

FINANCIAL RISKS

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

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

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

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

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

FUTURE CASH OUTFLOWS

€ in millions

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