ in millions)										
Total assets[4]	9,533	8,325	8,379	5,750	4,434	4,188	4,261	4,183	4,018	3,587
Inventories	1,995	1,629	1,607	1,230	1,155	1,164	1,190	1,273	1,294	1,045
Receivables and other current assets	2,523	2,048	1,913	1,551	1,425	1,335	1,560	1,520	1,387	1,234
Working capital[4]	1,290	1,522	1,733	2,644	1,336	1,433	1,445	1,485	1,417	1,096
Net borrowings	2,189	1,766	2,231	(551)	665	1,018	1,498	1,679	1,791	1,591
Shareholders' equity[4]	3,386	3,023	2,828	2,684	1,544	1,285	1,081	1,015	815	680

1) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.
2) 2004 and 2005 reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Operating profit figures prior to 2004 exclude royalty and commission income and goodwill amortisation.
4) 2003 and 2004 figures have been restated due to application of IAS 32/IAS 39 and amendment to IAS 19.
5) Includes income from continuing and discontinued operations.
6) Figures adjusted for 1:4 share split conducted on June 6, 2006.
7) Subject to Annual General Meeting approval.
8) Based on number of shares outstanding at year-end.

	2008	2007	2006 [1]	2005	2004	2003	2002	2001	2000	1999
Balance Sheet Ratios										
Financial leverage [4]	64.6%	58.4%	78.9%	(20.5%)	43.1%	79.2%	138.5%	165.5%	219.6%	234.0%
Equity ratio [4]	35.5%	36.3%	33.8%	46.7%	34.8%	30.7%	25.4%	24.3%	20.3%	19.0%
Equity-to-fixed-assets ratio [4]	73.6%	72.2%	63.5%	194.0%	110.4%	91.1%	75.4%	77.8%	66.2%	54.9%
Asset Coverage I [4]	127.7%	136.1%	138.7%	284.1%	194.1%	197.6%	196.9%	209.3%	207.7%	183.4%
Asset Coverage II [4]	89.1%	98.0%	102.0%	150.4%	106.3%	108.3%	107.6%	105.9%	101.3%	99.5%
Fixed asset intensity of investments	48.2%	50.3%	53.2%	24.1%	31.6%	33.7%	33.7%	31.2%	30.7%	34.5%
Current asset intensity of investments	51.8%	49.7%	46.8%	75.9%	68.4%	66.3%	66.3%	68.8%	69.3%	65.5%
Liquidity I [4]	10.5%	14.5%	15.8%	92.0%	26.8%	20.8%	5.5%	6.1%	7.7%	5.5%
Liquidity II [4]	55.1%	70.3%	80.4%	148.0%	88.4%	100.8%	99.1%	96.0%	90.4%	88.0%
Liquidity III [4]	109.8%	132.6%	153.7%	219.4%	156.4%	187.4%	185.3%	187.4%	185.0%	171.5%
Working capital turnover [4]	8.4	6.8	5.8	2.6	4.4	4.4	4.5	4.1	4.1	4.9
Return on equity [4] [5]	18.9%	18.2%	17.1%	14.3%	20.4%	20.2%	21.1%	20.5%	22.3%	33.5%
Return on capital employed [4] [5]	19.8%	20.2%	17.6%	49.3%	27.5%	22.1%	16.8%	16.7%	17.0%	20.7%
Data Per Share [6]										
Share price at year-end (in €)	27.14	51.26	37.73	40.00	29.69	22.58	20.58	21.08	16.50	18.58
Basic earnings [5] (in €)	3.25	2.71	2.37	2.05	1.72	1.43	1.26	1.15	1.00	1.26
Diluted earnings [5] (in €)	3.07	2.57	2.25	1.93	1.64	1.43	1.26	1.15	1.00	1.26
Price/earnings ratio at year-end	8.8	19.9	16.8	20.7	18.1	15.8	16.3	18.3	16.5	14.8
Market capitalisation at year-end (€ in millions)	5,252	10,438	7,679	8,122	5,446	4,104	3,738	3,823	2,993	3,381
Operating cash flow (in €)	2.52	3.83	3.74	1.88	3.17	3.58	2.94	2.12	(0.06)	1.81
Dividend (in €)	0.50 [7]	0.50	0.42	0.33	0.33	0.25	0.25	0.23	0.23	0.23
Dividend payout ratio (in %)	15.1 [8]	18.0	17.7	17.2	18.9	17.5	19.8	20.0	22.9	18.3
Number of outstanding shares at year-end (in thousands)	193,516	203,629	203,537	203,047	183,436	181,816	181,692	181,396	181,396	181,396
Employees										
Number of employees at year-end [2]	38,982	31,344	26,376	15,935	14,254	15,686	14,716	13,941	13,362	12,829
Personnel expenses [2] (€ in millions)	1,283	1,186	1,087	706	637	709	758	695	630	580

1) Including Reebok business segment from February 1, 2006 onwards. Including Greg Norman apparel business from February 1, 2006 to November 30, 2006.
2) 2004 and 2005 reflect continuing operations as a result of the divestiture of the Salomon business segment.
3) Operating profit figures prior to 2004 exclude royalty and commission income and goodwill amortisation.
4) 2003 and 2004 figures have been restated due to application of IAS 32/IAS 39 and amendment to IAS 19.
5) Includes income from continuing and discontinued operations.
6) Figures adjusted for 1:4 share split conducted on June 6, 2006.
7) Subject to Annual General Meeting approval.
8) Based on number of shares outstanding at year-end.

AFIRM (Apparel and Footwear International Restricted Substances List Management) Working Group A centre of excellence comprising experts whose aim it is to reduce the use and impact of harmful substances in the apparel and footwear supply chains.

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 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 retailers' orders are received six to nine months in advance, depending on the season.

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.

Computer Aided Design (CAD) A computer application to aid in the design process.

Capital expenditure Total cash expenditure used for the purchase of tangible and intangible assets, excluding acquisitions and finance leases.

Classics Reebok 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.

Co-branded stores adidas or Reebok stores that are co-branded together with a partner, for example a sports league such as the NHL, NFL or NBA.

Consumer price index (CPI) Measure of the average price of consumer goods and services purchased by households. Determined by measuring the price of a standard group of goods meant to represent the typical market basket of a typical urban consumer. The percentage change in the CPI is a measure of inflation.

Commercial paper Tradable unsecured promissory notes issued for the purpose of short-term financing. 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 and is part of a larger sales area operated by a retail partner.

Controlled space Controlled space includes own-retail business, mono-branded stores, shop-in-shops, joint ventures with retail partners and co-branded stores. Controlled space offers a high level of brand control and ensures optimal product offering and presentation according to brand requirements.

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 stake-holders 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 organisations.

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 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. In order to minimise this risk, the adidas Group hedges itself on a regular basis.
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.

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).

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) see Diluted Earnings Per Share and Basic Earnings Per Share

EBITDA Earnings before interest, taxes, depreciation and amortisation.

Electromyography Technique for evaluating and recording the activation signal of muscles.

Emerging markets Developing countries showing potential for growth in both economic strength and private wealth 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 = shareholders' 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 parties. 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 lease with a special leasing company for a specific, non-terminable initial leasing term. The investment risk is borne by the lessee.

Financial leverage Ratio reflecting the role of borrowings within the financing structure of a company.
Financial leverage = net total borrowings / shareholders' equity.

Forward contract Agreement to exchange amounts of one currency for another currency at an agreed fixed rate at a future date.

Franchising Form of business by which the owner (franchisor) of a product, service or method obtains distribution through affiliated dealers (franchisees). The franchisor offers assistance in organising, 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 amortisation (incl. goodwill) +/– changes in operating working capital – capital expenditures +/- non-operating components.

German Co-Determination Act 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.

Go to market All instruments, tools and channels used to connect with consumers in order to best fulfil their needs.

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) × 100.

Gross profit Difference between net sales and the cost of sales.
Gross profit = net sales – cost of sales.

Hardware Product category which comprises sports equipment that is used rather than worn by the athlete, such as bags, balls, fitness equipment, golf clubs and hockey sticks.

Hedging A strategy used to minimise 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

Hybrid Golf clubs, cross between a wood and an iron, aggregating typical characteristics of both clubs. Often referred to as "rescues".

In-house bank Internally and centrally managed cash liquidity within the adidas Group network of subsidiaries. Organisation and implementation through the adidas Group's Treasury department.

Initial Public Offering (IPO) First placement of a corporation's common shares on an organised 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 organisations for financial reporting around the world.

Investments see Capital expenditure

Joint venture A cooperation between companies involving the foundation of a new, legally independent business entity in which the founding companies (two or more companies) participate with equity and significant resources.

Key accounts Wholesalers or retailers which are primary customers and account for a large percentage of sales.

Licensed apparel Apparel products, which are produced and marketed under a license agreement with a sports organisation (e.g. FIFA, UEFA, IOC), sports league (e.g. NFL, NBA), professional team (e.g. Real Madrid, AC Milan) or university (e.g. UCLA, Notre Dame). If visible, the supplier's branding is secondary.

Licensed business For certain product categories, independent third parties are authorised to use the name of a brand or company to manufacture and distribute products. For the adidas Group, for example, licensed business is comprised of royalty income e.g. for cosmetics, watches and eyewear at adidas and fitness equipment at Reebok see also Product licensees.

Lien The right to take and hold or sell the asset of a debtor as security or payment for a debt.

Lifestyle business In the sporting goods industry, business related to sport-inspired casual footwear and apparel. In the adidas segment this is covered by the Sport Style division.

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) × 100.
Liquidity II: ((sum of cash + short-term financial assets + accounts receivable) / current liabilities) × 100.
Liquidity III: ((sum of cash + short-term financial assets + accounts receivable + inventories) / current liabilities) × 100.

Market capitalisation Total market value of all outstanding shares.
Market capitalisation = number of outstanding shares × 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 as it relates to outside ownership interests in subsidiaries that are consolidated with the parent company for financial reporting purposes.

Moment of Inertia (MOI) Measure of an object's resistance to changes in its rotation rate. Used as a key measurement in the golf club business.

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

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 and Canada, 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.

NFL (National Football League) Premier professional men's American football league in the USA, comprising 32 teams.

NHL (National Hockey League) Premier professional men's ice hockey league in North America, comprising 30 teams from the USA and Canada.

Other operating expenses Expenses which are not directly attributable to the products or services sold. Operating expenses are expenses for sales and marketing, research and development, general and administrative costs as well as depreciation of non-production assets.

Other operating income Comprises all income from normal operations that is not already included in other income items.

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 other operating expenses and income. Best indicator of the profitability of operating activities.
Operating margin = (operating profit / net sales) × 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, but do not include costs for promotion and communications.

Operating profit Profit from operating activities after cost of sales and operating expenses.
Operating profit = gross profit + royalty and commission income + other operating 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.
Operating working capital = accounts receivable + inventories – accounts payable.
see also Working capital

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

Own-retail activities Sales directly generated through a store operated by a brand segment within the adidas Group. Own retail includes Concept Stores (e.g. adidas Sport Performance, Originals and Sport Style) and concession corners as well as factory outlets and e-commerce for the adidas, Reebok and Rockport brands.

Performance business In the sporting goods industry, business related to technical footwear and apparel, used primarily in doing sports.

PGA Tour Major US men's professional golf tour, featuring 49 golf tournaments.

Price-earnings ratio (P/E) 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 US $ 99.99 instead of US $ 100.

Private placement Placement of debt securities directly to institutional investors, such as banks, mutual funds, insurance companies, pension funds and foundations.

Product licensees Companies that are authorised to use the name of a brand or company to manufacture and distribute products. For adidas, these products primarily include cosmetics, watches and eyewear, 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.

Proxy solicitation Process of actively contacting shareholders, either through the company directly or through a third-party service provider with the aim to increase participation in voting at the Annual General Meeting.

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. 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, i.e. 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 realising 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.

Season At the adidas Group, we typically design and produce two major collections per year – a Spring/Summer and a Fall/Winter collection. Hence, we divide our business into a Spring/Summer and a Fall/Winter 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.

Sourcing Process of managing external suppliers in order to commercialise, produce and deliver final products to customers.

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, specialising 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 organisations, the media, etc.

Supply chain Refers to the system and organisation 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 by income before taxes.

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.

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 Calculation of the cost of capital according to the debt/equity structure, utilising a weighted average cost of capital (WACC) formula. The cost of equity is typically computed utilising 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.

Working capital A company's short-term disposable capital used to finance the day-to-day operations.
Working capital = total current assets – total current liabilities.
see also Operating Working Capital

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.

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Financial Calendar 2009

March 4, 2009

2008 Full Year Results
Analyst and press conferences in Herzogenaurach, Germany
Press release, conference call and webcast

May 5, 2009

First Quarter 2009 Results
Press release, conference call and webcast

May 7, 2009

Annual General Meeting in Fürth/Bavaria, Germany
Webcast

May 8, 2009

Dividend paid
(Subject to Annual General Meeting approval)

August 5, 2009

First Half 2009 Results
Press release, conference call and webcast

November 4, 2009

Nine Months 2009 Results
Press release, conference call and webcast

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