

**Report of the Executive Board to the Annual General Meeting  
pursuant to § 71 section 1 no. 8, § 186 section 4, sentence 2 AktG**

**Report of the Executive Board concerning Agenda Item 7:**

Under Agenda Item 7, Executive Board and Supervisory Board propose that the Company be authorized, pursuant to § 71 section 1 no. 8 AktG and in accordance with customary corporate practices, to repurchase on or before November 9, 2008, its outstanding treasury shares up to a total of 10% of the stock capital valid as of the date of the resolution adopted on May 10, 2007 or – if this amount is lower – as of the date on which the aforementioned authorization has been exercised. Since the current authorization granted under the shareholders' resolution of May 11, 2006 will expire on November 10, 2007, a new authorization shall be granted already on occasion of this Annual General Meeting and the existing authorization shall be revoked.

In repurchasing the Company's treasury shares, the principle of non-discrimination under § 53a AktG must be observed. The proposed repurchase of shares either on the stock exchange, through a public repurchase offer or through a public invitation to submit offers for sale adheres to this principle. If the public offer is over-subscribed, the acceptances thereof must be done on the basis of pro-rata interests. The Company may provide for preferential acceptance of smaller units of up to 100 tendered shares per shareholder as well as a rounding of fractional amounts in accordance with general commercial principles. These prospects are intended to avoid any fractional amounts when establishing the percentages for repurchase and any residual amounts and therefore serve to facilitate and simplify technical settlement.

Under the proposed authorization, the Company's treasury shares, which it has repurchased from its shareholders, may either be redeemed and cancelled or resold through a public offer made to all shareholders or through transactions on the stock exchange. With respect to the latter two possibilities for selling the repurchased Company's shares, the shareholders' right of non-discrimination will be respected during the sale.

- 1) In compliance with the statutory rule set forth in § 71 section 1 no. 8 sentence 5 AktG, the proposed authorization also provides that the Executive Board, subject to Supervisory Board approval, may sell the repurchased shares in a manner other than through a sale on the stock exchange or an offer made to all shareholders if the repurchased Company's shares are sold in exchange for a cash payment in accordance with § 186 section 3 sentence 4 AktG at a price that – as of the date of sale – is not significantly below the stock exchange price for the Company's shares with the same features. Date of sale shall be considered the date of the entering into the assignment agreement, even if such is still subject to the fulfillment of certain conditions. If the assignment is not preceded by a particular assignment agreement, the date of sale shall be the date of the assignment itself. This shall also apply if the assignment agreement specifies the date of assignment as relevant date. The final sales price for the Company's treasury shares will be established based on the aforementioned rules immediately prior to the sale of the Company shares.

This, however, is applicable only subject to the proviso that the pro-rata amount of the stock capital, which is attributable to the aggregate number of shares sold under this authorization, together with the pro-rata amount of the stock capital attributable to the new shares that will be issued after the date on which the shareholders' resolution concerning this authorization was adopted (i.e. since May 10, 2007), on the basis of any authorizations to issue shares from authorized capital subject to the exclusion of subscription rights pursuant to § 186 section 3 sentence 4 AktG, and together with the pro-rata amount of the stock capital that is attributable to the bonds with warrants and/or convertible bonds, which are linked to subscription or conversion rights on shares that are issued on the basis of any authorizations pursuant to §§ 221 section 4, 186 section 3 sentence 4 AktG after the date on which the shareholders' resolution concerning these authorizations was adopted, may not exceed a total of 10% of the Company's stock capital valid as of the date on which the resolution was adopted by the General Meeting of May 10, 2007 or – if this amount is lower – as of the date on which the aforementioned authorization has been exercised.

The prospect of selling in a form other than on the stock exchange or through an offer made to all shareholders is in the best interest of the Company and the shareholders since the sale of shares to institutional investors, for example, will attract additional domestic and foreign shareholders. In addition, the Company will then be in a position to restructure its own equity capital to meet its respective business needs and to react quickly and flexibly to a more favorable stock market environment. The property interests and voting rights of the shareholders will be respected. In view of the small volume, the shareholders will not suffer any detriment since the shares sold subject to the exclusion of the shareholders' subscription rights may be sold only at a price, which - as of the date of the sale - is not significantly below the stock exchange price for the Company's shares with the same features. When exercising the authorization, any other issue of shares or of subscription or conversion rights, in the event such were issued subject to the exclusion of subscription rights according to § 186 section 3 sentence 4 AktG, has to be considered. Accordingly, interested shareholders may on approximately the same terms and conditions purchase on the stock exchange the number of shares required to maintain their respective shareholding ratio.

- 2) The Company shall also be able to offer its treasury shares as consideration in connection with mergers and (even the indirect) acquisition of companies, corporate divisions or participations.

The price at which the Company's treasury shares are used in any such case will depend on the timing and respective circumstances of the individual case. The Executive Board and the Supervisory Board shall act in the best interests of the Company in setting the price.

Historically, the Executive Board has continuously reviewed opportunities for the Company to purchase companies or participations in companies which are involved in the business of producing and selling sports or leisure goods or are otherwise involved in the sports or leisure industry. The purchase of such participations or companies in exchange for its treasury shares is in the Company's best interest if the purchase solidifies or strengthens the market position of the adidas Group or makes possible or facilitates the access to new business sectors. In order to quickly and

flexibly react to the interest of a seller or of the Company in a payment in the form of shares of the Company if such agreements are successfully completed, the Executive Board must – to the extent that there is no access to authorized capital – have the authority, subject to Supervisory Board approval, to grant treasury shares of the Company (while excluding the shareholders' subscription rights) as a means of payment. Since the volume of treasury shares will be limited and the shares shall be issued at a price that is based on the stock exchange price, the interested shareholders will have an opportunity, at about the same time as the Company's treasury shares are sold for the aforementioned purposes of acquiring companies or participations and the shareholders' subscription rights are excluded, to purchase additional shares on the stock exchange at the stock market price and to a large extent on comparable terms and conditions.

Based on the aforementioned considerations, the Executive Board believes that the proposed sale of the Company's treasury shares is in the best interest of the shareholders, which can in any individual case justify the exclusion of the shareholders' subscription rights. The Executive Board and Supervisory Board will therefore review each individual acquisition and will consider whether a purchase in exchange for the issuance of the Company's treasury shares, subject to the exclusion of the shareholders' subscription rights, will be in the prevailing interests of the Company.

- 3) Furthermore, the Company shall have the opportunity to use its treasury shares as consideration for the transfer of intellectual property rights or intangible property rights of athletes and sports clubs, such as trademarks, names and logos, to the Company or one of its group companies for purposes of marketing the products of the adidas Group. In addition, the Company's treasury shares shall serve as consideration for the direct or indirect acquisition of licenses in such rights by the Company. Moreover, the Company shall also be able to use its treasury shares for purchasing patents and patent licenses, the exploitation of which would be in the Company's interest for purposes of marketing and developing existing and new products of the adidas Group.

In the event that athletes, sports clubs and third parties, who hold rights in intellectual property rights and intangible property rights relating to the athletes and sports clubs, and patent holders are prepared to transfer or license such rights only in exchange for shares or, in the case of cash payments, only at significantly higher prices, the Company has to be in a position to react to such a situation in an appropriate way. The valuation of intangible property rights or license rights will be made on the basis of market conditions in the event that the Company's treasury shares are used for their purchase. The shares to be granted by the Company will be valued on the basis of the stock exchange price for such shares.

The Executive Board continuously negotiates with various clubs in Germany and abroad on sponsoring agreements, which are intended to permit the Company to exploit the known names and logos of such clubs under a license in order to help market the products of the adidas Group. If clubs during these negotiations insist on being paid in the form of shares of the Company, the Executive Board must have the option, subject to Supervisory Board approval and provided access to authorized capital should not be available, to grant the Company's treasury shares as consideration while excluding the shareholders' subscription rights. The Company

also has to have the option to purchase direct or indirect licenses in the names or other personal trademarks of athletes with shares.

Furthermore, the Executive Board considers it possible that there will be opportunities for the Company, in exchange for shares of the Company, to purchase directly or indirectly patents or licenses in patent rights, the exploitation of which will be in the Company's best interests for the products that the adidas Group currently has, currently develops or plans to develop in the future. Also in this respect, the Executive Board must have the opportunity, subject to Supervisory Board approval, to issue shares of the Company as consideration for the assignment of such patents or for the granting of patent licenses, in the event the patent holder wishes to be paid in the form of stock or in the event such is in the best interest of the Company.

The purchase of licenses, patents or other industrial/intangible property rights of clubs, athletes or patent holders will be carried out either by the Company or by one of its group companies. If necessary, the purchase shall be made not from the relevant club or athlete directly but rather from companies or third parties who have purchased the relevant rights from the club or athletes. It is also conceivable that the consideration to be paid by the Company will consist of both stock and cash (royalties).

The evaluation of the licenses or patents and other industrial/ intangible property rights to be acquired by the Company directly or indirectly shall be carried out in accordance with market-oriented principles, if necessary, on the basis of an expert valuation. The evaluation of the shares to be granted by the Company shall be linked with the stock exchange price. Shareholders who wish to maintain their shareholding ratio in the Company may therefore do so through acquisition of further shares on the stock exchange at essentially comparable conditions.

The granting of shares in the aforementioned cases will be in the best interests of the Company if the use and exploitation of the licenses or patents and any other intellectual/intangible property rights promises significant advantages for the Company in the marketing and promotion and/or development of its products and a purchase of the license or intellectual property rights in return for cash is not possible or is possible only at a higher price and at a disadvantage to the Company's liquidity and cash flow. The Executive Board shall on case-by-case basis review and consider the aforementioned when deciding whether to grant treasury shares.

The decision of whether to grant treasury shares of the Company as consideration for the aforementioned opportunities for purchasing companies, participations, patents and other intellectual/intangible property rights and the corresponding license rights, shall be made on a case-by-case basis by the Executive Board, subject to Supervisory Board approval, taking into consideration the Company's interests in any specific transaction, the actual necessity for granting the shares, and the valuation thereof.

Thus, the authorization to repurchase and sell the Company's treasury shares in respect of such opportunities serves the same purpose as the Authorized Capital 2005/II according to § 4 section 3 of the Company's Articles of Association. The Company thus has the possibility to acquire companies, participations, patents and other intellectual/intangible property rights and license rights with shares either previously repurchased by the Company or issued from the Company's authorized capital reserve. With respect hereto, the Executive Board decides, subject to

Supervisory Board approval, whether to use the Company's treasury shares repurchased on the basis of this authorization or the shares issued from the authorized capital under § 4 section 3 of the Articles of Association.

- 4) In addition, the Company shall have the opportunity to use its treasury shares to perform on the subscription or conversion rights and conversion obligations based on certain bonds with warrants and/or convertible bonds issued by the Company or any of its direct or indirect group companies.

The proposed resolution does not lead to the creation of a new or further authorization to issue bonds with warrants or convertible bonds. It merely has the purpose to enable the Management to service subscription rights or conversion rights or conversion obligations, which have already been or will be issued on the basis of other authorizations, with treasury shares instead of using the other available amounts of contingent capital, provided, on case-by-case basis and upon examination by the Executive Board and the Supervisory Board, such is in the interest of the Company. Subscription or conversion rights or conversion obligations, which are considered appropriate for servicing with treasury shares in accordance with the proposed authorization, are (i) bonds with warrants and convertible bonds which can be issued on the basis of the authorization granted by the Annual General Meeting of May 8, 2003 in the version of the authorization granted by the Annual General Meeting of May 11, 2006 (Authorization 2003), (ii) the convertible bonds issued in the fiscal year 2003 by adidas-Salomon International Finance B.V, Amsterdam (now: adidas International Finance B.V.), under the Company's guarantee on the basis of the Authorization 2003 in the aggregate principal amount of EUR 400,000,000 (Convertible Bonds 2003), and (iii) bonds with warrants and convertible bonds, which will be issued on the basis of the authorization proposed for resolution to the Annual General Meeting on May 11, 2006.

- 5) Finally, the Company should have the opportunity to use its treasury shares to perform on the stock options arising from the Management Share Option Plan 1999 (MSOP). Such opportunity shall be granted along with the already existing possibility to service such stock options with shares issued from a contingent capital resolved upon together with the MSOP on May 20, 1999. The decision whether the beneficiaries will be offered or assigned shares from the contingent capital or from the stock of repurchased treasury shares will be made by the Company on a case-by-case basis depending on the respective liquidity and market situation. The possibility to service stock options arising from the MSOP with treasury shares does not lead to the creation of a new share option plan or to an amendment of the MSOP.

The total volume of the formerly issued stock options of the MSOP only amounted to approximately 3% of the Company's stock capital; with the majority of the stock options already exercised and only 58,625 stock options remaining outstanding by February 28, 2007, the claims from stock options still outstanding only amount to approx. 0.12% of the Company's current stock capital. There is therefore no significant dilution of the shareholders' stock if the stock options are serviced with treasury shares of the Company. Furthermore, stock options may only be exercised if the stock market price of the Company's shares in absolute terms significantly increased or if the stock market price has developed more favorably than the stock market prices of the shares of the major competitors. The performance discount to be deducted from the exercise price, if necessary, only applies if the performance

objectives have not only been met but even exceeded and the stock market price of the Company's shares in absolute terms and/or in relative terms in comparison to the major competitors has developed clearly positive. The extent of the compensation to be paid to the executives within the scope of the MSOP is therefore directly connected with the extent to which the performance objectives have been exceeded.

- 6) The German Corporate Governance Code contains in sub-section 4.2.3 the recommendation that the variable compensation components of the Executive Board members inter alia shall contain components with long-term incentive effects and risk character. In accordance with the German Corporate Governance Code, this applies particularly to shares with a waiting period of several years.

The authorization under section 3) takes this into account. It enables the Supervisory Board – as already by resolution of the previous annual general meetings – to pay out management bonuses in the form of stocks. As the authorization may only be used provided a reasonable level of compensation is ensured (§ 87 section 1 AktG) and further provided that an appropriate legal and economic minimum waiting period is determined and that the shares shall be granted and assigned at the respective current stock exchange price, it is ensured that the shareholders' subscription right is excluded only to an appropriate extent and in the best interest of the Company. The Executive Board members who receive shares as compensation on this basis have an additional interest in achieving an increase in value of the Company expressed by the stock exchange price. They also bear the foreign exchange risk, however. This form of compensation therefore has risk character. The same shall apply if the shares as part of the compensation are not immediately assigned but, with regard to the fact that there is no possibility to sell such shares anyway, are first only promised unconditionally. Even then, the risk for the further stock exchange price development is borne by the members of the Executive Board.

The further details are determined by the Supervisory Board within the scope of its legal responsibilities. It particularly decides whether, when and to what extent it will use the authorization (§ 87 section 1 AktG). The Supervisory Board is also responsible for the observance of any further requirements of the German Corporate Governance Code. In view of the statutory distribution of responsibilities, the Supervisory Board, however, does not have the possibility as representative of the Company to acquire shares of the Company itself for the purpose of compensating the Executive Board or to ask the Executive Board to acquire such treasury shares on its behalf. If therefore there are no such shares available, the authorization cannot be used. This does not exclude that the recommendation of the German Corporate Governance Code may in such a case be followed by different means.