

**CORPORATE GOVERNANCE REPORT** We are committed to the principles of good Corporate Governance and continually strive to strengthen and sustain the trust that investors, business partners, employees and the public have placed in us. Accordingly, our Executive and Supervisory Boards regularly evaluate current national and international standards regarding responsible, transparent and efficient company management with the objective of enhancing corporate governance at the adidas Group and increasing sustainable value. Corporate Governance activities in 2007 focused on the implementation of another efficiency examination of our Supervisory Board on the consultation regarding newly introduced recommendations and suggestions of the German Corporate Governance Code as well as on the measures necessary for the early implementation of the EU Audit Directive.

**DUAL BOARD SYSTEM** As required by the German Stock Corporation Act (Aktengesetz – AktG), adidas AG has a dual board system which assigns management functions to the Executive Board and control functions to the Supervisory Board. These two boards are strictly separated in terms of membership and competencies. Our Executive Board is currently composed of four members. [see Executive Board, p. 018](#) Our 12-member Supervisory Board comprises an equal number of shareholder and employee representatives in accordance with the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG). [see Supervisory Board, p. 025](#)

**INCREASED EFFICIENCY THROUGH SUPERVISORY BOARD COMMITTEES** In order to perform its tasks in a most efficient manner, our Supervisory Board has formed expert committees, whose chairmen report to the entire Supervisory Board on a regular basis.

⇒ The Steering Committee, which consists of the Supervisory Board Chairman and his two deputies, discusses major issues, prepares resolutions and is authorized in special urgent cases to take resolutions in lieu of the Supervisory Board.

⇒ The co-determined General Committee, with four members, is responsible in particular for the preparation of Supervisory Board resolutions regarding the appointment of Executive Board members. Further, the General Committee decides on the content of the related employment agreements as well as the structure and level of Executive Board compensation.

⇒ The co-determined Audit Committee, which also comprises four members, deals primarily with accounting, risk management and compliance issues. It assesses and supervises the auditor's independence and determines audit priorities. In addition, the Audit Committee examines the annual financial statements and consolidated financial statements including Management Reports. Further, the Audit Committee prepares the respective Supervisory Board resolutions as well as the agreement with the auditor. Furthermore, it deals with the quarterly and half-year financial reports.

⇒ The four-member Mediation Committee, formed in accordance with § 27 section 3 of the German Co-Determination Act, is responsible for submitting a proposal to the Supervisory Board regarding the appointment or dismissal of Executive Board members if the two-thirds Supervisory Board majority required for an appointment or dismissal is not achieved in the preceding resolution.

⇒ In addition, a committee was established ad hoc in 2007 with three members for the "Sale of Herzo-Base" project.

[see Supervisory Board Report, p. 020](#)

For a summary of the activities of the Supervisory Board and its committees in 2007. [▷ see Supervisory Board Report, p. 020](#) For an overview of the Supervisory Board and committee members. [▷ see Supervisory Board, p. 025](#)

**CLOSE COOPERATION BETWEEN EXECUTIVE AND SUPERVISORY BOARDS** Our Executive and Supervisory Boards cooperate closely with each other on a basis of mutual trust in the best interest of the adidas Group. Our Executive Board develops the Group's strategic orientation, coordinates it with the Supervisory Board and ensures its implementation. The Executive Board informs the Supervisory Board frequently, expeditiously and comprehensively on the Group's strategy, planning, business development and risk management. In particular, the Chairmen of our Executive and Supervisory Boards maintain frequent contact. For certain business transactions and measures, the Executive Board must obtain the Supervisory Board's prior consent. This includes, for example, entering or exiting major fields of activity and acquiring or divesting substantial corporate holdings. Further, the Executive Board must obtain the Supervisory Board's approval for the budget including the annual capital expenditure and financial plan. For particularly urgent matters, the Supervisory Board may also resolve on issues by way of a written circular vote. The Rules of Procedure of the Executive Board and Supervisory Board can be viewed online at. [▷ www.adidas-Group.com](http://www.adidas-Group.com)

**EXAMINATION OF THE EFFICIENCY OF THE SUPERVISORY BOARD** Regular examination of Supervisory Board efficiency is an essential component of good Corporate Governance. The examination is conducted by an external advisor every two years by means of detailed questionnaires. All members of the Supervisory Board, with the exception of the Chairman who resigned in November, and the succeeding member, participated in 2007. Based on the results of the 2005 efficiency examination, this year's survey took the latest demands on the Supervisory Board functions into consideration and focused in particular on the timely supply of high-quality information by the Executive Board, activities of the committees taking into account all their functions and competencies as well as the meeting preparation and realization. The results show that the Supervisory Board and its committees fulfill all tasks set by the law, the Articles of Association and Rules of Procedure.

**GROUP-WIDE CODE OF CONDUCT TRAINING STARTS IN 2007** With the implementation of the "Code of Conduct" in 2006, our Executive Board defined business principles and guidelines for law-compliant and ethical behavior for all employees towards other employees, business partners and third parties and introduced these principles and guidelines throughout our Group. Disciplinary measures are taken against employees who infringe upon a law or the internal Code of Conduct while carrying out the adidas Group's business. In 2007, we began to train employees in compliance-relevant matters by means of an e-learning seminar especially developed for this purpose. This guarantees further enhancement of our risk management. [▷ see Risk and Opportunity Report, p. 104](#)

**ENSURING TRANSPARENCY AND COMMUNICATION WITH OUR SHAREHOLDERS** In accordance with the principles of fair disclosure, in view of our international shareholder structure and in order to achieve maximum transparency, we provide all institutional investors, private shareholders, financial analysts, employees and the interested public with the same information at the same point in time, in both English and German. For this purpose, we primarily use our website. [▷ www.adidas-Group.com](http://www.adidas-Group.com) There we publish all press releases and ad hoc announcements, financial reports, information on our analyst and press conferences, our Annual General Meeting and our financial calendar. In accordance with the new statutory regulations, we publish throughout Europe, inter alia, notifications on Directors' Dealings, on changes in the percentage of voting rights as well as all corporate information subject to disclosure requirements. These publications can then be accessed centrally through the electronic business register.

**ANNUAL GENERAL MEETING ATTENDANCE INCREASED FURTHER** The Annual General Meeting is a platform for dialog between our shareholders and the Executive and Supervisory Boards. It is also the forum for shareholders to execute their voting rights. At our Annual General Meeting on May 10, 2007, 44 % of the capital with voting rights was present. This represents an increase of 5 percentage points compared to the prior year. We attribute this considerable increase in the attendance rate to the proxy solicitation conducted prior to the Annual General Meeting, when our shareholders were directly contacted and informed on the exact deadlines, registration requirements and possibilities for exercising their voting rights. Furthermore, our shareholders may utilize our enhanced Internet service. This service offers our shareholders the possibility to have their voting rights exercised by a proxy appointed by adidas AG, a service which can be requested in writing or via the Internet until the end of the general debate (7.8% of the stock capital exercised voting rights via the Internet at the 2007 Annual General Meeting). In light of the increasing importance of electronic transmission of information, we created the necessary preconditions for this with the amendment to the Articles of Association resolved by the shareholders. The use of the Internet service has been sustainably supported, and obstacles, especially with regard to the cross-border exercise of voting rights, have been reduced. At our next Annual General Meeting, taking place on May 8, 2008 in Fuerth (Bavaria), we will again provide our shareholders with the best possible service.

**DIRECTORS' DEALINGS AND SHARE OWNERSHIP** Pursuant to § 15a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) Executive and Supervisory Board members, other key executives as well as persons in close relationship with them are required to disclose the purchase or sale of adidas AG shares or related financial instruments within five business days (Directors' Dealings). In 2007, we received eight Directors' Dealings notifications relating to adidas shares (ISIN DE0005003404), which were published at [www.adidas-Group.com/directors\\_dealings](http://www.adidas-Group.com/directors_dealings). We received no notification from our Executive or Supervisory Boards in 2007 relating to their ownership of adidas AG shares or financial instruments pursuant to Article 6.6 of the German Corporate Governance Code. Further, we did not receive any notifications in 2007 according to which individual Executive or Supervisory Board members' share ownership reached, exceeded or fell below the applicable notification thresholds provided in the German Securities Trading Act.

#### DIRECTORS' DEALINGS IN 2007

Frankfurt am Main, Date	Name	Position	Type of transaction	Number of shares	Price in €	Transaction volume in €
April 11, 2007	Christian Tourres	Supervisory Board	Sale	80,000	43.00	3,440,000.00
April 17, 2007	Christian Tourres	Supervisory Board	Sale	80,000	45.10588	3,608,446.40
November 8, 2007	Christian Tourres	Supervisory Board	Sale	100,000	47.915	4,791,500.00
November 16, 2007	Herbert Hainer	Executive Board	Purchase	1,094	46.50	50,871.00
November 16, 2007	Herbert Hainer	Executive Board	Purchase	500	46.44	23,220.00
November 16, 2007	Herbert Hainer	Executive Board	Purchase	406	46.49	18,874.94
November 27, 2007	Fritz Kammerer	Supervisory Board	Purchase	220	44.82	9,860.40
December 28, 2007	Christian Tourres	Supervisory Board	Sale	100,000	50.615	5,061,500.00

**FURTHER RECOMMENDATIONS OF THE GERMAN CORPORATE GOVERNANCE CODE IMPLEMENTED** By resolution of the Annual General Meeting held on May 10, 2007, we amended our Articles of Association to ensure that remuneration of Supervisory Board members will reflect committee participation effective as of 2008. This means we now follow an additional German Corporate Governance Code recommendation (hereinafter referred to as "Code"). In 2007, both the Executive and Supervisory Boards were regularly informed on the latest Corporate Governance developments by our Corporate Governance Officer. The Boards also examined our compliance with Code regulations, particularly with the new regulations which came into effect on June 14, 2007. As a result of these discussions, the Executive and Supervisory Boards issued an updated Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act on February 11, 2008. The full text version is available for download on our website at [www.adidas-Group.com/corporate\\_governance](http://www.adidas-Group.com/corporate_governance) together with all past Declarations of Compliance. Accordingly, we also fulfill all new recommendations introduced by the Code Commission in 2007 and comply with the majority of the Code's non-binding suggestions.

adidas AG has been and will continue to be in compliance with all recommendations of the German Corporate Governance Code dated June 14, 2007, with the following exceptions:

- ⇒ The Directors & Officers' liability insurance for our Executive and Supervisory Board members does not include a deductible as this is not common practice outside Germany. Further, we believe that it is not appropriate for our Group insurance policy, which covers a large number of high-level executives in Germany and abroad, to differentiate between Executive and Supervisory Board members and other executives.
- ⇒ The determination and review of the structure and level of Executive Board compensation was delegated by the Supervisory Board to its General Committee in its Rules of Procedure. The Supervisory Board plenum is informed on the respective results. This system has proven successful over time.
- ⇒ Stock options granted to the Executive Board within the scope of the Management Share Option Plan (MSOP) do not provide a possibility of a retroactive limitation (cap) for extraordinary, unforeseen developments as all stock options were granted in May 2003 before this Code recommendation was introduced. As of 2008, our Executive Board members do not hold any further stock options. Should we decide, however, to initiate a new stock option plan in the future, we will comply with this recommendation.
- ⇒ We do not specify an age limit for Supervisory Board members as our shareholders currently do not consider this necessary.
- ⇒ The new regulation of Supervisory Board compensation applicable as of 2008 does not include a variable component linked to the Group's performance either, in order to ensure the independent supervision required.
- ⇒ Ownership of adidas AG shares or related financial instruments by Executive and Supervisory Board members is reported if it reaches, exceeds or falls below the notification thresholds provided in the German Securities Trading Act and if adidas AG is notified of this fact. We consider the thresholds stipulated in § 21 and § 25 of the German Securities Trading Act as amended in January 2007 and the increased transparency thus achieved by German legislation to be appropriate and sufficient for adidas AG as well.

In addition, at the Supervisory Board meeting on November 7, 2007, the Supervisory Board resolved to comply with the recommendation of the Code to form a nomination committee. A decision upon the composition of the committee, which proposes suitable candidates to the Supervisory Board for recommendation to the Annual General Meeting, is expected in spring 2008 in order for the committee to have sufficient time for its tasks with regard to the next election of Supervisory Board members at the Annual General Meeting in 2009.

**MORE INFORMATION ON CORPORATE GOVERNANCE** All adidas AG corporate governance documents are available on our website at [www.adidas-Group.com/corporate\\_governance](http://www.adidas-Group.com/corporate_governance)