

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

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

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

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

STRATEGIC AND OPERATIONAL RISKS

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

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

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

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

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

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

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