

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

➤ see Treasury, p. 091

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

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

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

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

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

EXPOSURE TO FOREIGN EXCHANGE RISK¹⁾

based on notional amounts, € in millions

	USD	GBP	Other
As at December 31, 2007			
Exposure from firm commitments and forecasted transactions	(2,510)	442	726
Balance sheet exposure including intercompany exposure	(65)	15	100
Total gross exposure	(2,575)	457	825
Hedged with other cash flows	154	0	0
Hedged with currency options	562	0	141
Hedged with forward contracts	1,124	153	309
Net exposure	(735)	304	375

As at December 31, 2006

Exposure from firm commitments and forecasted transactions	(2,088)	497	701
Balance sheet exposure including intercompany exposure	(67)	76	59
Total gross exposure	(2,154)	573	760
Hedged with other cash flows	89	0	0
Hedged with currency options	543	44	90
Hedged with forward contracts	544	189	226
Net exposure	(978)	340	444

1) Rounding differences may arise in totals.

SENSITIVITY ANALYSIS OF FOREIGN EXCHANGE RATE CHANGES

€ in millions

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