

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 industrialized countries. Now, rising real incomes and employment rates as well as positive demographic trends and a growing middle class are fueling these economies – and subsequently our industry. This development is expected to continue for at least three to five years.

European and North American sporting goods brands are often seen as easily accessible, affordable luxury goods. Our Group currently generates around 25% of sales in emerging markets, which reflects a higher exposure compared to many of our competitors. Further, we believe we have excellent opportunities for further growth, in particular in China and Russia. Supported by our strong portfolio of partnerships, e.g. the NBA, Yao Ming and the China Golf Association in China as well as Andriy Shevchenko and the Russian Basketball Federation in Russia, our strong market positions and our extensive distribution network, we aim to reach sales of € 1 billion in China, while Russia is expected to become our biggest market in terms of sales and profits in Europe by 2010.

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 are launching the adidas Grün 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. 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. Our local market knowledge and marketing power also enable us to quickly react to emerging trends in niche categories such as skateboarding or even enter completely new categories.

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. 044](#) We are able to utilize 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.

PERSONALIZATION AND CUSTOMIZATION 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. 044](#) adidas, Reebok and TaylorMade-adidas Golf all offer different personalization and customization platforms reflecting each brand’s strategy. Key concepts include the adidas “mi Innovation Center” and Reebok’s “Rbk Custom” online platform. Utilizing the newest body mapping technology, consumers can personalize our most innovative and popular footwear styles to their own fit and performance needs. We believe this technology leads the way in sporting goods retail and have started to roll out “mi Innovation Centers” throughout our concept stores in 2007. “Rbk Custom” is a web-based platform over which consumers can customize footwear. Shoes are then shipped within ten business days. We expect the market for personalized and customized footwear, apparel and hardware to grow strongly and evolve further in the coming years.

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 will start introducing e-commerce in the Netherlands as a test market for Europe in 2008. We also see opportunities to operate new shop formats in cooperation with other brands. In 2007, we opened the “NHL Powered by Reebok” store in New York, showcasing Reebok’s broad choice of hockey products. Similarly, adidas opened the first European NBA Concept Shop in Istanbul, Turkey. 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 utilize changes in consumption behavior as they arise. In 2007, for example, we actively strengthened our North American distribution in the growing sporting goods retail channel. Here, we are able to showcase a much broader choice of our footwear – and particularly apparel products – compared to the athletic specialty channel where industry sales decreased.