

FINANCIAL EXPENSES

€ in millions

	Year ending Dec. 31	
	2007	2006
Interest expense on financial instruments measured at amortized cost	(163)	(182)
Interest expense on financial instruments at fair value through profit or loss	(1)	(1)
Interest expense on provisions and non-financial liabilities	(2)	(1)
Net foreign exchange losses	—	—
Other	(4)	(13)
Financial expenses	(170)	(197)

Interest income from financial instruments, measured at amortized cost, mainly consists of interest income from bank deposits and loans.

Interest income/expense from financial instruments at fair value through profit or loss mainly includes interest payments from investment funds as well as net interest payments from interest derivatives not being part of a hedging relationship. Unrealized gains/losses from fair value measurement of such financial assets are shown in other financial income or expenses.

Interest expense on financial instruments measured at amortized cost mainly includes interest on borrowings and effects from using the effective interest method.

Interest expense on provisions and non-financial liabilities particularly includes effects from measurement of provisions at present value and interest on non-financial liabilities such as tax payables.

Other financial expenses include impairment losses on other financial assets amounting to € 4 million and € 8 million for the years ending December 31, 2007 and 2006, respectively. Also included in other financial expenses are minority interests, which are not recorded in equity according to IAS 32.

Information regarding the Group's available-for-sale investments, borrowings and financial instruments is also included in these Notes. [▷ see Notes 6, 13, 15 and 23](#)

[▷ 27 INCOME TAXES](#) adidas AG and its German subsidiaries are subject to German corporate and trade taxes.

For the years ending December 31, 2007 and 2006, the statutory corporate income tax rate of 25% plus a surcharge of 5.5% thereon is applied to earnings. The municipal trade tax is approximately 15% of taxable income, which is deductible in the determination of income for corporation tax purposes. The tax rate reduction due to the German Tax Reform 2008 was taken into account for the calculation of the deferred tax assets and liabilities of the German companies in 2007.

For non-German companies, deferred taxes are calculated based on tax rates that have been enacted or substantively enacted by the closing date.

DEFERRED TAX ASSETS AND LIABILITIES Deferred tax assets and liabilities are offset if they relate to the same fiscal authority. The following deferred tax assets and liabilities, determined after appropriate offsetting, are presented on the balance sheet:

DEFERRED TAX ASSETS/LIABILITIES

€ in millions

	Dec. 31 2007	Dec. 31 2006
Deferred tax assets	315	332
Deferred tax liabilities	(450)	(522)
Deferred tax assets, net	(135)	(190)

The movements of deferred taxes are as follows:

MOVEMENT OF DEFERRED TAXES

€ in millions

	2007	2006
Deferred tax assets, net as at January 1	(190)	153
Deferred tax (expense)/income	26	(14)
Change in consolidated companies ¹⁾	—	(347)
Change in deferred taxes attributable to effective portion of qualifying hedging instruments recorded in equity ▷ see Note 23	11	2
Currency translation differences	25	17
Change in deferred taxes attributable to actuarial gains and losses recorded in equity ▷ see Note 18	(7)	(1)
Deferred tax assets, net as at December 31	(135)	(190)

1) Relates to the acquisition of Reebok International Ltd. (USA) and its subsidiaries for the year ending December 31, 2006. [▷ see Note 4](#)