

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.

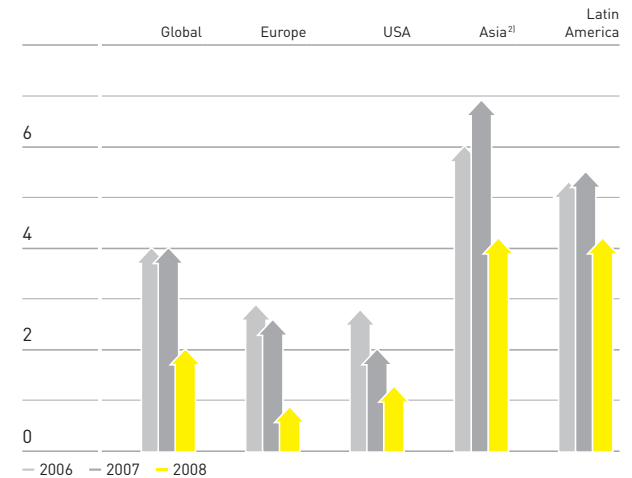
In the USA, economic growth decreased to 1.3% in 2008 (2007: 2.0%). Depression of the housing market and a troubled banking sector suffering from the liquidity crisis drove this development. As a result of the economic difficulties, the unemployment rate rose to a 16-year high of 7.2% in December, and 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 development¹⁾

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 Index¹⁾

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 development¹⁾

€ 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 development¹⁾

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.