

TAKING CONTROL OF DISTRIBUTION RIGHTS Our brands do business in virtually all countries around the world. The majority of our business is done through fully-owned subsidiaries or sales organizations. [▷ see Group Strategy, p. 044](#) Nevertheless, in some markets, we work with distributors or joint venture partners, in particular at brand Reebok. In doing so, we capitalize on third party expertise in terms of how to best service retailers in those countries. While this strategy can be appropriate in a market's early development, we strongly believe in having full control over distribution and brand management in more mature markets. Therefore, it is our Group's strategy to buy back distribution rights for our brands when possible and economically sensible. Over the last several years, we have been very successful in this respect. After having bought back distribution rights for the adidas brand in Japan, Italy and Turkey, we grew significantly in these markets. At Reebok, we have identified the buyback of distribution rights as the single most important revenue synergy potential. [▷ see Outlook, p. 118](#) In 2007, we realized incremental sales in all countries where Reebok bought back distribution rights. Going forward, we will evaluate potential buyback opportunities on a case-by-case basis, considering opportunities as well as inherent risks from litigation.

COST OPTIMIZATION DRIVES PROFITABILITY IMPROVEMENTS

Continued optimization of key business processes and strict cost control are vital to achieving high profitability and return on invested capital. As a result of the Reebok acquisition, we generate cost synergies that support adidas and Reebok profitability development. [▷ see Outlook, p. 118](#) Nonetheless, our profit margins continue to be below those of our main competitors. We do, however, see numerous levers for streamlining our cost base going forward. We can further simplify processes across brands and functions to reduce operational inefficiencies owed to the increased complexity of our Group. In North America, we believe we will be able to realize medium-term economies of scale as we continue to integrate adidas and Reebok back-office functions. In addition, we strive to further increase efficiency in our supply chain and make it truly demand-driven. By implementing end-to-end planning processes and improving our replenishment capabilities, we see opportunities to not only better serve our customers but also to further reduce our operating working capital needs.

[▷ see Global Operations, p. 062](#)

FINANCIAL OPPORTUNITIES

FAVORABLE FINANCIAL MARKET CHANGES Favorable exchange and interest rate developments can potentially have a positive impact on the Group's financial results. Our Group Treasury department closely monitors the financial markets to identify opportunities.

MANAGEMENT ASSESSMENT OF OVERALL RISK AND OPPORTUNITIES

Central risk management aggregates all risks reported by brand, regional and headquarter functions. Based on the compilation of risks – taking into account the occurrence likelihood and potential financial impact and the current business outlook explained within this report – adidas Group Management does not foresee any individual or aggregate risks which could materially jeopardize the ongoing business health and viability of the Group. In comparison to the prior year, some External and Industry Risks as well as some Strategic and Operational Risks have increased. All Financial Risks have decreased. As a result, Management regards the overall risk likelihood as having increased moderately versus 2007. The potential financial impact from the Group's overall risk exposure is largely unchanged, due to increased risk-compensating and transfer factors now in place.

This assessment is also supported by the continued positive responses to our financing demands. [▷ see Treasury, p. 091](#) The adidas Group therefore has not sought an official rating by any of the leading rating agencies.

Management remains confident that the Group's earning power forms a solid basis for our future business development and provides the necessary resource to pursue the opportunities available to the Group.