2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with the consolidation, accounting and valuation principles described below.

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of adidas AG and its direct and indirect subsidiaries, which are prepared in accordance with uniform accounting principles.

A company is considered a subsidiary if adidas AG directly or indirectly governs the financial and operating policies of the respective enterprise.

The number of consolidated subsidiaries evolved as follows for the years ending December 31, 2007 and 2006, respectively:

NUMBER OF CONSOLIDATED COMPANIES

	2007	2006
January 1	**168**	**94**
Newly founded / consolidated companies	6	2
Divestments / exclusion from consolidation	(1)	(4)
Merged companies	(2)	(1)
Purchased companies	—	77
December 31	**171**	**168**

A schedule of the shareholdings of adidas AG is shown in Attachment II to these Notes. Further, a schedule of these shareholdings will be published on the electronic platform of the German Federal Gazette.

The first-time consolidation of purchased companies had a material impact in 2006. see Note 4

Within the scope of the first-time consolidation, all acquired assets and liabilities are recognized in the balance sheet at fair value. A debit difference between the investment book value and the proportionate fair value of assets and liabilities is shown as goodwill. A credit difference is recorded in the income statement. No fair value adjustments are recognized at the first-time consolidation of acquired minority interests in companies accounted for using the purchase method. A debit difference between the cost for such an additional investment and the carrying amount of the net assets at the acquisition date is shown as goodwill. A credit difference is recorded in the income statement.

All intercompany transactions and balances, as well as any unrealized gains and losses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

CURRENCY TRANSLATION Transactions of assets and liabilities in foreign currencies are translated into the respective functional currency at spot rates on the transaction date.

In the individual financial statements of Group companies, monetary items denominated in non-functional currencies of the subsidiaries, are generally measured at closing exchange rates at the balance sheet date. The resulting currency gains and losses are recorded directly in income.

Assets and liabilities of the Group's non-euro functional currency subsidiaries are translated into the reporting currency the "euro", which is also the functional currency of adidas AG, at closing exchange rates at the balance sheet date. Revenues and expenses are translated at exchange rates on the transaction dates. All cumulative differences from the translation of equity of foreign subsidiaries resulting from changes in exchange rates, are included in a separate item within shareholders' equity without affecting income.

A summary of exchange rates to the euro for major currencies in which the Group operates is as follows:

EXCHANGE RATES

€ 1 equals

	Average rate for the year ending Dec. 31		Spot rate at Dec. 31	
	2007	2006	2007	2006
USD	1.3709	1.2562	1.4721	1.3170
GBP	0.6845	0.6820	0.7334	0.6715
JPY	161.19	146.08	164.93	156.93

DERIVATIVE FINANCIAL INSTRUMENTS The Group uses derivative financial instruments, such as interest and currency options, forward contracts, as well as interest rate swaps and cross-currency interest rate swaps to hedge its exposure to foreign exchange and interest rate risks. In accordance with its treasury policy, the Group does not enter into derivative financial instruments with banks for trading purposes.

Derivative financial instruments are initially recognized in the balance sheet at fair value, and subsequently also measured at their fair value. The method of recognizing the resulting gains or losses is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either a hedge of a forecasted transaction (cash flow hedge), a hedge of the fair value of a recognized asset or liability (fair value hedge) or a hedge of a net investment in a foreign entity.