adidas

ANNUAL REPORT 2018

OUR CORE BELIEF

THROUGH SPORT, WE HAVE THE POWER TO CHANGE LIVES

OUR MISSION

TO BE THE BEST SPORTS COMPANY IN THE WORLD

TARGETS – RESULTS – OUTLOOK[1]

Targets 2018[2]	Results 2018	Outlook 2019
Currency-neutral sales **increase at a rate around 10%**	Currency-neutral sales **increase of 8%** Sales of **€ 21.915 billion**	Currency-neutral sales **increase at a rate between 5% and 8%**
Gross margin **increase to a level of up to 50.7%**	Gross margin **increase of 1.4pp to 51.8%**	Gross margin **increase to a level of around 52.0%**
Operating margin **increase to a level between 10.3% and 10.5%**	Operating margin **increase of 1.1pp to 10.8%**	Operating margin **increase between 0.5pp and 0.7pp** to a level between 11.3% and 11.5%
Net income from continuing operations[3] **increase at a rate between 13% and 17%** to a level between € 1.615 billion and € 1.675 billion	Net income from continuing operations[3] **increase of 20% to € 1.709 billion**	Net income from continuing operations[4] **increase at a rate between 10% and 14%** to a level between € 1.880 billion and € 1.950 billion
Average operating working capital (in % of net sales) **around prior year level**	Average operating working capital (in % of net sales) **decrease of 1.4pp to 19.0%**	Average operating working capital (in % of net sales) **slight increase**
Capital expenditure **around € 900 million**	Capital expenditure **€ 794 million**	Capital expenditure[5] **increase to a level of up to € 900 million**

1 Figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 As published on March 14, 2018; the outlook was updated over the course of the year.
3 2017 excluding negative one-time tax impact of € 76 million.
4 2019 excluding negative impact from accounting change according to IFRS 16 of around € 35 million (based on lease contracts as at January 1, 2019); including this impact, net income from continuing operations is currently expected to increase at a rate between 8% and 12% to a level between € 1.845 billion and € 1.915 billion.
5 2019 excluding acquisitions and finance leases.

FINANCIAL HIGHLIGHTS 2018 (IFRS)

	2018	2017	Change
Operating Highlights (€ in millions)			
Net sales[1]	21,915	21,218	3%
Gross profit[1]	11,363	10,703	6%
Other operating expenses[1,2]	9,172	8,766	5%
EBITDA[1]	2,882	2,511	15%
Operating profit[1]	2,368	2,070	14%
Net income from continuing operations[1,3]	1,709	1,430	20%
Net income attributable to shareholders[3,4]	1,702	1,173	45%
Key Ratios			
Gross margin[1]	51.8%	50.4%	1.4pp
Other operating expenses in % of net sales[1,2]	41.9%	41.3%	0.5pp
Operating margin[1]	10.8%	9.8%	1.1pp
Effective tax rate[1,3]	28.1%	29.3%	(1.2pp)
Net income attributable to shareholders in % of net sales[3,4]	7.8%	5.5%	2.2pp
Average operating working capital in % of net sales[1]	19.0%	20.4%	(1.4pp)
Equity ratio[5]	40.8%	43.0%	(2.2pp)
Net borrowings/EBITDA[1]	(0.3)	(0.2)	n.a.
Financial leverage[5]	(15.0%)	(8.0%)	(7.0pp)
Return on equity[4,5]	26.7%	18.2%	8.5pp
Balance Sheet and Cash Flow Data (€ in millions)			
Total assets[5]	15,612	14,019	11%
Inventories	3,445	3,692	(7%)
Receivables and other current assets	3,734	3,277	14%
Operating working capital	3,563	4,033	(12%)
Net cash	959	484	98%
Shareholders' equity[5]	6,377	6,032	6%
Capital expenditure[1]	794	752	6%
Net cash generated from operating activities[4]	2,646	1,648	61%
Per Share of Common Stock (€)			
Basic earnings[1,3]	8.46	7.05	20%
Diluted earnings[1,3]	8.45	7.00	21%
Net cash generated from operating activities[4]	13.11	8.14	61%
Dividend	3.35[6]	2.60	29%
Share price at year-end	182.40	167.15	9%
Other (at year-end)			
Number of employees[1]	57,016	56,888	0%
Number of shares outstanding	199,171,345	203,861,234	(2%)
Average number of shares	201,759,012	202,391,673	0%

1 Figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 Figures reflect the adjusted consolidated income statement structure introduced in 2018.
3 2017 excluding negative one-time tax impact of € 76 million.
4 Includes continuing and discontinued operations.
5 2017 restated according to IAS 8, see Note 03.
6 Subject to Annual General Meeting approval.

ABOUT THIS REPORT

With the Annual Report 2018, adidas communicates financial and non-financial information in a combined publication. The report provides a comprehensive overview of the financial, environmental and social performance of adidas in the 2018 financial year.

We publish our Annual Report exclusively in a digital format. It is available as a full-content PDF and as a condensed Online Summary.

ADIDAS ANNUAL REPORT 2018

PDF

ADIDAS ANNUAL REPORT 2018, ONLINE SUMMARY

↗ REPORT.ADIDAS-GROUP.COM

To enhance readability, registered trademarks as well as references to rounding differences are omitted in this publication. The adidas Annual Report 2018 is available in English and German.

THE FOLLOWING SYMBOLS INDICATE IMPORTANT INFORMATION:

- ↗ There is more information online.
- There is more information in a related table or diagram.
- There is more information within the report.
- These are parts of the non-financial statement that are covered by a separate limited assurance engagement. SEE NON-FINANCIAL STATEMENT, P. 101

DATA AND FINANCIAL REPORTING STANDARDS

The reporting period is the financial year from January 1 to December 31, 2018. To ensure this report is as current as possible, it includes all relevant information available up to the date of the Responsibility Statement, February 27, 2019.

The consolidated financial statements and the Group Management Report are prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), and additional requirements pursuant to the German Commercial Code (Handelsgesetzbuch – HGB).

Internal Control over Financial Reporting (ICoFR) provides reasonable assurance regarding the reliability of financial reporting and compliance with applicable laws and regulations. To monitor the effectiveness of ICoFR, accounting-related processes are regularly reviewed.

INDEPENDENT ASSURANCE

The consolidated financial statements prepared by adidas AG, including the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows, and the notes as well as the Group Management Report have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft. SEE INDEPENDENT AUDITOR'S REPORT, P. 232

In addition, this report contains a combined non-financial statement for adidas AG and the Group. The content of the non-financial statement is covered by a separate limited assurance engagement of KPMG AG Wirtschaftsprüfungsgesellschaft. SEE NON-FINANCIAL STATEMENT, P. 101 The assurance was conducted using the International Standard on Assurance Engagements ISAE 3000 (Revised). SEE INDEPENDENT AUDITOR'S ASSURANCE REPORT, P. 232 The content of the non-financial statement combined with further information in this report and on our corporate website fulfills the Global Reporting Initiative's (GRI) Standards 'Core' option. The GRI content index can be found online. ↗ ADIDAS-GROUP.COM/SUSTAINABILITY

It was not part of KPMG's engagement to review the condensed online version of this report or references to external sources such as our corporate website.

FORWARD-LOOKING STATEMENTS

Our Group Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of our company. The outlook is based on estimates that we have made on the basis of all the information available to us at the time of completion of this Annual Report. In addition, such forward-looking statements are subject to uncertainties which are beyond the control of the company. SEE RISK AND OPPORTUNITY REPORT, P. 131 In case the underlying assumptions turn out to be incorrect or described risks or opportunities materialize, actual results and developments may materially deviate (negatively or positively) from those expressed by such statements. adidas does not assume any obligation to update any forward-looking statements made in the Group Management Report beyond statutory disclosure obligations. SEE OUTLOOK, P. 128

ADIDAS ANNUAL REPORT 2018

1 TO OUR SHAREHOLDERS

2 GROUP MANAGEMENT REPORT OUR COMPANY

3 GROUP MANAGEMENT REPORT FINANCIAL REVIEW

4 CONSOLIDATED FINANCIAL STATEMENTS

5 ADDITIONAL INFORMATION

Group Management Report: This report contains the Group Management Report of the adidas Group, comprising adidas AG and its consolidated subsidiaries, and the Management Report of adidas AG.

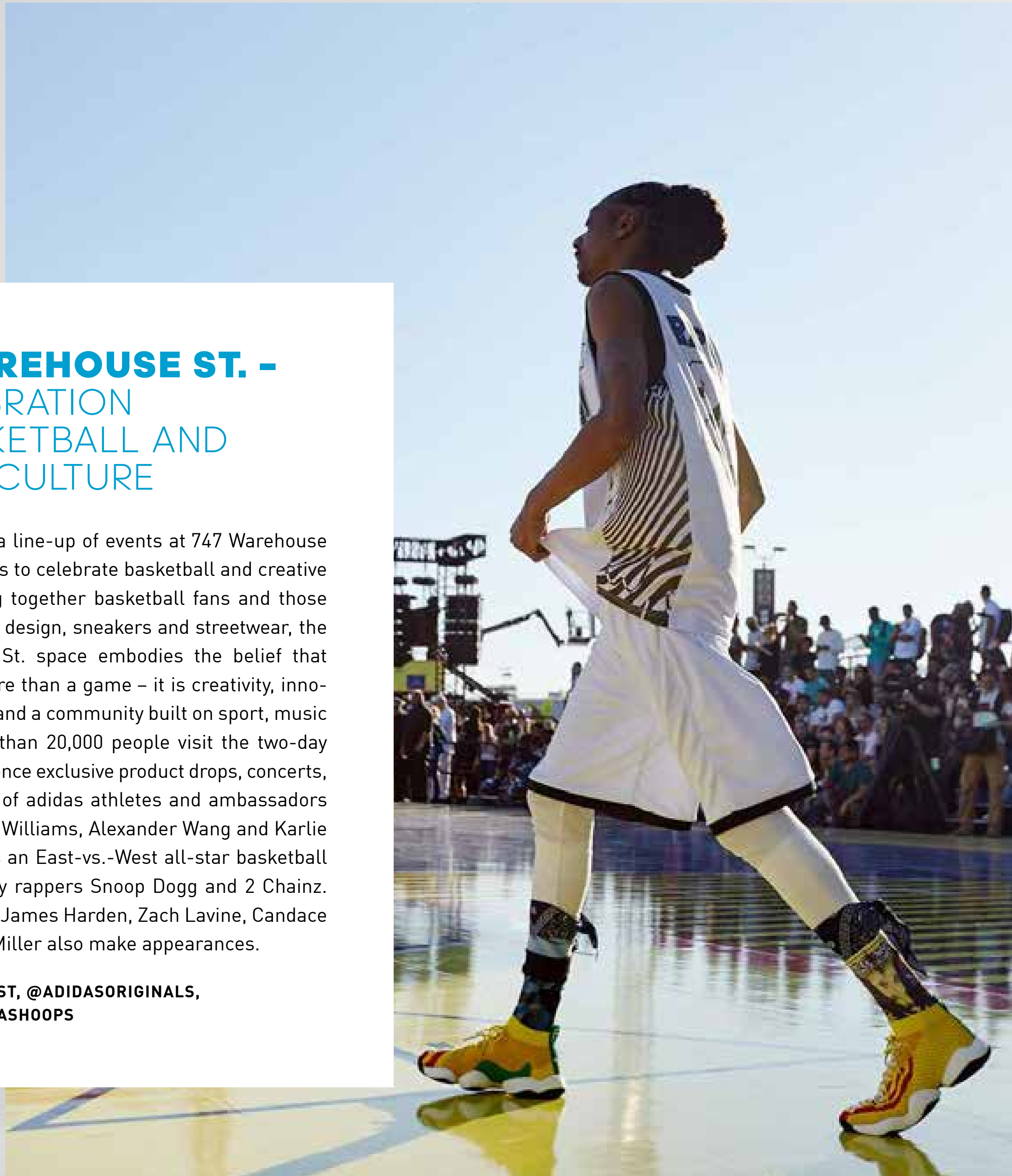
01 TO OUR SHAREHOLDERS

BEST OF 2018

ORIGINALS GOES PUBLIC TRANSPORT: EQT SUPPORT 93/BERLIN AND OYSTER CLUB PACK

adidas Originals presents the EQT Support 93/Berlin in cooperation with public transport company Berliner Verkehrsbetriebe (BVG). The pattern of the BVG seat covers serves as a design element of the sneaker and makes it a collector's item. In addition, an annual ticket is incorporated into the tongue of the shoe which makes the EQT Support 93/Berlin a valid ticket for all BVG vehicles. Later in 2018, adidas Originals presents another three limited-edition sneakers – this time in partnership with Transport for London. The exclusive 1,500 pairs form the 'Oyster Club Pack' and come with a prepaid Oyster Card to the value of £ 80.

↗ YOUTUBE



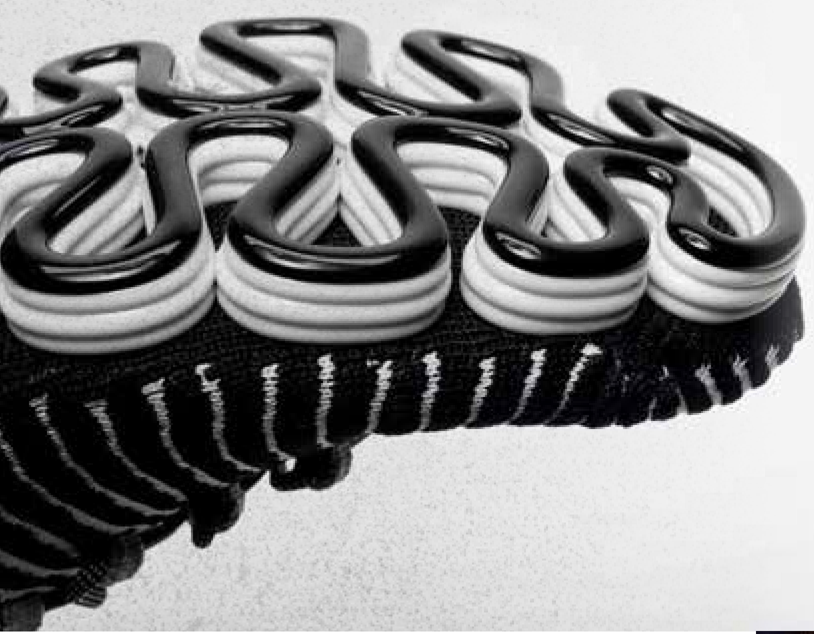
747 WAREHOUSE ST. – A CELEBRATION OF BASKETBALL AND STREET CULTURE

adidas rolls out a line-up of events at 747 Warehouse St. in Los Angeles to celebrate basketball and creative culture. Bringing together basketball fans and those passionate about design, sneakers and streetwear, the 747 Warehouse St. space embodies the belief that basketball is more than a game – it is creativity, innovative ingenuity, and a community built on sport, music and style. More than 20,000 people visit the two-day event and experience exclusive product drops, concerts, a speaker panel of adidas athletes and ambassadors such as Pharrell Williams, Alexander Wang and Karlie Kloss, as well as an East-vs.-West all-star basketball game coached by rappers Snoop Dogg and 2 Chainz. Athletes such as James Harden, Zach Lavine, Candace Parker and Von Miller also make appearances.

#747WAREHOUSEST, @ADIDASORIGINALS, @ADIDAS, @ADIDASHOOPS

FIVE YEARS OF BOOST!

In 2013, adidas started to revolutionize the running market with BOOST, the lightweight cushioning technology that stores energy at each step and returns it to the runner. Back then, the brand had kicked off the BOOST collection with the launch of Energy BOOST. Five years later, to celebrate the anniversary, the Energy BOOST makes its comeback and is complemented by two further silhouettes: the Energy BOOST OG and UltraBOOST LTD.



REEBOK GETS ‘LIQUIFIED’

Reebok introduces Liquid Floatride Run, a performance running shoe that applies Reebok’s Liquid Factory technology to its award-winning Floatride Run sneaker. It is the first application of the Liquid Factory technique on an existing Reebok model. The process makes the shoe 20% lighter and adds two new component features: liquid lace and liquid grip. The Reebok Liquid Factory concept debuted in late 2016. The manufacturing technique is based on 3D drawing, where a proprietary liquid material, created for Reebok by BASF, is used to draw shoe componentry cleanly, precisely and in three-dimensional layers.

↗ YOUTUBE

ADIDAS EXTENDS PARTNERSHIPS WITH UEFA AND DFB

adidas announces the continuation of its support for the UEFA Champions League through to 2021, as well as the UEFA Super Cup, UEFA Youth League and UEFA Futsal Champions League. The company has been the Official Match Ball Supplier since 2001 and is proud to remain a leading sporting partner in the world’s premier club football event. Later in the year, the extension of another successful partnership is announced: adidas and the German Football Association (DFB) declare that adidas will remain the Official Supplier of the world’s largest sports federation until 2026.

↗ READ PRESS RELEASE (UEFA)
↗ READ PRESS RELEASE (DFB)

SOLARBOOST – ROCKET SCIENCE FOR THE RUN

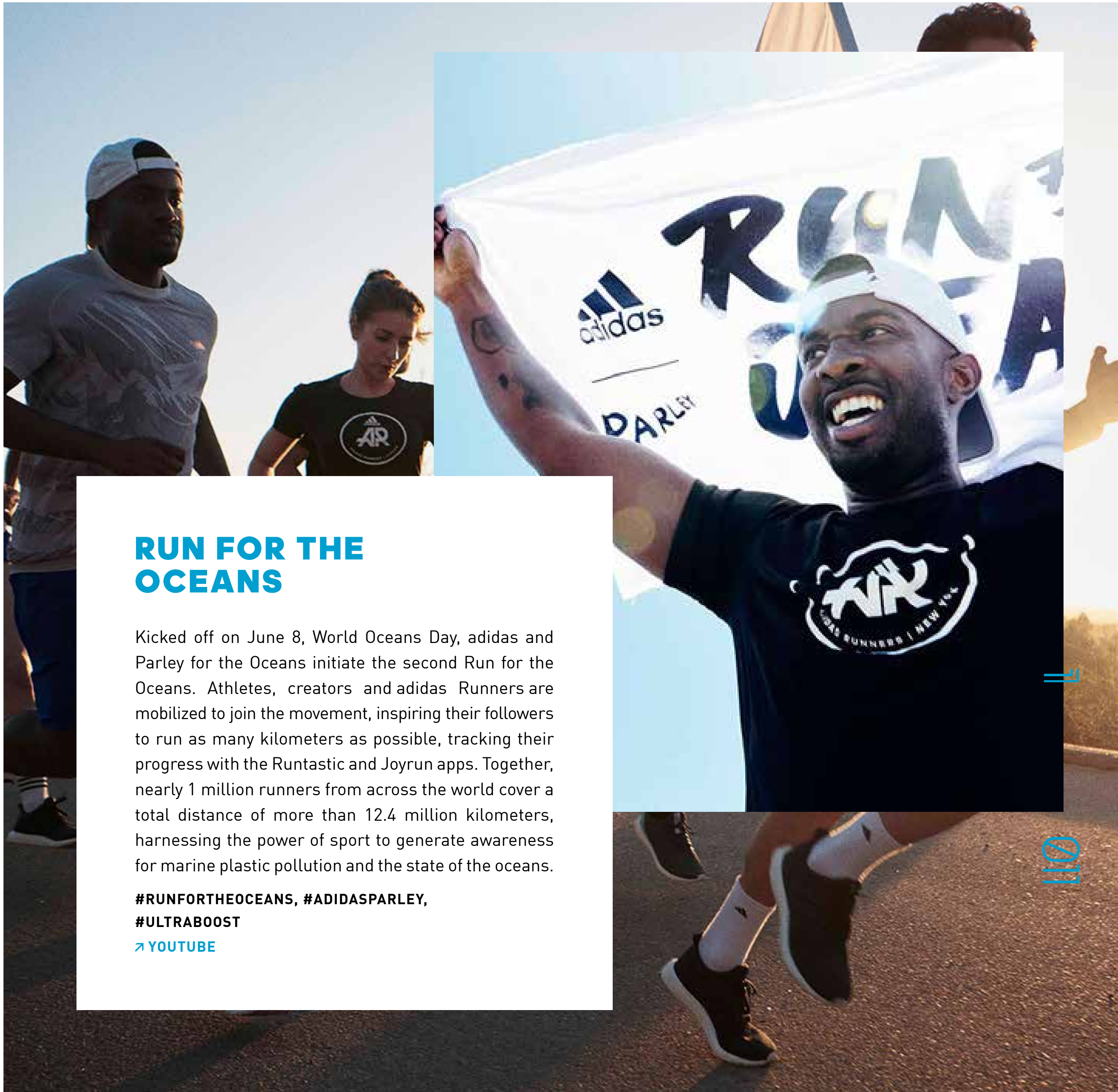
SolarBOOST is inspired by NASA engineering and designed for pure function. The silhouette is a high-performance, lightweight running shoe featuring data-driven ‘Tailored Fiber Placement’ technology. This technology lays down fibers, which feature Parley Ocean Plastic, so that every single millimeter of the shoe is precisely stitched and constructed. The result is superior comfort, fit and support in a lightweight form.

↗ YOUTUBE

CONTINENTAL 80 – A TENNIS LOOK FROM THE 1980S RETURNS IN FRESH STYLE

Steeped in nostalgia and harking back to adidas' legacy of iconic court-style leather silhouettes, the Continental 80 captures the retro look of indoor sneakers from the early 1980s. The leather shoes feature a swooping two-tone stripe and a distinctive split rubber cupsole that is built for a comfortable, flexible feel. Continental 80 is defined by its versatility, embodying the notion that sometimes simplicity can be the boldest attitude.

#CONTINENTAL80

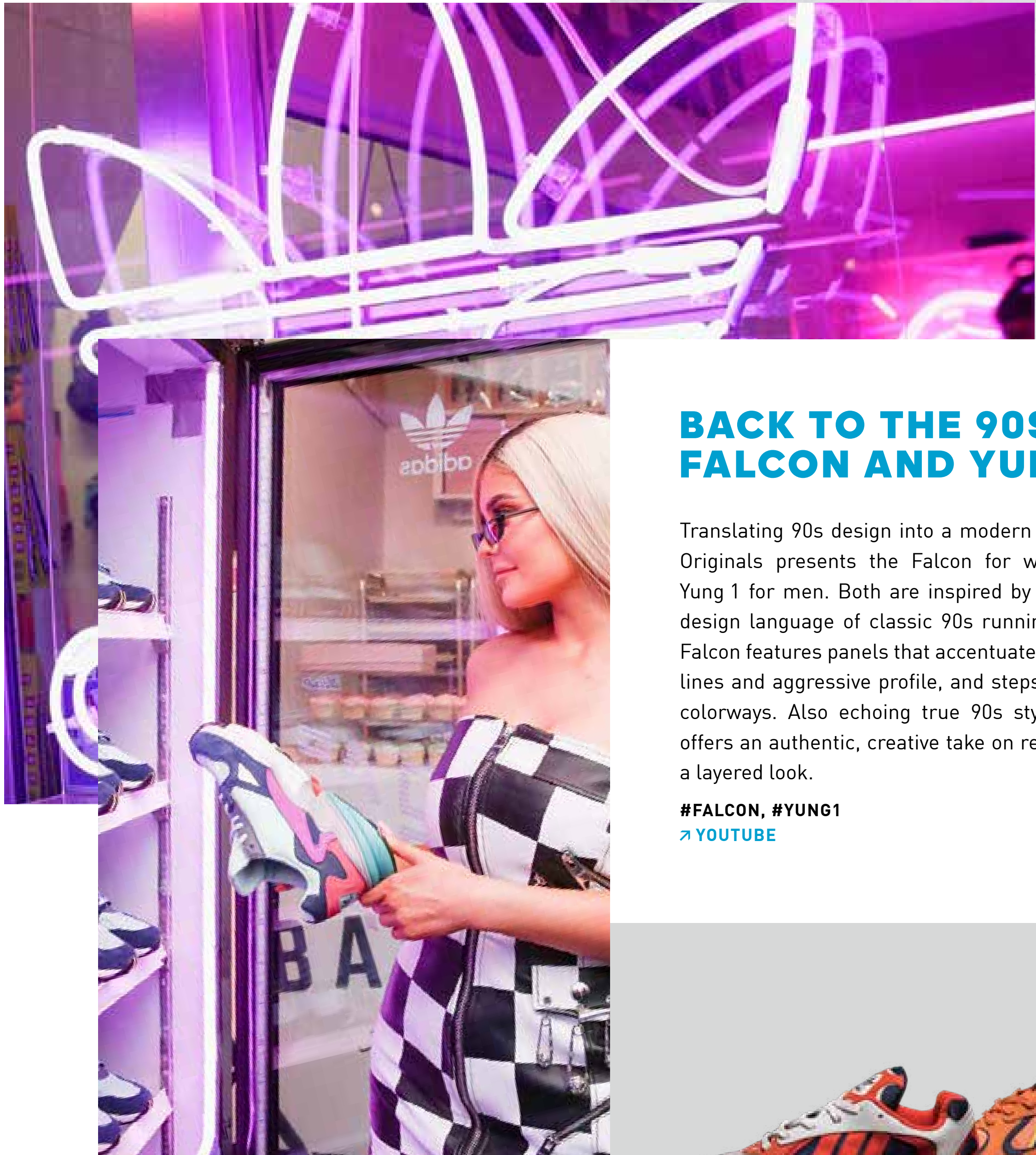


RUN FOR THE OCEANS

Kicked off on June 8, World Oceans Day, adidas and Parley for the Oceans initiate the second Run for the Oceans. Athletes, creators and adidas Runners are mobilized to join the movement, inspiring their followers to run as many kilometers as possible, tracking their progress with the Runtastic and Joyrun apps. Together, nearly 1 million runners from across the world cover a total distance of more than 12.4 million kilometers, harnessing the power of sport to generate awareness for marine plastic pollution and the state of the oceans.

#RUNFORTHEOCEANS, #ADIDASPARLEY, #ULTRABOOST

↗ YOUTUBE

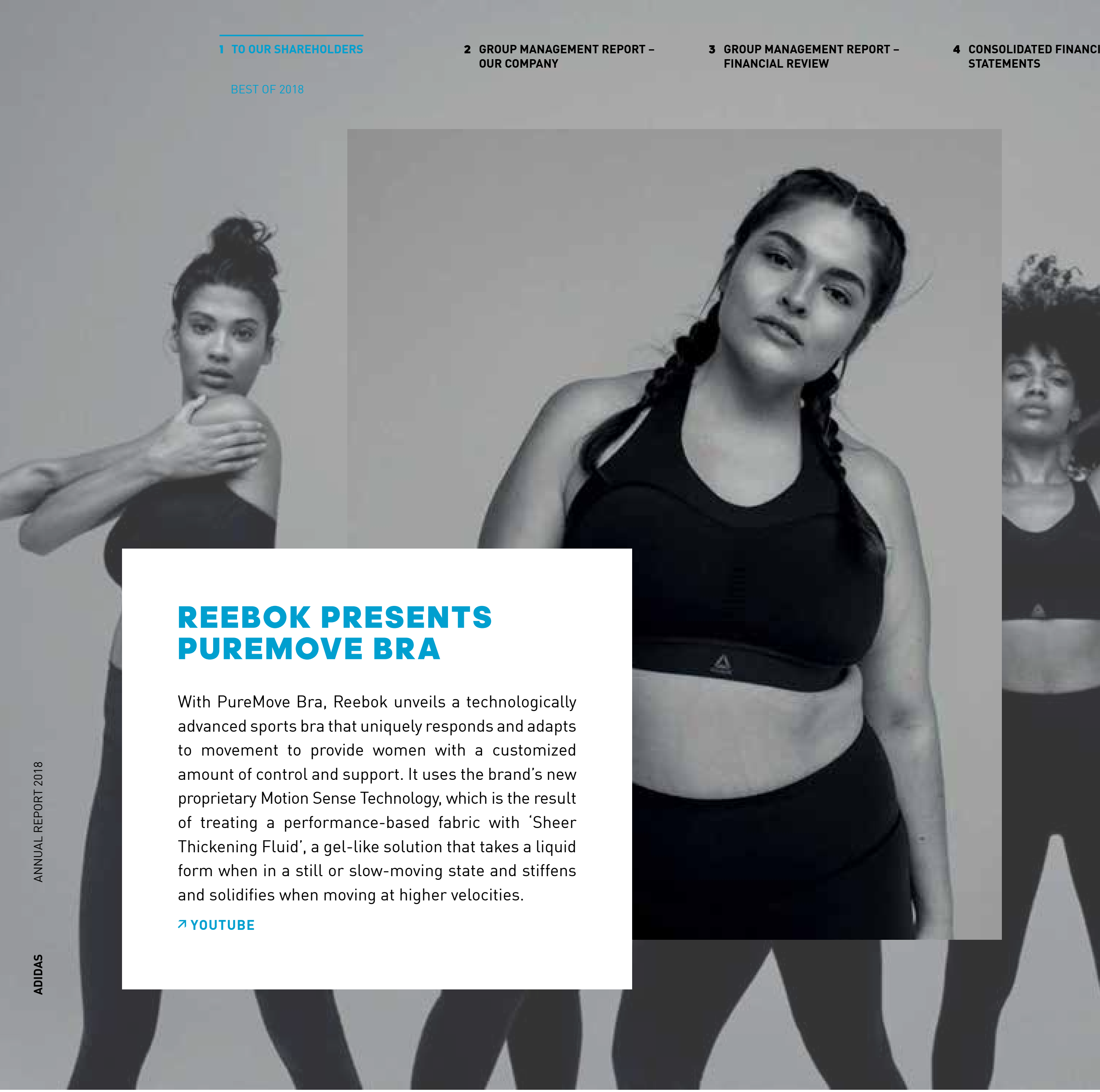


BACK TO THE 90S – FALCON AND YUNG 1

Translating 90s design into a modern context, adidas Originals presents the Falcon for women and the Yung 1 for men. Both are inspired by the maximalist design language of classic 90s running models. The Falcon features panels that accentuate the shoe's bold lines and aggressive profile, and steps out in striking colorways. Also echoing true 90s style, the Yung 1 offers an authentic, creative take on retro nostalgia in a layered look.

#FALCON, #YUNG1

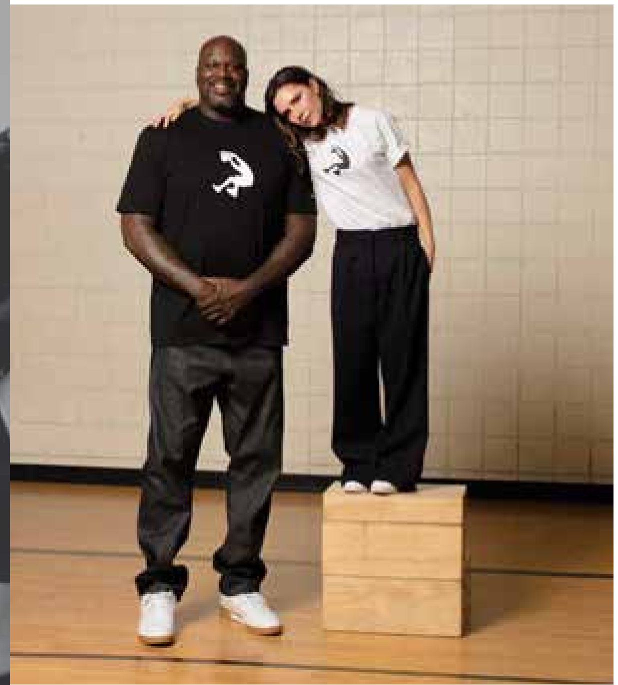
↗ YOUTUBE



REEBOK PRESENTS PUREMOVE BRA

With PureMove Bra, Reebok unveils a technologically advanced sports bra that uniquely responds and adapts to movement to provide women with a customized amount of control and support. It uses the brand's new proprietary Motion Sense Technology, which is the result of treating a performance-based fabric with 'Sheer Thickening Fluid', a gel-like solution that takes a liquid form when in a still or slow-moving state and stiffens and solidifies when moving at higher velocities.

↗ YOUTUBE



LAUNCH OF REEBOK X VICTORIA BECKHAM COLLECTION

Reebok releases its first-ever collection with fashion designer Victoria Beckham, after having announced the partnership in late 2017. The collection capsule celebrates the 90s basketball culture and is inspired by an icon of the era: basketball star Shaquille O'Neal. The limited-edition range includes a hoodie, T-shirt, and socks in black and white colorways with the Reebok and O'Neal's 'dunkman' logos accented.

↗ YOUTUBE

OVERALL INDUSTRY LEADER IN DJSI – ADIDAS GAINS TOP POSITION IN ITS SECTOR

For the 19th year in a row, adidas is included in the Dow Jones Sustainability Indices (DJSI), which evaluate the sustainability performance of the largest 2,500 companies listed in the Dow Jones Global Total Stock Market Index. In the 'Textiles, Apparel & Luxury Goods Industry', adidas is rated as Industry Leader in corporate economic, environmental and social dimensions.

↗ **READ PRESS RELEASE**

SPEEDFACTORY – CONTINUATION OF AM4 SERIES AND SPECIAL EDITIONS

The year 2018 sees the launch of several new Speedfactory products, including the key city editions for Los Angeles (AM4LA), New York (AM4NYC), Paris (AM4PAR), Shanghai (AM4SHA), London (AM4LDN) and Tokyo (AM4TKY). In addition, adidas releases limited editions throughout the year, such as the AM4BJK. Inspired by legendary female tennis player Billie Jean King, this advanced performance shoe is built and assembled at the Speedfactory in Atlanta, USA, and was launched to mark the start of the 2018 U.S. Open. At the end of the year, the series is complemented by running shoes resulting from a collaboration with local L.A. and NYC creators such as celebrity stylist Kwasi Kessie and the Brooklyn Ballet.

'CREATIVITY IS THE ANSWER' – 2018 FIFA WORLD CUP CAMPAIGN

Using the world's biggest moment in sport as the backdrop, adidas re-engineers the traditional campaign model through personal storytelling. The 'Creativity is the Answer' campaign brings together 56 of the most influential creators across sports culture, including Lionel Messi, Gabriel Jesus, Mo Salah, Zinédine Zidane and Pharrell Williams. 'Creativity is the Answer' is the brand's most personal campaign to date.

#HERETOCREATE

↗ **YOUTUBE**

REEBOK LAUNCHES AZTREK

Twenty-five years after its original launch in 1993, Reebok reintroduces the Aztrek: an off-road runner that perfectly embraces the heart of 1990s sneaker style with its futuristic layers and chunky design. To celebrate this return, Reebok launches a campaign featuring six 90s-raised tastemakers for a content series titled 'Aztrek: 90s Re-Run'.

↗ YOUTUBE

YEEZY BOOST 350 V2 TRIPLE WHITE – BIGGEST DIGITAL RELEASE TO DATE

In September, our partnership with Kanye West sees its largest digital drop of a Yeezy model to date. With the aspiration to democratize the Yeezy brand while preserving the Yeezy hype, adidas Originals releases Yeezy BOOST 350 V2 Triple White. The launch is a major commercial success and significantly contributes to driving e-commerce traffic by creating millions of visits on adidas.com. Also, media mentions and search interest surpass past Yeezy releases.

RUNNING REDEFINED: ALPHAEDGE 4D

In November, the Alphaedge 4D, engineered with the adidas 4D midsole for controlled energy return and breathable cushioning during intensive training runs, becomes available in larger quantities for the first time worldwide. The midsole of the silhouette started out as a conceptual Futurecraft innovation, which had not only allowed adidas to completely re-think manufacturing processes, but to create a data-driven experience that breaks new ground in performance capability and comfort. The adidas 4D midsole is printed with light and oxygen, using Digital Light Synthesis. This technology, pioneered by Carbon, uses digital light projection, oxygen-permeable optics and programmable liquid resins to print high-performance, durable polymeric products.

↗ YOUTUBE

ADIDAS ATHLETES AT THE TOP OF THEIR GAME

In May, Real Madrid wins the Champions League for the third time in a row. The team beats Liverpool F.C. 3-1. Real's goals are scored by adidas assets Karim Benzema and Gareth Bale. In November, Kenyan runner Mary Keitany wins the New York City Marathon for the fourth time. She finishes in 2:22:48 – the second-fastest women's time for the course in history. In the course of 2018, adidas scores many successes in tennis, e.g. with Angelique Kerber winning the Wimbledon Final, defeating seven-times Wimbledon champion Serena Williams in two sets, and Alexander Zverev beating world number one Novak Djokovic in the ATP Finals, earning the 21-year-old the biggest win in his career so far.

ADIDAS KICKS OFF INITIATIVE TO BREAK DOWN BARRIERS FACED BY WOMEN AND GIRLS IN SPORT

As a continuation of the commitment to remove barriers in sport, adidas announces the 'She Breaks Barriers' initiative. Expanding on the #creatorsunite conversation launched earlier in the year, the multi-faceted initiative is designed to inspire, enable and support the next generation of female athletes, creators and leaders. The 'She Breaks Barriers' campaign film highlights the barriers girls and women are facing in sport and invites everyone to level the playing field and co-create the future of women's sport.

#CREATORSUNITE
↗ YOUTUBE

OPENING OF SHANGHAI BRAND CENTER

In November, adidas opens its newest and largest Asia-Pacific Brand Center in Shanghai with a spectacular opening ceremony. Executives from adidas and Bailian Group, brand ambassadors Zinédine Zidane, Eason Chan and Angelababy as well as creators and consumers from across China gather at the location on Nanjing East Road to celebrate this milestone in adidas' planned expansion in the Asia-Pacific and China markets. The new Brand Center showcases the latest retail concepts and innovations and reflects the company's implementation of 'Creating the New' as well as its efforts to strengthen retail channel development in core cities.

LETTER

FROM THE CEO
KASPER RORSTED

» WE HAVE THE RIGHT STRATEGY TO SUCCEED IN A HIGHLY ATTRACTIVE INDUSTRY. «

SEE VIDEO
↗ REPORT.ADIDAS-GROUP.COM/#CEO-VIDEO

DEAR SHAREHOLDERS,

In 2018, we again used the power of sport to change lives and create a real difference. We lead the way in sustainability and human rights. We break down barriers to give girls better access to sport. We inspire people to be the best version of themselves. The list goes on, and it will only get longer.

We are getting closer to becoming the best sports company in the world. But in the end, our consumer will let us know if we have made it by showing and sharing their love for our products. This is why consumer obsession and brand desire sit at the heart of our strategic business plan, 'Creating the New'.

Record sales, the highest margin in our history, strong net income improvements – 2018 was a successful year for our company. We now have until 2020 to fully implement Creating the New, the right strategy to succeed in the highly attractive industry we are in.

We are making great strides toward our 2020 financial ambition, which makes for a clear goalpost: We need to continue driving our top and bottom line for the last two years of our current strategy cycle. In the coming year, we will zoom in on our strategic choices and acceleration topics, as outlined in Creating the New.

CREATING THE NEW WITH SPEED, CITIES, AND OPEN SOURCE

Our strategic choices Speed, Cities, and Open Source will make us faster, help us deliver products with impact, and bring meaningful innovation to the market.

Speed is how we deliver. Our aim is to always offer the products our consumer wants, where they want them, when they want them. Our demand-led proposition will drive consumer sentiment, full-price sell-through, and customer satisfaction, which, in turn, reaffirms our consumer obsession. One proof of this is the success we enjoyed when celebrating key sporting moments with limited-edition shoes. Produced in our Speedfactory in Atlanta, USA, the AM4NHL running shoe honored the Washington Capitals' first-ever Stanley Cup win. Similarly, the AM4MN football cleats debuted at Super Bowl LII.

Cities is where we deliver. In 2018, we strengthened our presence in our six key cities: New York, Los Angeles, Paris, London, Shanghai, and Tokyo. Last year, we saw another improvement in brand desire which helped us to extend our market share in our key cities. We will continue to zero in on key trade zones within these cities, focusing on how we deploy product, retail, and activation initiatives, with the intention of creating one holistic brand experience for our consumers. Some 2018 highlights: In Los Angeles, we shook up the NBA All-Star Weekend with a two-day festival celebrating basketball culture through creativity, innovation, music, community, sport, and style. To mark the 15th anniversary of the Oyster card in London, we launched a range of limited-edition trainers that sold out instantly. In Shanghai, we opened a new Brand Center store, our latest and most modern brick-and-mortar to date.

Open Source is how we create. We invite athletes, consumers, and partners to collaborate with our brands. Our creative collaborations with Pharrell Williams, Kanye West, Victoria Beckham, and Stella McCartney, among others, continued to drive brand desire and growth. By partnering up with the world's best athletes and teams, we build communities of advocates. A prime example was the FIFA World Cup in Russia where our teams and players – and our official match ball, Telstar, took center stage at the most popular sports event in the world. Though sadly we did not get to cheer for an adidas team in the final, we closed the event as 'the most influential brand at the World Cup' with a total of 147 million video views and a 24% engagement rate.

ACCELERATION THROUGH PORTFOLIO, ADIDAS NORTH AMERICA, ONE ADIDAS, AND DIGITAL

To amplify the impact of our strategy on brand desire, growth, and profit, we are executing against an acceleration plan consisting of four pillars: Portfolio, adidas North America, ONE adidas, and Digital.

Every entity must contribute to the success of our company, be it a brand, channel, or market. By regularly revisiting the performance of our portfolio, we identify opportunities for improvements and develop action plans to sharpen the business. For instance, through the 'Muscle Up' plan we continued to set the stage for the Reebok brand to realize its full potential and become more profitable.

The biggest market in the sporting goods industry is also the biggest opportunity for our company. With a relatively small market share compared to our other regions, North America is a priority market where we are strategically increasing investments into people, assets, and infrastructure. In 2018, we continued to gain market share, increasing our adidas brand business by 17% year-on-year.

Excellence in operations is vital for creating flexibility and generating operating leverage. Through a set of initiatives across three areas – brand leadership, marketing effectiveness, and operating efficiency – ONE adidas enables us to work smarter and more efficiently, ultimately leading to a more scalable business model.

The role of digital is clear: Through sport, we have the power to change lives and, to change lives, we have to create direct relationships with consumers. The best way to accelerate building those direct relationships is through digital. Digital transformation, however, is not only fundamentally changing the way we interact with our consumer – it touches every part of the business. Gearing up for the future, we are driving digital transformation across the entire organization. In 2018, our global e-commerce business continued to be our fastest-growing sales channel, with a 36% increase.

SUSTAINABILITY IS AN INTEGRAL PART OF OUR BUSINESS MODEL

Few companies are able to embed sustainability authentically into their business model. We are proud to say adidas is one of them, as evidenced by the five million pairs of shoes made with Parley Ocean Plastic in 2018, up from one million pairs the year before. What's more, 100% of all cotton we sourced globally was sustainable cotton.

Our ongoing work to protect human rights continues. We tackle social issues in our supply chain, are deeply involved in human rights in sports along with safeguarding women's rights, which is both an internal and external focus for us as a company.

For the 19th year in a row, adidas was included in the Dow Jones Sustainability Indices, a family of benchmarks evaluating the sustainability performance of the largest 2,500 companies listed in the Dow Jones Global Total Stock Market Index. adidas was assessed for its performance in corporate economic, environmental, and social dimensions and rated overall industry leader in the 'Textiles, Apparel and Luxury Goods industry' category. We were also ranked #1 in the 2018 Corporate Human Rights Benchmark, which measures the human rights performance of the top 100+ global companies across industries.

2018 FINANCIAL RESULTS

Our efforts are mirrored in strong financial results in 2018. We achieved record sales of € 21.9 billion, reflecting a currency-neutral increase of 8% and nominal growth of 3%. Despite currency headwinds, our gross margin climbed 140 basis points to 51.8%.

We increased investments into our brands while strictly managing costs. As a result, we fed the gross margin improvement through to the operating margin, which expanded to a level of 10.8%, the highest operating margin in the history of our company. Our net income from continuing operations grew six times as fast as our top line in nominal terms, up 20% to € 1.7 billion. Again, a new record.

Our strategy Creating the New includes a strong commitment to returning cash to you, our shareholders, through both dividends and share buybacks. In 2018, we clearly delivered on this promise. We completed the first tranche of our multi-year share buyback program, buying back 5.1 million shares for a total of € 1 billion. Also taking into consideration the dividend payment of € 528 million for the financial year 2017, paid out in May 2018, we returned more than € 1.5 billion to our shareholders.

2019 OUTLOOK

Staying true to our core belief, through sport we have the power to change lives, we will continue to create value in 2019. And we will do this by executing upon our strategic choices and acceleration topics with diligence. Regarding our financial performance, we are targeting a currency-neutral sales increase between 5% and 8%. By further leveraging our scalable operating model, net income is expected to once again grow significantly faster than revenues to a level of around € 1.9 billion. Operating margin is expected to increase to at least 11.3%. These figures will keep us firmly on track toward our 2020 financial ambition.

IN CLOSING

Our mission is to be the best sports company in the world. This mission sets the bar for how we operate as a company and how we, as adidas employees, show up to work every day. But one thing is for sure: We are only as good as what our consumers, athletes, teams, partners, shareholders, and the media say about us. When all our stakeholders call us the best, market share, leadership, and profitability will follow.

Going forward, we will focus on what matters: connecting with our consumer and playing to win as one strong global team. Together, we will tackle any challenge with confidence.

Thank you for your ongoing support.

Sincerely yours,

KASPER RORSTED
CEO

EXECUTIVE BOARD

Harm Ohlmeyer
Chief Financial Officer

Roland Auschel
Global Sales

Karen Parkin
Global Human Resources

Kasper Rorsted
Chief Executive Officer

Eric Liedtke
Global Brands

KASPER RORSTED
CHIEF EXECUTIVE OFFICER

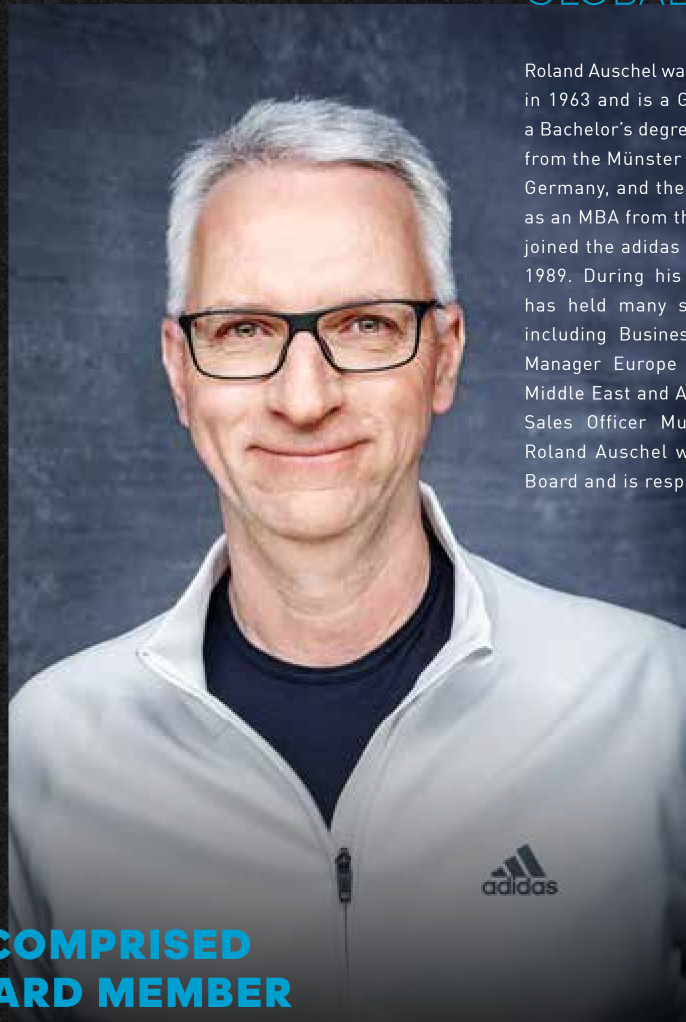
Kasper Rorsted was born in Aarhus, Denmark, in 1962 and is a Danish national. He holds a degree in Business Studies from the International Business School, Denmark, and completed a series of Executive Programs at Harvard Business School, USA. Kasper Rorsted then gained valuable experience within the IT sector through various management positions at Oracle, Compaq and Hewlett Packard. In 2005, Kasper Rorsted joined consumer goods manufacturer Henkel as Executive Vice President Human Resources, Purchasing, Information Technologies and Infrastructure Services. Three years after joining Henkel, he was appointed Chief Executive Officer. In 2016, Kasper Rorsted was appointed to the Executive Board of adidas. After two months as a Board member, he became Chief Executive Officer.

Kasper Rorsted is also:

— Member of the Supervisory Board, Bertelsmann SE & Co. KGaA / Bertelsmann Management SE, Gütersloh, Germany
— Member of the Board of Directors, Nestlé S.A., Vevey, Switzerland[1]

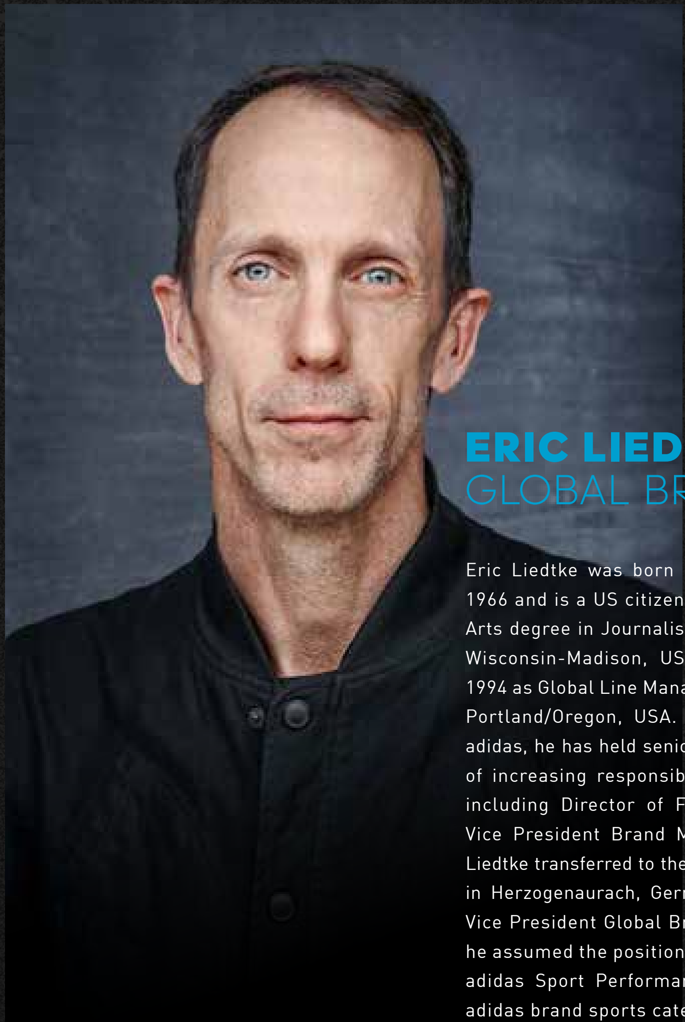
1 Since April 12, 2018.

ROLAND AUSCHEL
GLOBAL SALES



Roland Auschel was born in Bad Waldsee, Germany, in 1963 and is a German citizen. After obtaining a Bachelor's degree in European Business Studies from the Münster University of Applied Sciences, Germany, and the University of Hull, UK, as well as an MBA from the University of Miami, USA, he joined the adidas team as a Strategic Planner in 1989. During his career with the company, he has held many senior management positions, including Business Unit Manager, Key Account Manager Europe and Head of Region Europe, Middle East and Africa. In 2009, he became Chief Sales Officer Multichannel Markets. In 2013, Roland Auschel was appointed to the Executive Board and is responsible for Global Sales.

OUR EXECUTIVE BOARD IS COMPRISED OF SIX MEMBERS. EACH BOARD MEMBER IS RESPONSIBLE FOR AT LEAST ONE MAJOR FUNCTION WITHIN THE COMPANY.

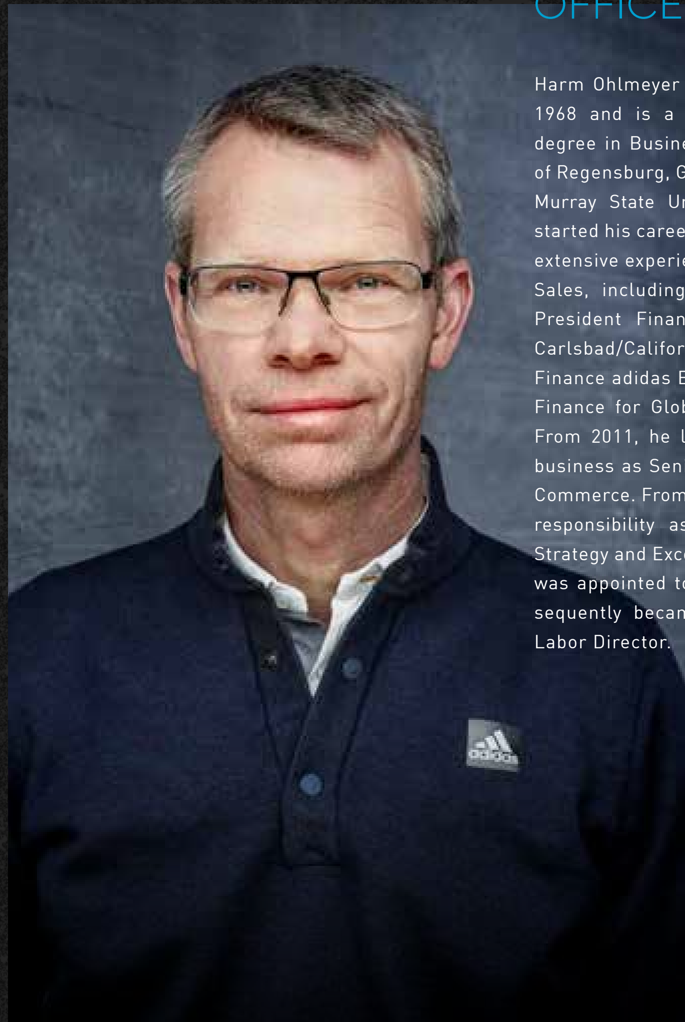


ERIC LIEDTKE
GLOBAL BRANDS

Eric Liedtke was born in Dayton/Ohio, USA, in 1966 and is a US citizen. He holds a Bachelor of Arts degree in Journalism from the University of Wisconsin-Madison, USA. He joined adidas in 1994 as Global Line Manager for Cross Training in Portland/Oregon, USA. During his career with adidas, he has held senior management positions of increasing responsibility at adidas America, including Director of Footwear Marketing and Vice President Brand Marketing. In 2006, Eric Liedtke transferred to the company's headquarters in Herzogenaurach, Germany, to become Senior Vice President Global Brand Marketing. In 2011, he assumed the position of Senior Vice President adidas Sport Performance, responsible for all adidas brand sports categories globally. In 2014, Eric Liedtke was appointed to the Executive Board and is responsible for Global Brands (the adidas and Reebok brands). In addition to his Executive Board position, he is a member of the Steering Committee of Parley for the Oceans.

Eric Liedtke is also:

— Member of the Board of Directors, Carbon, Inc., Redwood City, USA



HARM OHLMEYER
CHIEF FINANCIAL OFFICER

Harm Ohlmeyer was born in Hoya, Germany, in 1968 and is a German national. He holds a degree in Business Studies from the University of Regensburg, Germany, as well as an MBA from Murray State University, USA. Harm Ohlmeyer started his career with adidas in 1998 and gained extensive experience in the areas of Finance and Sales, including responsibility as Senior Vice President Finance TaylorMade-adidas Golf in Carlsbad/California, USA, Senior Vice President Finance adidas Brand and Senior Vice President Finance for Global Sales (adidas and Reebok). From 2011, he led the company's e-commerce business as Senior Vice President Digital Brand Commerce. From 2014 to 2016, he held additional responsibility as Senior Vice President Sales Strategy and Excellence. In 2017, Harm Ohlmeyer was appointed to the Executive Board and sub-sequently became Chief Financial Officer and Labor Director.

KAREN PARKIN
GLOBAL HUMAN RESOURCES

Karen Parkin was born in Bowden, UK, in 1965, is a British national and also holds a US passport. She obtained a Bachelor's degree in Education from Sheffield Hallam University, UK, and completed the Business Management Leadership Program at Lancaster University Management School, UK. Karen Parkin joined adidas in 1997 as Sales Director adidas UK, where she was Head of Customer Service from 2000 to 2001 and Business Development Director from 2001 to 2004. In 2004, she relocated to adidas America as Vice President Business Development, subsequently taking on responsibility for the supply chain function at adidas America in 2007 as Vice President Logistics and Supply Chain North America. In 2013 and 2014, Karen Parkin acted as Senior Vice President Global Supply Chain Management and was based both at the company's headquarters in Herzogenaurach and at the adidas America headquarters in Portland/Oregon, USA. Since 2014, she has held the position of Chief HR Officer. In 2017, Karen Parkin was appointed to the Executive Board and is responsible for Global Human Resources.

FOR MORE INFORMATION ON THE ADIDAS AG EXECUTIVE BOARD

↗ ADIDAS-GROUP.COM/EXECUTIVE-BOARD

Member of the Executive Board until February 26, 2019:

GIL STEYAERT
GLOBAL OPERATIONS

SUPERVISORY BOARD

IGOR LANDAU
CHAIRMAN
residing in Lugano, Switzerland
born on July 13, 1944
Member of the Supervisory Board since May 13, 2004
Pensioner

SABINE BAUER*
DEPUTY CHAIRWOMAN
residing in Erlangen, Germany
born on January 16, 1963
Member of the Supervisory Board since May 20, 1999
Full-time member of the Works Council Herzogenaurach, adidas AG
Chairwoman of the European Works Council, adidas AG

WILLI SCHWERDTLE
DEPUTY CHAIRMAN
residing in Munich, Germany
born on April 14, 1953
Member of the Supervisory Board since May 13, 2004
Independent Management Consultant as well as Partner, WP Force Solutions GmbH, Bad Homburg v. d. Höhe, Germany
- Member of the Supervisory Board, Eckes AG, Nieder-Olm, Germany
- Chairman of the Supervisory Board, Windeln.de SE, Munich, Germany

DR. FRANK APPEL
residing in Königswinter near Bonn, Germany
born on July 29, 1961
Member of the Supervisory Board since May 9, 2018
Chief Executive Officer, Deutsche Post AG, Bonn, Germany

IAN GALLIENNE
residing in Gerpinnes, Belgium
born on January 23, 1971
Member of the Supervisory Board since June 15, 2016
Co-Chief Executive Officer, Groupe Bruxelles Lambert, Brussels, Belgium
- Member of the Board of Directors, Pernod Ricard SA, Paris, France
- Member of the Board of Directors, SGS SA, Geneva, Switzerland

Mandates within the Groupe Bruxelles Lambert or in entities under common control with the Groupe Bruxelles Lambert:
- Member of the Board of Directors, Imerys SA, Paris, France
- Member of the Board of Directors, Sienna Capital S.à r.l., Strassen, Luxembourg
- Member of the Board of Directors, Erbe SA, Loverval, Belgium[1]
- Member of the Board of Directors, Compagnie Nationale à Portefeuille SA, Loverval, Belgium[2]
- Member of the Board of Directors, Frère-Bourgeois SA, Loverval, Belgium[3]
- Member of the Board of Directors, Château Cheval Blanc, Société Civile, Saint Emilion, France[4]
- Member of the Board of Directors, GBL Energy S.à r.l., Strassen, Luxembourg[5]
- Member of the Board of Directors, GBL Advisors Ltd, London, United Kingdom[6]
- Member of the Board of Directors, GBL Development Ltd, London, United Kingdom[7]

BIOGRAPHICAL INFORMATION ON OUR SUPERVISORY BOARD MEMBERS IS AVAILABLE ONLINE

↗ ADIDAS-GROUP.COM/SUPERVISORY-BOARD

* Employee representative.
1 Until January 12, 2018.
2 Since April 30, 2018.
3 Since January 12, 2018.
4 Since December 17, 2018.
5 Until June 25, 2018.
6 Since January 19, 2018.
7 Since May 29, 2018.

DIETER HAUENSTEIN*
residing in Herzogenaurach, Germany
born on January 13, 1957
Member of the Supervisory Board
since May 7, 2009
Specialist for job safety, adidas AG

DR. WOLFGANG JÄGER*
residing in Bochum, Germany
born on August 3, 1954
Member of the Supervisory Board
since May 7, 2009
Research Fellow at the Institute for Social Movements at the Ruhr Universität Bochum, Expert Commission 'Cultures of remembrance of social democracy' of Hans-Böckler-Stiftung, Bochum, Germany

HERBERT KAUFFMANN
residing in Stuttgart, Germany
born on April 20, 1951
Member of the Supervisory Board
since May 7, 2009
Independent Management Consultant, Stuttgart, Germany
- Member of the Supervisory Board, DEUTZ AG, Cologne, Germany [8]

KATJA KRAUS
residing in Hamburg, Germany
born on November 23, 1970
Member of the Supervisory Board
since May 8, 2014
Author/Managing Partner, Jung von Matt/sports GmbH, Hamburg, Germany

KATHRIN MENGES
residing in Neuss, Germany
born on October 16, 1964
Member of the Supervisory Board
since May 8, 2014
Executive Vice President Human Resources and Infrastructure Services,
Henkel AG & Co. KGaA, Düsseldorf, Germany
Mandates within the Henkel Group:
- Member of the Supervisory Board, Henkel Central Eastern Europe GmbH, Vienna, Austria
- Member of the Supervisory Board, Henkel Nederland B.V., Nieuwegein, The Netherlands
- Member of the Board of Directors, Henkel Norden AB, Stockholm, Sweden
- Member of the Board of Directors, Henkel Finland Oy, Vantaa, Finland

UDO MÜLLER*
residing in Herzogenaurach, Germany
born on April 14, 1960
Member of the Supervisory Board
since October 6, 2016
Full-time member of the Works Council Herzogenaurach, adidas AG
Chairman Works Council Herzogenaurach, adidas AG

ROLAND NOSKO*
residing in Wolnzach, Germany
born on August 19, 1958
Member of the Supervisory Board
since May 13, 2004
Trade Union Official, IG BCE, Headquarters Nuremberg, Nuremberg, Germany
- Deputy Chairman of the Supervisory Board, CeramTec GmbH, Plochingen, Germany
- Member of the Supervisory Board, Plastic Omnium Automotive Exteriors GmbH, Munich, Germany

* Employee representative.
8 Until April 26, 2018.

HANS RUPRECHT*
residing in Herzogenaurach, Germany
born on April 18, 1954
Member of the Supervisory Board since January 1, 2002
Vice President Customer Service Central, adidas AG

NASSEF SAWIRIS
residing in London, Great Britain
born on January 19, 1961
Member of the Supervisory Board since June 15, 2016
Chief Executive Officer and Member of the Board of Directors, OCI N.V., Amsterdam, Netherlands

- Member of the Board of Directors, LafargeHolcim Ltd., Jona, Switzerland

Mandates within the OCI N.V. Group:

- Member of the Board of Directors, OCI Partners LP, Wilmington, Delaware, USA[9]

HEIDI THALER-VEH*
residing in Uffenheim, Germany
born on November 14, 1962
Member of the Supervisory Board since April 13, 1994
Full-time member of the Works Council Uffenheim, adidas AG
Chairwoman of the Works Council Uffenheim, adidas AG
Deputy Chairwoman of the Central Works Council, adidas AG

KURT WITTMANN*
residing in Markt Bibart, Germany
born on July 11, 1963
Member of the Supervisory Board since October 6, 2016
Full-time member of the Works Council Herzogenaurach, adidas AG

Member of the Supervisory Board until May 9, 2018:

DR. STEFAN JENTZSCH
residing in New York, USA
Corporate Finance Consultant/Partner, Perella Weinberg Partners LP, New York, USA

- Deputy Chairman of the Supervisory Board, AIL Leasing München AG, Grünwald, Germany

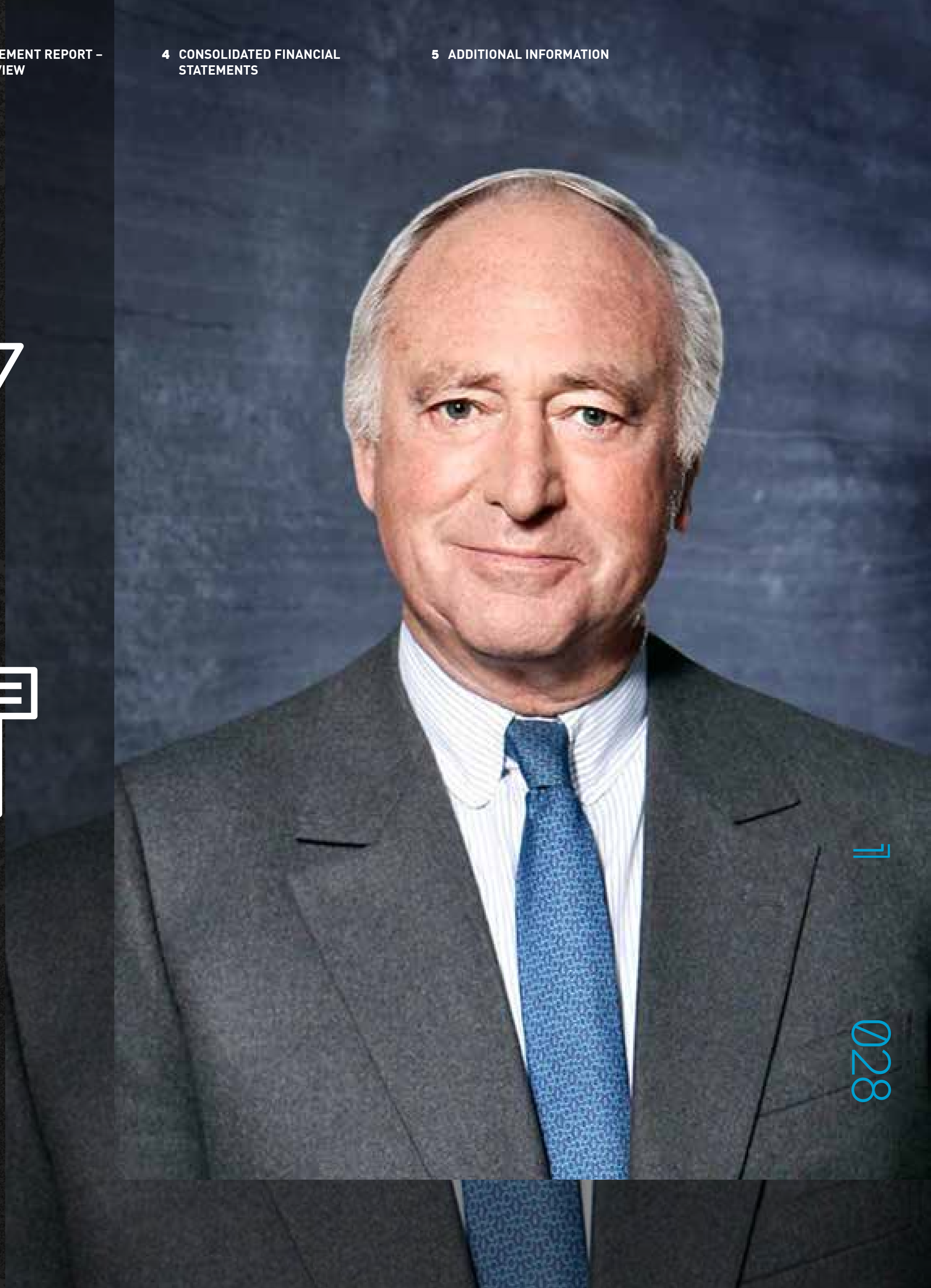
STANDING COMMITTEES

Steering Committee — Igor Landau (Chairman), Sabine Bauer*, Willi Schwerdtle
General Committee — Igor Landau (Chairman), Sabine Bauer*, Roland Nosko*, Willi Schwerdtle
Audit Committee — Herbert Kauffmann (Chairman), Ian Gallienne, Dr. Wolfgang Jäger*, Hans Ruprecht*
Finance and Investment Committee — Igor Landau (Chairman), Sabine Bauer*, Dr. Wolfgang Jäger*, Herbert Kauffmann
Nomination Committee — Igor Landau (Chairman), Kathrin Menges, Willi Schwerdtle
Mediation Committee pursuant to § 27 section 3 Co-Determination Act (MitbestG) — Igor Landau (Chairman), Sabine Bauer*, Willi Schwerdtle, Heidi Thaler-Veh*

* Employee representative.
9 Until July 16, 2018.

SUPERVISORY BOARD REPORT

IGOR LANDAU
CHAIRMAN OF THE SUPERVISORY BOARD



DEAR SHAREHOLDERS,

We look back on 2018 as another very successful year. Thanks to a sharp focus on our consumers' needs as part of our stringent implementation of our 'Creating the New' strategy, the company was once again able to increase sales and achieve strong bottom-line growth in the 2018 financial year. Innovative products and impressive marketing campaigns such as for the FIFA World Cup in Russia strengthened the presence of our brands and brand desire. We were able to generate double-digit growth rates in our focus markets North America and China as well as in the important e-commerce channel. At the same time, we tackled company-specific weaknesses in our home market Europe, and negative macroeconomic factors in large parts of the world were effectively offset. Despite investments in our brands, which increased significantly in the last year and were higher than ever before, as well in the scalability of the company, we generated profitability results which surpassed the targets set at the beginning of the year. This reflects both the quality and sustainability of our growth and places our company in a position to continue to grow profitably in the future. In the last year, we duly shared the company's success with our shareholders, as underscored by the total dividend payout and share buyback of more than € 1.5 billion in 2018, and we intend to continue to do so.

SUPERVISION AND ADVICE IN DIALOGUE WITH THE EXECUTIVE BOARD

In the year under review, we performed all of our tasks laid down by law, the Articles of Association, the German Corporate Governance Code (the 'Code') and the Rules of Procedure carefully and conscientiously, as in previous years. We regularly advised the Executive Board on the management of the company and diligently and continuously supervised its management activities, assuring ourselves of the legality, expediency and regularity thereof. The Executive Board involved us directly and in a timely and comprehensive manner in all of the company's fundamental decisions.

The Executive Board informed us extensively through written and oral reports. This information covered all relevant aspects of the company's business strategy, business planning (including finance, investment and personnel planning), the course of business and the company's financial position and profitability. We were also kept up to date on matters relating to accounting processes, the risk situation and the effectiveness of the internal control and risk management systems and compliance as well as all major decisions and business transactions. The Executive Board always explained immediately and in a detailed manner any deviations in business performance from the established plans, and the Supervisory Board as a whole discussed each of these deviations in depth.

The Executive Board regularly provided us with comprehensive written reports for the preparation of our meetings. We thus always had the opportunity to critically analyze the Executive Board's reports and resolution proposals within the committees and within the Supervisory Board as a whole and to put forward suggestions before passing resolutions after in-depth examination and extensive consultation. At the Supervisory Board meetings, the Executive Board was available to discuss and answer our questions. In the periods between our meetings, the Executive Board also provided us with extensive, timely monthly reports on the current business situation. We critically examined, specifically challenged and checked the plausibility of the information provided by the Executive Board.

In the past financial year, the Supervisory Board primarily exercised its duties in plenary sessions. We held six regular meetings of the entire Supervisory Board, one of which took place outside Germany. One resolution was passed by way of a circular resolution. The attendance rate of the members at the Supervisory Board and committee meetings was around 94% in the year under review. All committee meetings, with the exception of one Audit Committee meeting from which one member was excused, were fully attended.

The participation of the individual Supervisory Board members in the Supervisory Board and committee meetings is set out below:

Individual meeting participation of the Supervisory Board members
in meetings requiring personal attendance and telephone conferences of the Supervisory Board in the 2018 financial year

	2018		
Supervisory Board members	Number of Supervisory Board and committee meetings	Participation	Participation in %
Igor Landau, Chairman of the Supervisory Board	10	10	100%
Sabine Bauer, Deputy Chairwoman of the Supervisory Board	9	9	100%
Willi Schwerdtle, Deputy Chairman of the Supervisory Board	9	9	100%
Dr. Frank Appel [1]	3	3	100%
Ian Gallienne	12	12	100%
Dieter Hauenstein	6	5	83%
Dr. Wolfgang Jäger	13	13	100%
Dr. Stefan Jentzsch [2]	3	3	100%
Herbert Kauffmann	13	13	100%
Katja Kraus	6	5	83%
Kathrin Menges	7	6	86%
Udo Müller	6	6	100%
Roland Nosko	8	8	100%
Hans Ruprecht	12	10	83%
Nassef Sawiris	6	6	100%
Heidi Thaler-Veh	6	5	83%
Kurt Wittmann	6	5	83%

1 Starting from the end of the Annual General Meeting on May 9, 2018.
2 Until the end of the Annual General Meeting on May 9, 2018.

The external auditor, KPMG AG Wirtschaftsprüfungsgesellschaft ('KPMG'), Berlin, attended all regular meetings of the Supervisory Board – the exception being the meeting which took place outside Germany – insofar as no Executive Board matters were dealt with. KPMG also attended all meetings of the Audit Committee.

In the periods between meetings, the Supervisory Board Chairman and the Audit Committee Chairman maintained regular contact with the Chief Executive Officer and the Chief Financial Officer, conferring on matters such as corporate strategy, business planning and development, the risk situation and risk management as well as compliance. In addition, the Executive Board immediately informed the Supervisory Board Chairman about any significant events of fundamental importance for the management and for evaluating the situation and development of the company, where necessary also at short notice.

The Supervisory Board also regularly conferred on, in particular, Supervisory Board matters and personnel matters of the Executive Board without the Executive Board. Both the Supervisory Board and the Audit Committee reviewed the efficiency of their work in the spring and fall of 2018. Overall, the Supervisory Board members assessed the work in the entire Supervisory Board and Audit Committee as efficient. However, they resolved upon specific improvements regarding the organization of the Supervisory Board work.

The members of the Supervisory Board are individually responsible for undertaking any necessary training and further education measures required for their tasks. Furthermore, training measures were offered to the Supervisory Board to ensure the required expertise. Moreover, there was an onboarding process for the new Supervisory Board member in order to facilitate his exercising of the new office.

TOPICS FOR THE ENTIRE SUPERVISORY BOARD

Our consultations and examinations focused on the following topics:

SITUATION AND BUSINESS DEVELOPMENT

The development of sales and earnings, the employment situation as well as the financial position of the company and the business development of the company's individual business areas and markets were presented to us in detail by the Executive Board at every Supervisory Board meeting and were discussed regularly. Moreover, the Supervisory Board dealt with the corporate strategy and the annual and multi-year business planning. Further topics which were always discussed were the possible impact of global economic developments as well as the development of our individual brands and markets.

The Executive Board reported on the situation of the company and the financial figures for the 2017 financial year at the February meeting and the balance sheet meeting in March. In addition, after in-depth examination of the financial statements, the Supervisory Board approved the annual financial statements and consolidated financial statements as well as the combined Management Report, including the non-financial statement for adidas AG and the Group as at December 31, 2017. The annual financial statements were thus adopted. Prior to the passing of the resolution, the auditor reported on the material results of the audit, including the results of the examination of the content of the non-financial statement commissioned by the Supervisory Board in accordance with § 111 section 2 German Stock Corporation Act (Aktiengesetz – AktG). Furthermore, the Supervisory Board Report to the Annual General Meeting for the 2017 financial year was approved. Finally, we dealt with, inter alia,the business development of Reebok and the distribution strategy of adidas. At the May meeting, we primarily dealt with the results for the first quarter of the year under review and with the current development of the business. Particular topics of the August meeting were the financial results of the second quarter and of the first half of the 2018 financial year as well as the business development of the company. Furthermore, we dealt in detail with the main sustainability initiatives and adidas' talent strategy. Finally, we discussed the current development of the Runtastic business segment. At the annual strategy meeting of the Supervisory Board in October, the Executive Board reported on the current business situation and outlined in detail the further course of the strategic business plan which the Supervisory Board discussed in depth. Another focal point of the Supervisory Board meeting was the development of business in Europe. Finally, we intensively dealt with the topic of digitalization. In this regard, we discussed adidas' digitalization strategy and the challenges and opportunities associated with it. Topics of our December meeting were the 2019 Budget and Investment Plan as well as the marketing and sponsorship agreements concluded in the year under review.

TRANSACTIONS REQUIRING SUPERVISORY BOARD APPROVAL

In accordance with statutory regulations and the Rules of Procedure of the Supervisory Board, certain transactions and measures require a formal resolution or the prior approval of the Supervisory Board.

In March, we resolved upon the resolutions to be proposed to the 2018 Annual General Meeting, including the proposal regarding the appropriation of retained earnings for the 2017 financial year. At the May meeting, we approved the issuance of non-share-based bonds and/or comparable financial instruments, including equity-neutral convertible bonds. We also approved the extension of our US-based Portland location as well as the adjusted resolution proposal of the Executive Board on the appropriation of retained earnings. At our October meeting, we approved the cancelation of treasury shares and resolved upon the amendment to the Articles of Association due to the reduction of the nominal capital resulting from the cancelation of treasury shares. One topic of our December meeting was, after thorough discussion, the approval of the 2019 Budget and Investment Plan presented by the Executive Board.

EXECUTIVE BOARD COMPENSATION

All matters regarding Executive Board compensation were prepared comprehensively by the General Committee, as provided for in the Rules of Procedure of the Supervisory Board, explained to the Supervisory Board as a whole and submitted for resolution.

Each year at our February meeting of the entire Supervisory Board, the main subject is Executive Board compensation. After in-depth review of the individual performance of the Executive Board members and the achievement of the targets set for the 2017 Performance Bonus and LTIP 2015/2017, we resolved upon the performance-related compensation to be paid to the Executive Board members for the 2017 Performance Bonus and LTIP 2015/2017 at this meeting. Furthermore, after comprehensive consultation, we set the criteria and targets decisive for the 2018 Performance Bonus as well as for the new long-term incentive plan LTIP 2018/2020 along with the individual bonus target amounts for each Executive Board member. Following in-depth discussions, we adjusted the pension commitments of the Executive Board members Gil Steyaert, Eric Liedtke and Karen Parkin in March and May due to tax law provisions. Finally, we dealt with the contribution for the defined contribution pension plans and determined this for 2019 at our October meeting.

CHANGES ON THE SUPERVISORY BOARD AND COMPLIANCE WITH THE STATUTORY MINIMUM QUOTA

There was one personnel change with regard to the full Supervisory Board in the year under review. Dr. Stefan Jentzsch resigned as Supervisory Board member with effect from the end of the Annual General Meeting of adidas AG held on May 9, 2018. As his successor, Dr. Frank Appel, Chief Executive Officer of Deutsche Post AG, was elected by the Annual General Meeting as member of the Supervisory Board for the remaining term of the current shareholder representatives which expires with effect from the end of the Annual General Meeting on May 9, 2019. The Supervisory Board wishes to thank Dr. Jentzsch for his valuable contributions and his great dedication within the Supervisory Board of adidas AG.

With regard to the representation of women and men, the Supervisory Board complies with the statutory minimum quota pursuant to § 96 section 2 sentences 1, 3 and 4 AktG. Both the shareholder representatives and the employee representatives resolved in accordance with § 96 section 2 sentence 3 AktG that the minimum quota of 30% women and 30% men on the Supervisory Board shall be fulfilled separately for the shareholder representatives and the employee representatives.

The term of office of all Supervisory Board members expires as scheduled at the end of the Annual General Meeting in May 2019.

CORPORATE GOVERNANCE

The Supervisory Board regularly monitors the application and further development of the corporate governance regulations within the company, in particular the implementation of the recommendations of the Code. The Executive Board and Supervisory Board of adidas AG issued their last Declaration of Compliance pursuant to § 161 AktG in February 2018. In February 2019, we discussed in depth the current 2019 Declaration of Compliance and then resolved upon it and made it permanently available to our shareholders on our corporate website. ↗ ADIDAS-GROUP.COM/S/CORPORATE-GOVERNANCE

In February, we discussed the independence of the members of the Supervisory Board and the respective independence criteria. In the Supervisory Board's assessment, currently all members are independent.

At the February, March and May meetings of the Supervisory Board and at the August meeting of the Audit Committee, within the framework of our regular self-evaluation, we dealt with the results of the efficiency examination of the Supervisory Board and Audit Committee and the measures to be implemented.

At the March meeting, we approved Kasper Rorsted taking over a Board of Directors mandate at Nestlé S.A. In August, we approved Gil Steyaert's Supervisory Board mandate at Fashion for Good B.V.

Topics of our October meeting were the revision of the objectives of the Supervisory Board regarding its composition and the competency profile for the full Supervisory Board, which we made permanently available to our shareholders on our corporate website. Taking into consideration the specific features which result from the activities of the organization as a globally present, public listed company, we ensured that the full Supervisory Board continues to have the knowledge, skills and professional expertise required to properly perform its duties. Details can be found in the Corporate Governance Report including the Declaration on Corporate Governance. SEE CORPORATE GOVERNANCE REPORT INCLUDING THE DECLARATION ON CORPORATE GOVERNANCE, P. 35

In the year under review, no conflicts of interest arose in regard to the Executive Board members. There were also no conflicts of interest within the Supervisory Board. It is pointed out that, in December 2018, the Supervisory Board approved the extension of a contract, effective January 1, 2019, with a company in which one Supervisory Board member is involved. The order volume is to be confirmed annually by the Supervisory Board. A resolution was passed by the Supervisory Board as regards the order volume for the 2019 financial year at the meeting in December 2018. In the view of the Supervisory Board, there was no conflict of interest. Nevertheless, as in the prior years, the Supervisory Board member concerned did not participate in the respective resolution.

Further information on corporate governance within the company is contained in the Corporate Governance Report including the Declaration on Corporate Governance.
SEE CORPORATE GOVERNANCE REPORT INCLUDING THE DECLARATION ON CORPORATE GOVERNANCE, P. 35

EFFICIENT COMMITTEE WORK

In order to perform our tasks in an efficient manner, we have established a total of six standing Supervisory Board committees.

The committees prepare resolutions and topics for the meetings of the entire Supervisory Board. Within the legally permissible framework and in appropriate cases, we have furthermore delegated the Supervisory Board's authority to pass certain resolutions to individual committees. With the exception of the Audit Committee, the Supervisory Board Chairman also chairs all the standing committees. The respective committee chairmen report to the Supervisory Board on the content and results of the committee meetings on a regular and comprehensive basis.

— The **Steering Committee** did not meet in the year under review.

— The **General Committee** held two meetings in the 2018 financial year. The main focus of the meetings was the preparation of the resolutions of the entire Supervisory Board regarding the Executive Board compensation, particularly the resolution on the target achievement of the 2017 Performance Bonus and LTIP 2015/2017, the targets for the 2018 Performance Bonus and LTIP 2018/2020, the 2019 contribution for the defined contribution pension plans as well as the determination of the Executive Board compensation and the review of its appropriateness. Furthermore, the General Committee intensively dealt with the long-term succession planning for the Executive Board.

— The **Audit Committee** held six meetings in the year under review. One resolution was passed by way of a circular resolution. The Chief Financial Officer and the auditor were present at all meetings and reported to the committee members in detail.

In addition to the supervision of the accounting process, the committee's work also focused on the examination of the annual financial statements and the consolidated financial statements for 2017, including the combined Management Report and the non-financial statement of adidas AG and the Group, as well as the Executive Board's proposal regarding the appropriation of retained earnings. Following an in-depth review of the audit reports on the annual financial statements and consolidated financial statements with the auditor, the committee decided to recommend that the Supervisory Board approve the 2017 annual financial statements and consolidated financial statements. Furthermore, the audit of the non-financial statement, including the selection and commissioning of the external auditor by the Supervisory Board, was prepared. On the basis of the transitional periods of Art. 41 Regulation (EU) No 537/2014, the current statutory auditor may not be re-appointed after June 17, 2023 and it is mandatory to carry out an external rotation. Based on a respective resolution by the entire Supervisory Board, the Chairmen of the Supervisory Board and Audit Committee commissioned KPMG for the audit with limited assurance of the content of the non-financial statement for the 2018 financial year. Following in-depth discussions, the Audit Committee also made a recommendation to the Supervisory Board regarding the proposal to the Annual General Meeting 2018 for the appointment of the auditor. The Audit Committee declared to the Supervisory Board that the recommendation is free from undue influence by a third party and that no clause of the kind referred to in Article 16 section 6 of the EU Regulation No. 537/2014 of the European Parliament and of the Council of April 14, 2014 on specific requirements regarding the statutory audit of public-interest entities has been imposed upon it. A further subject of in-depth discussions was the assignment of the audit mandate for the 2018 financial year, including the determination of the focus points of the audit, the supervision of the independence and qualification of the auditor as well as the quality of the audit of annual accounts, the determination of the audit fees and ultimately the discussion of the quarterly financial figures and the half year report with the auditor. The Audit Committee dealt intensively with the monitoring of the effectiveness of the risk management system, the internal control system and audit system as well as the compliance management system. Moreover, the Audit Committee addressed the findings of Internal Audit and the audit plan. Potential and pending legal disputes were also discussed. In addition, at every meeting of the Audit Committee, the Chief Compliance Officer gave regular reports on the Compliance Management System and material compliance cases in the year under review. Furthermore, reports on IT security, the EU General Data Protection Regulation and the hedging strategy were heard.

— In the year under review, the **Finance and Investment Committee** held one meeting by way of a conference call at which, in particular, the Executive Board's resolution based on the authorization of the Annual General Meeting on May 12, 2016 to repurchase shares with an aggregate acquisition cost of up to a total of € 3 billion until May 11, 2021 was approved. Furthermore, the Finance and Investment Committee approved the Executive Board's resolution to sell a building and estate in Canton, USA.

— The **Nomination Committee** met once in the year under review. The Nomination Committee particularly prepared the recommendations by the Supervisory Board to the Annual General Meeting which will elect the shareholder representatives on the Supervisory Board in May 2019. In this respect, taking the statutory requirements into account, the suitability and independence of the candidates were discussed. Furthermore, taking into account the competency profile for the members of the Supervisory Board defined by the Supervisory Board, a qualification profile was developed. Based on this, the Nomination Committee discussed suitable candidates for the positions to be filled within the Supervisory Board.

— The **Mediation Committee**, established in accordance with the German Co-Determination Act (Mitbestimmungsgesetz — MitbestG), did not have to be convened in 2018.

EXAMINATION OF THE 2018 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

KPMG audited the 2018 consolidated financial statements prepared by the Executive Board in accordance with § 315e German Commercial Code (Handelsgesetzbuch – HGB) in compliance with IFRS and issued an unqualified opinion thereon. The auditor also approved without qualification the 2018 annual financial statements of adidas AG, prepared in accordance with HGB requirements, and the combined Management Report of adidas AG and the adidas Group. Furthermore, at the request of the Supervisory Board, KPMG audited the non-financial statement. KPMG has been the auditor and Group auditor of adidas AG as a capital market-oriented company since the 1995 financial year. Auditor Karl Braun has been signing the annual financial statements since the 2012 financial year and auditor Haiko Schmidt as the responsible audit partner since the 2017 financial year. On May 9, 2018, the Annual General Meeting elected KPMG as auditor and Group auditor upon proposal of the Supervisory Board, corresponding with a recommendation of the Audit Committee. Prior to the Supervisory Board proposing KPMG as auditor to the Annual General Meeting, KPMG had confirmed to both the Supervisory Board and the Audit Committee that there are no circumstances which could prejudice their independence as auditor or which could cast doubt on KPMG's independence. In this respect, KPMG also declared to which extent non-audit services were rendered for the company in the prior financial year or are contractually agreed upon for the following year. The financial statements, the proposal put forward by the Executive Board regarding the appropriation of retained earnings and the auditor's reports were distributed by the Executive Board to all Supervisory Board members in a timely manner. We examined the documents in depth, with a particular focus on legality and regularity, in the presence of the auditor at the Audit Committee meeting held on March 1, 2019 and at the Supervisory Board's March 5, 2019 financial statements meeting, during which the Executive Board explained the financial statements in detail. At both meetings, the auditor reported the material results of the audit, inter alia with regard to the priority topics agreed and the key audit matters, and was available for questions and the provision of additional information. The auditor did not report any significant weaknesses with respect to the internal control and risk management system relating to the accounting process. We also discussed in depth with the Executive Board the proposal concerning the appropriation of retained earnings, which provides for a dividend of € 3.35 per dividend-entitled share and adopted this increase to € 3.35 compared to the prior year in consideration of the strong business development in the 2018 financial year, the company's good financial situation and positive future prospects. Based on our own examinations of the annual and consolidated financial statements (including the non-financial statement), we came to the conclusion that there are no objections to be raised. At our financial statements meeting, therefore, following the recommendation of the Audit Committee, we approved the audit results and the financial statements including the non-financial statement prepared by the Executive Board. The annual financial statements of adidas AG were thus approved.

EXPRESSION OF THANKS

On behalf of the entire Supervisory Board, I wish to thank the members of the Executive Board and all adidas employees around the world for their great personal dedication and their ongoing commitment. I would also like to thank the employee representatives on the Supervisory Board for their trusting collaboration.

For the Supervisory Board

IGOR LANDAU
CHAIRMAN OF THE SUPERVISORY BOARD

March 2019

CORPORATE GOVERNANCE REPORT INCLUDING THE DECLARATION ON CORPORATE GOVERNANCE [1]

Corporate Governance stands for responsible and transparent management and corporate control oriented toward a sustainable increase in value. We are convinced that good corporate governance is an essential foundation for sustainable corporate success and enhances the confidence placed in our company by our shareholders, business partners, employees and the financial markets. The following report includes the Corporate Governance Report and the Declaration on Corporate Governance issued by the Executive Board and Supervisory Board.

DECLARATION BY THE EXECUTIVE BOARD AND SUPERVISORY BOARD OF ADIDAS AG ON THE GERMAN CORPORATE GOVERNANCE CODE PURSUANT TO § 161 GERMAN STOCK CORPORATION ACT (AKTIENGESETZ - AKTG)

The Executive Board and Supervisory Board of adidas AG issued their last Declaration of Compliance pursuant to § 161 AktG in February 2018. For the period from the publication of the last Declaration of Compliance, the following Declaration refers to the German Corporate Governance Code (hereinafter referred to as the 'Code') as amended on February 7, 2017, which was published in the Federal Gazette on April 24, 2017 and May 19, 2017 (corrected version).

The Executive Board and Supervisory Board of adidas AG declare that the recommendations of the 'Government Commission on the German Corporate Governance Code' have been and are met with the following deviations:

Specification of a regular limit of length of membership for Supervisory Board members (section 5.4.1 subsection 2 sentence 2 in conjunction with sentence 1)

In the past, the Supervisory Board refrained from taking a generalized approach as regards a regular limit of length of membership for Supervisory Board members. When revising the objectives regarding its composition (and determining a competency profile for the full Supervisory Board) at its meeting in October 2018, the Supervisory Board resolved to determine a regular limit of length of membership for Supervisory Board members and has since been compliant with all recommendations pursuant to section 5.4.1 subsection 2 sentence 2 in conjunction with sentence 1 of the Code.

Maximum number of non-group mandates held by members of the Supervisory Board (section 5.4.5 subsection 1 sentence 2)

One member of the Supervisory Board, Ian Gallienne, holds more than three mandates in supervisory bodies of non-group companies which are listed at a stock exchange or have similar requirements. Ian Gallienne is Co-Chief Executive Officer of Groupe Bruxelles Lambert (GBL). GBL is a holding company and, in its capacity as an institutional investor represented by, inter alia, its Co-Chief Executive Officer, regularly holds mandates in supervisory bodies of portfolio companies. All companies (apart from adidas AG) in which Ian Gallienne holds mandates in supervisory bodies are portfolio companies or subsidiaries of GBL or are under common control with it and thus belong to the same group of companies. They have to be attributed to his main occupation as Co-Chief Executive Officer of GBL. Therefore, we are of the opinion that, as regards its intent and purpose, the recommendation of section 5.4.5 subsection 1 sentence 2 is not applicable to Ian Gallienne. However, as a precaution, we declare a deviation. Moreover, the Supervisory Board has assured itself that Ian Gallienne has sufficient time to perform his Supervisory Board mandate at adidas AG.

Herzogenaurach, February 2019

For the Executive Board	For the Supervisory Board
KASPER RORSTED	IGOR LANDAU
Chief Executive Officer	Chairman of the Supervisory Board

The aforementioned Declaration of Compliance has been published on and can be downloaded from our website.
↗ ADIDAS-GROUP.COM/S/CORPORATE-GOVERNANCE

SUGGESTIONS OF THE GERMAN CORPORATE GOVERNANCE CODE LARGELY FULFILLED

In addition to the recommendations, the Code contains a number of suggestions for good and responsible corporate governance, compliance with which is not required to be disclosed separately by law. adidas is compliant with the suggestions of the Code except for the suggestion outlined in section 4.2.3 subsection 2 sentence 9 of the Code according to which early disbursements of multiple-year, variable remuneration components should not be permitted.

1 The Corporate Governance Report including the Declaration on Corporate Governance is an unaudited section of the combined Management Report.

DUAL BOARD SYSTEM

As a globally operating public listed company with its registered seat in Herzogenaurach, Germany, adidas AG is subject to, inter alia, the provisions of German stock corporation law. A dual board system, which assigns the management of the company to the Executive Board and advice and supervision of the Executive Board to the Supervisory Board, is one of the fundamental principles of German stock corporation law. These two boards are strictly separated both in terms of members and competencies. In the interest of the company, however, both Boards cooperate closely.

COMPOSITION AND WORKING METHODS OF THE EXECUTIVE BOARD

The composition of our Executive Board, which consists of six members, reflects the international character of our company. The Executive Board is responsible for independently managing the company, determining the Group's strategic orientation, agreeing this with the Supervisory Board and ensuring its implementation. Further, it defines business targets, company policy and the organization of the Group. The Executive Board is in charge of preparing the quarterly statements, the company's half year report as well as the annual financial statements and consolidated financial statements and the combined Management Report of adidas AG and the Group. Moreover, it prepares a combined non-financial statement for the company and the Group. Additionally, the Executive Board ensures appropriate risk management and risk controlling as well as compliance with statutory regulations and internal guidelines. In this regard, the Executive Board is responsible for implementing an adequate compliance management system which meets the requirements of the company's risk situation. It is bound to the company's interest and obligated to strive for a sustainable increase in company value.

Notwithstanding the Executive Board's overall responsibility, its members are individually responsible for managing their respective business areas in accordance with the Executive Board's Business Allocation Plan. There are no Executive Board committees. The CEO is responsible, in particular, for leading the entire Executive Board as well as for guiding business development, including the coordination of the business segments, brands and markets. The members of the Executive Board keep each other informed regularly and comprehensively about all significant developments in their business areas and align on all cross-functional measures. Collaboration within the Executive Board is further governed by the Rules of Procedure of the Executive Board and the Business Allocation Plan. These documents specifically stipulate requirements for meetings and resolutions as well as for cooperation with the Supervisory Board.

The Executive Board and Supervisory Board cooperate closely for the benefit of the company. The Executive Board reports to the Supervisory Board regularly, extensively and in a timely manner on all matters relevant for the company's strategy, planning, business development, financial position and compliance as well as on essential business risks. When filling leadership positions in the company, the Executive Board takes diversity into consideration and aims for, inter alia, an increase in the percentage of women.

No member of the Executive Board has accepted more than a total of three supervisory board mandates in non-group listed companies or in supervisory bodies of non-group companies with comparable requirements. SEE EXECUTIVE BOARD, P. 21

COMPOSITION AND WORKING METHODS OF THE SUPERVISORY BOARD

Our Supervisory Board consists of 16 members. It comprises eight shareholder representatives and eight employee representatives in accordance with the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG). SEE SUPERVISORY BOARD, P. 25 The shareholder representatives are elected by the shareholders at the Annual General Meeting, and the employee representatives by the employees. The term of office of the current members of the Supervisory Board expires at the end of the 2019 Annual General Meeting.

Objectives for the composition of the Supervisory Board

At its meeting in October 2018, taking into account the recommendations of the Code, the Supervisory Board resolved upon objectives regarding its composition (including a profile of skills and expertise [competency profile] for the full Supervisory Board) which are published on our website. ↗ ADIDAS-GROUP.COM/S/BODIES According to these objectives, the Supervisory Board should be composed in such a way that qualified supervision of and advice to the Executive Board are ensured. Its members as a whole are expected to have the knowledge, skills and professional experience required to properly perform the tasks of a supervisory board in a capital market-oriented, international company in the sporting goods industry. To this end, it is ensured that the Supervisory Board as a whole possesses the competencies considered essential in view of adidas' activities. This includes, in particular, in-depth knowledge and experience in the sporting goods and sports- and leisure-wear industry, in the business of fast-moving consumer-oriented goods and in the areas of technology, digitalization and information technology (including IT security), production, marketing and sales, in particular in the e-commerce and retail sector. Moreover, the Supervisory Board is expected to possess knowledge and experience in the markets relevant for adidas, in particular the Asian and US markets, and in the management of a large international company. Furthermore, the Supervisory Board as a whole must possess knowledge and experience in the areas of business strategy development and implementation, personnel planning and management, accounting and financial reporting, controlling/risk management, governance/compliance as well as corporate and social responsibility. At least one member of the Supervisory Board must have expertise in the areas of accounting or auditing of annual accounts. Additionally, the Supervisory Board members as a whole are expected to be familiar with the sporting goods industry.

More than two-thirds of the Supervisory Board members should be independent within the meaning of section 5.4.2 of the Code. Moreover, with regard to diversity, it is the Supervisory Board's aim to take into account origin, diverse professional and international experience and, in particular, an adequate representation of both genders for its composition. Furthermore, an adequate number of the shareholder representatives should have long-standing international experience.

In addition, each Supervisory Board member must ensure that they have sufficient time to properly perform the tasks associated with the mandate. An age limit of, in general, 72 years at the time of election should be taken into account. As a rule, the length of membership in the Supervisory Board should not exceed 15 years or three terms of office.

In the Supervisory Board's assessment, the Supervisory Board as a whole fulfills the objectives stated and the competency profile. Together, the members of the Supervisory Board have the knowledge, skills and professional expertise required to properly perform their duties. All of them are familiar with the sector in which the company operates. As they furthermore have extensive knowledge of various professional fields and many years of international experience, they bring a broad spectrum of expertise and experience to the performance of the Supervisory Board's function. Moreover, with Herbert Kauffmann, the Chairman of the Audit Committee, at least one member of the Supervisory Board has proven expertise in the areas of accounting or auditing of annual accounts. The number of female Supervisory Board members currently amounts to four. This report contains information on the fulfillment of the quota stipulated in § 96 section 2 sentence 1 AktG, according to which the Supervisory Board must be composed of at least 30% female and at least 30% male members. SEE SECTION 'COMMITMENT TO THE PROMOTION OF EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS', P. 38 The members of our Supervisory Board do not exercise directorships or similar positions or advisory tasks for key competitors of the company. Further, they do not have business or personal relations with adidas AG, its Executive Board and Supervisory Board or a controlling shareholder which may cause a substantial and not merely temporary conflict of interest. No members of the Supervisory Board are former Executive Board members. In the Supervisory Board's assessment, currently all shareholder representatives are independent within the meaning of the Code. In accordance with the objectives resolved upon regarding its composition, the Supervisory Board deems this to be an appropriate number. The names of the independent shareholder representatives are set out in the overview of all Supervisory Board members in this Annual Report. SEE SUPERVISORY BOARD, P. 25 Assuming that all of the employee representatives also in principle meet the independence criteria as defined by the Code, in the Supervisory Board's assessment, currently all of its members are independent. Regarding the Supervisory Board's composition, the age limit of, in general, 72 years at the time of election was taken into account. The maximum length of membership in the Supervisory Board of normally 15 years or three terms of office which was set by the Supervisory Board is observed with the exception of three employee representatives.

When preparing its nomination proposals for the Annual General Meeting, the Supervisory Board takes into account the objectives regarding its composition, in particular seeking to fulfill the competency profile for the full Supervisory Board. Therefore, the Supervisory Board pays attention to a balanced composition to ensure that the know-how sought after is represented on as broad a scale as possible.

Tasks of the Supervisory Board

The Supervisory Board supervises and advises the Executive Board in questions relating to the management of the company. The Executive Board regularly, expeditiously and comprehensively reports on business development and planning as well as on the company's risk situation including compliance and coordinates the strategy of the company and its implementation with the Supervisory Board. The Supervisory Board examines and approves the annual financial statements and consolidated financial statements as well as the combined Management Report of adidas AG and the Group, taking into consideration the auditor's reports, and resolves upon the proposal of the Executive Board on the appropriation of retained earnings. Additionally, it resolves upon the Supervisory Board's resolution proposals to be presented to the Annual General Meeting. Moreover, the Supervisory Board examines the combined non-financial statement for the company and the Group. Certain business transactions and measures of the Executive Board with fundamental significance are subject to prior approval by the Supervisory Board or by a Supervisory Board committee. Corresponding details are set out in § 8 of the Rules of Procedure of the Supervisory Board of adidas AG. Furthermore, the requirement of prior Supervisory Board approval is stipulated in some resolutions by the Annual General Meeting.

The Supervisory Board is also responsible for the appointment and dismissal of the Executive Board members as well as for the allocation of their areas of responsibility. When appointing new Executive Board members, the Supervisory Board aims to select candidates with a wide range of complementary skills to ensure the best possible Executive Board composition for the company, keeping long-term succession planning in mind. Inter alia, experience, industry knowledge as well as professional and personal qualifications play an important role in this regard. In addition, taking into account the international structure of the company, the Supervisory Board considers diversity. This applies, in particular, also with regard to age, internationality and further important personal qualities. Furthermore, the Supervisory Board determines the Executive Board compensation system, examines it regularly and decides on the individual overall compensation of each Executive Board member. Further information on Executive Board compensation is compiled in the Compensation Report. SEE COMPENSATION REPORT, P. 41

Further information on Corporate Governance

More information on topics covered in this report can be found on our website ↗ ADIDAS-GROUP.COM/S/CORPORATE-GOVERNANCE including:

- Articles of Association
- Rules of Procedure of the Executive Board
- Rules of Procedure of the Supervisory Board
- Rules of Procedure of the Audit Committee
- Supervisory Board committees (composition and tasks)
- CVs of Executive Board members and Supervisory Board members
- Objectives of the Supervisory Board regarding its composition (including competency profile for the full Supervisory Board)

In order to increase the efficiency of its work and to deal with complex topics, the Supervisory Board has formed six permanent expert committees from within its members, which, inter alia, prepare its resolutions and, in certain cases, pass resolutions on its behalf. These committees are the Steering Committee, the General Committee, the Audit Committee, the Finance and Investment Committee, the Mediation Committee in accordance with § 27 section 3 MitbestG and the Nomination Committee. The tasks, responsibilities and work processes of the committees are in line with the requirements of the German Stock Corporation Act and the Code. The chairmen of the committees report to the entire Supervisory Board on the results of the committee work on a regular basis. The composition of the committees can be found in the respective overview of the Supervisory Board. SEE SUPERVISORY BOARD, P. 25 Further information on the committees' tasks is available on our website. ↗ ADIDAS-GROUP.COM/S/SUPERVISORY-BOARD-COMMITTEES

Apart from the individual skills expected of the members, the Rules of Procedure of the Supervisory Board and of the Audit Committee also set out the tasks and responsibilities as well as the procedure for meetings and passing resolutions. These Rules of Procedure are available on our website. The Supervisory Board Report provides information on the activities of the Supervisory Board and its committees in the year under review. SEE SUPERVISORY BOARD REPORT, P. 28

The members of the Supervisory Board are individually responsible for undertaking any necessary training and professional development measures required for their tasks and, in doing so, are supported by adidas AG. The company informs the Supervisory Board regularly about current legislative changes as well as opportunities for external training, and provides the Supervisory Board with relevant specialist literature.

Furthermore, the Supervisory Board and the Audit Committee examine the efficiency of their work on a regular basis. SEE SUPERVISORY BOARD REPORT, P. 28

The compensation of the Supervisory Board members is set out in the Compensation Report. SEE COMPENSATION REPORT, P. 41

COMMITMENT TO THE PROMOTION OF EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS

When filling leadership positions in the company, the Executive Board takes diversity into consideration and especially aims for an appropriate consideration of women. The Supervisory Board is also convinced that an increase in the number of women in leadership positions within the company is necessary to ensure that, in the future, a larger number of suitable female candidates is available for Executive Board positions. The Supervisory Board thus supports the company's initiatives to foster diversity and inclusion and promote women in leadership positions. SEE PEOPLE AND CULTURE, P. 81

Pursuant to the 'Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector', the Supervisory Board determined target figures for the percentage of female representation on the Executive Board, including corresponding deadlines for their achievement, and the Executive Board determined such target figures for the first two management levels, including deadlines for their achievement, for adidas AG:

- The target figure for the Executive Board is 1/7 or 14.29%. The deadline for achieving this target figure is June 30, 2022.
- The target figure for the first management level below the Executive Board is 24% and 30% for the second management level below the Executive Board. The implementation period for both targets expires on December 31, 2019.

In accordance with § 96 section 2 sentence 1 AktG, at least 30% of the members of the Supervisory Board have to be female and at least 30% have to be male. The shareholder representatives and the employee representatives have each resolved in accordance with § 96 section 2 sentence 3 AktG that this minimum quota shall be fulfilled separately for the shareholder representatives and the employee representatives. As at December 31, 2018, a total of four Supervisory Board mandates of the company were held by women. The minimum quota required is fulfilled both by the shareholder representatives and the employee representatives. The next election of shareholder representatives to the Supervisory Board will take place at the Annual General Meeting of adidas AG in May 2019. The list of candidates proposed to the shareholders will comprise at least two female shareholder representatives.

AVOIDING CONFLICTS OF INTEREST

The members of the Executive Board and Supervisory Board are obligated to disclose any conflicts of interest to the Supervisory Board without any delay. Substantial transactions between the company and members of the Executive Board or persons in a close relation with them require Supervisory Board approval. Contracts between the company and members of the Supervisory Board also require Supervisory Board approval. The Supervisory Board reports any conflicts of interest, as well as the handling thereof, to the Annual General Meeting. In the year under review, the members of the Executive Board and the members of the Supervisory Board did not face any conflicts of interest.
SEE SUPERVISORY BOARD REPORT, P. 28

SHARE OWNERSHIP OF AND SHARE TRANSACTIONS CONDUCTED BY THE EXECUTIVE BOARD AND SUPERVISORY BOARD

An overview of the managers' transactions pursuant to Article 19 of the Regulation (EU) No 596/2014 (Market Abuse Regulation) notified to adidas AG in 2018 is published on our website.
↗ ADIDAS-GROUP.COM/S/MANAGERS-TRANSACTIONS

RELEVANT MANAGEMENT PRACTICES

Our business activities are oriented toward the legal systems in the various countries and markets in which we operate. This implies a high level of social and environmental responsibility. Further information on company-specific practices which are applied in addition to statutory requirements, such as our Code of Conduct ('Fair Play'), on compliance with working and social standards, environmental responsibility, chemical management and our social commitment, such as supporting refugees, is available in this Annual Report and on our website. SEE SUSTAINABILITY, P. 88, ↗ ADIDAS-GROUP.COM/SUSTAINABILITY

COMPLIANCE AND RISK MANAGEMENT

Compliance with laws, internal and external provisions and responsible risk management are part of corporate governance at adidas. Our compliance management system is linked to the company's risk and opportunity management system. As part of our global 'Fair Play Concept', the compliance management system establishes the organizational framework for company-wide awareness of our internal rules and guidelines and for the legally compliant conduct of our business. It underscores our strong commitment to ethical and fair behavior in our own organization and also sets the parameters for how we deal with others. The principles of our compliance management system are set out in the Risk and Opportunity Report. The risk and opportunity management system ensures risk-aware, opportunity-oriented and informed actions in a dynamic business environment in order to guarantee the competitiveness and sustainable success of adidas. SEE RISK AND OPPORTUNITY REPORT, P. 131

TRANSPARENCY AND PROTECTION OF SHAREHOLDERS' INTERESTS

It is our goal to inform all institutional investors, private shareholders, financial analysts, business partners, employees and the interested public about the company's situation, at the same time and to an equal extent, through regular, transparent and up-to-date communication. We publish all essential information, such as press releases, ad hoc announcements and voting rights notifications as well as all presentations from roadshows and conferences, all financial reports and the financial calendar on our website. With our comprehensive Investor Relations activities, we maintain close and continuous contact with our current and potential shareholders. ↗ ADIDAS-GROUP.COM/S/INVESTORS, SEE OUR SHARE, P. 57

Further information on the principles of our management

More information on topics covered in this report can be found on our website
↗ ADIDAS-GROUP.COM/EN
including:

- Code of Conduct (Fair Play)
- Sustainability
- Social commitment
- Risk and opportunity management and compliance
- Information and documents on the Annual General Meeting
- Managers' transactions
- Accounting and annual audit

In addition, we provide all documents and information on our Annual General Meeting on our website. The shareholders of adidas AG exercise their shareholders' rights at the Annual General Meeting. Each share grants one vote. Our shareholders are involved in all fundamental decisions at the Annual General Meeting through their participation rights. It is our intention to support our shareholders in exercising their voting rights at the Annual General Meeting. At our next Annual General Meeting, taking place in Fuerth (Bavaria) on May 9, 2019, we will again provide our shareholders with the best possible service. Shareholders have the possibility, inter alia, to electronically register for the Annual General Meeting through our shareholder portal or to participate in voting by granting powers of representation and voting instructions online to the proxies appointed by the company.

SHARE-BASED PROGRAMS

A long-term incentive (LTI) plan, which is part of the long-term remuneration for senior executives of adidas, applies. Based on this plan, the plan participants receive restricted stock units (RSUs). SEE NOTE 28, P. 189, SEE PEOPLE AND CULTURE, P. 81

As per their contracts, each member of the Executive Board is entitled to participate in a Long-Term Incentive Plan set up for the Executive Board members. The LTIP 2018/2020 links the long-term compensation of the Executive Board to the company's performance and thus to the interests of the shareholders. The decisive assessment factors are designed in a transparent manner and are linked to the long-term profitability targets externally communicated. Moreover, the long-term compensation of the Executive Board and the long-term compensation of senior management are aligned. The LTIP 2018/2020 is share-based. The adidas shares purchased are subject to a multi-year lock-up period.
SEE COMPENSATION REPORT, P. 41

ACCOUNTING AND ANNUAL AUDIT

adidas AG prepares the annual financial statements in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – HGB) and the Stock Corporation Act. The annual consolidated financial statements are prepared in accordance with the principles of the International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, was appointed as auditor for the 2018 annual financial statements and consolidated financial statements by the Annual General Meeting. The Supervisory Board had previously assured itself of the auditor's independence. SEE INDEPENDENT AUDITOR'S REPORT, P. 232

COMPENSATION REPORT

For adidas, transparent and comprehensible reporting on the compensation of the Executive Board and Supervisory Board is an essential element of good corporate governance. The Compensation Report is a component of the combined Management Report and outlines the principles of the compensation system for the members of the Executive Board and Supervisory Board as well as the level and structure of the compensation in accordance with the legal requirements and the recommendations of the German Corporate Governance Code (Code).

COMPENSATION OF THE EXECUTIVE BOARD MEMBERS

Following preparation by the Supervisory Board's General Committee, the compensation system for the Executive Board and the total compensation of each member of the Executive Board is determined and regularly reviewed by the entire Supervisory Board. The compensation and personnel topics dealt with by the Supervisory Board and General Committee in the year under review are described in detail in the Supervisory Board Report. SEE SUPERVISORY BOARD REPORT, P. 28

COMPENSATION SYSTEM

PRINCIPLES OF THE COMPENSATION SYSTEM

The compensation system is geared toward creating an incentive for successful, sustainably value-oriented corporate management and development. The compensation is thus structured with an appropriate balance of non-performance-related and performance-related components. More than 50% of the performance-related compensation components are based on mainly future-related, multi-year performance criteria. They are designed in such a way that both positive and negative developments are considered. Moreover, the incentive to achieve the long-term targets decisive for the multi-year performance-related compensation component is higher than the incentive to achieve the targets decisive for being granted the one-year performance-related compensation component. At least 80% of the performance-related compensation is directly linked to the short- and long-term sales and profitability targets externally communicated, thus bringing the compensation of the Executive Board members directly in line with the interests of the shareholders. SEE SECTION ON 'PERFORMANCE-RELATED COMPONENTS', P. 43

When designing the compensation system and determining the Executive Board compensation, the Supervisory Board takes into account the size and global orientation, the economic situation, the success and the outlook of the company. Furthermore, the Supervisory Board considers the common level of compensation taking into account both the compensation level of peer companies and the relation between the Executive Board compensation and that of senior management and employees overall, also in terms of its development over time. Compared with competitors, the compensation should be attractive, offering incentives to attract qualified members for the Executive Board and retain them long-term. In addition, when determining the compensation, the tasks of the respective Executive Board member and their contribution to the company's success are taken into consideration. The performance-related compensation is measured based on the achievement of ambitious, pre-agreed targets; subsequent changes to performance targets or comparison parameters are not permitted. The compensation system aims to appropriately remunerate exceptional performance, while diminishing performance-related compensation when targets are not met. Thus, in the Supervisory Board's opinion, an appropriate level of compensation, which is reviewed regularly by the Supervisory Board and adjusted if required, is ensured.

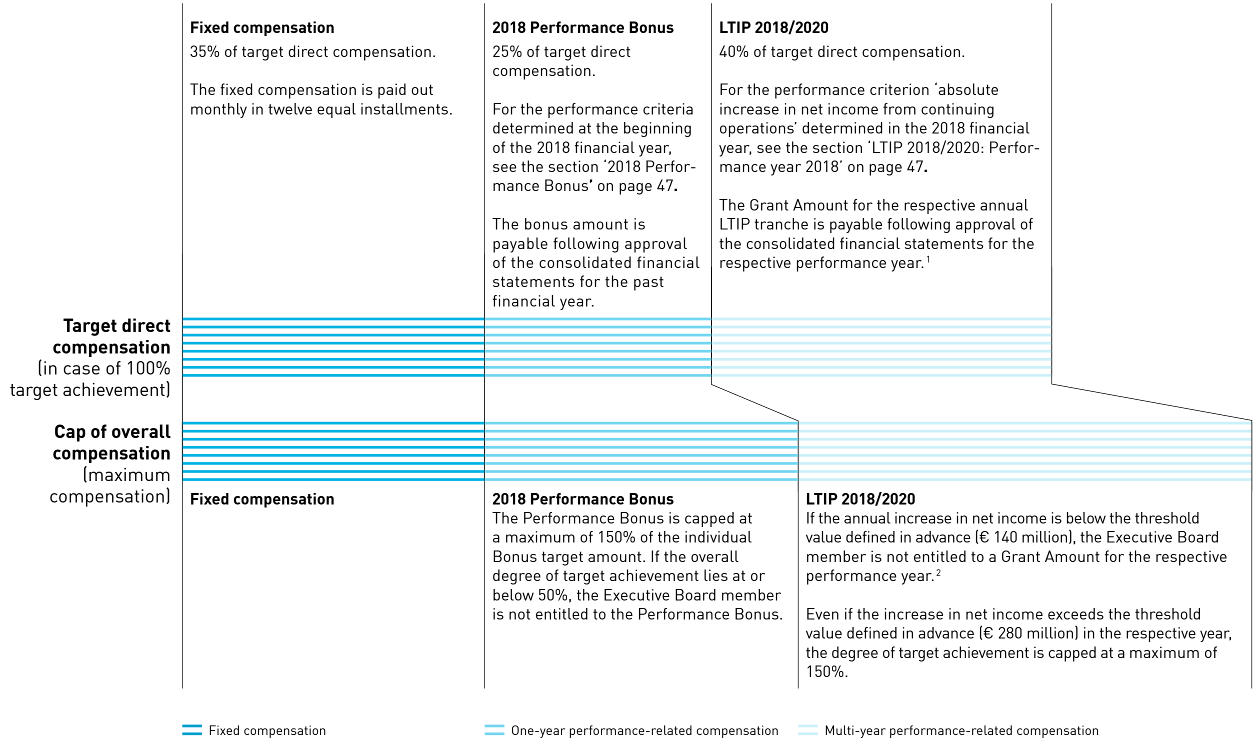
The compensation system which has been applicable for the members of the Executive Board since the 2018 financial year was adopted by the shareholders at the Annual General Meeting on May 9, 2018.

The total compensation of the Executive Board members is composed of fixed compensation, an annual cash bonus (Performance Bonus), a long-term share-based bonus (Long-Term Incentive Plan – LTIP Bonus) as well as pension benefits and other benefits. In case of 100% target achievement, the target direct compensation (total annual compensation without pension benefits and other benefits) is composed of

- 35% fixed compensation,
- 25% Performance Bonus and
- 40% LTIP Bonus. SEE DIAGRAM 1

Overall, the Supervisory Board believes that the compensation system is easy to understand, makes use of transparent performance criteria and is directly linked to the short- and long-term targets of the company, thereby aligning the interests of the Executive Board with the interests of the shareholders.

Compensation system for the Executive Board members 1



1 The Grant Amount must be invested by the Executive Board members in the acquisition of adidas AG shares which are subject to a lock-up period.
2 If the increase in net income from continuing operations is below € 210 million in the performance year 2018 or 2019, the target value for 100% target achievement is increased correspondingly for the following performance year. However, if the increase in net income is higher than € 210 million in a performance year, the target for the following performance years remains unaffected.

NON-PERFORMANCE-RELATED COMPONENTS

Fixed compensation

The fixed compensation consists of the annual fixed salary. In principle, it is paid in twelve equal monthly installments and generally remains unchanged during the term of the service contract.

Other benefits

Other benefits for the Executive Board members primarily consist of paying for, or providing the monetary value of, non-cash benefits such as premiums or contributions to insurance schemes in line with market practice, the provision of a company car or the use of the internal driver service or the payment of a car allowance and, if Executive Board members are also subject to taxation abroad, the costs for the tax consultant selected by adidas. The total amount of other benefits is capped at 5% of the total amount of the fixed compensation and a (possible) Performance Bonus granted in the respective financial year.

PERFORMANCE-RELATED COMPONENTS

Performance Bonus

As the annual performance-related component, the Performance Bonus serves as compensation for the Executive Board's performance in the past financial year in line with the short-term development of the company. At the beginning of the financial year, the Supervisory Board establishes the respective weighted performance criteria. In case of 100% target achievement, the target amount of the Performance Bonus corresponds to 25% of the target direct compensation of the respective Executive Board member.

The amount of the Performance Bonus is determined based on the achievement of, generally, four weighted criteria. Two of these criteria are the same for all Executive Board members and are weighted at 60%. These criteria are directly linked to the annual guidance externally communicated and, at the same time, follow directly from the – also externally communicated – long-term growth targets of adidas. For the 2019 financial year, these criteria are again 'currency-neutral sales growth' and 'the development of the operating margin'. It is intended to retain these criteria in the years to come. The other two criteria are individual criteria for the respective Executive Board member with a 40% weighting. All criteria are designed in such a way that target achievement may also be zero. When targets are clearly not met, the Performance Bonus may consequently be forfeited entirely. SEE TABLE 2

At the end of the financial year, the precise target achievement of each Executive Board member, which is, in principle, based on a comparison of the predefined target values with the values achieved in the year under review, is assessed by the Supervisory Board. The Supervisory Board determines the factor by which the Performance Bonus target amount is multiplied by adding up these degrees of target achievement (overall degree of target achievement). The result is the individual amount of the Performance Bonus to be paid (Performance Bonus Amount). When determining the degrees of target achievement and thus when determining the Performance Bonus Amount, the Supervisory Board may, at its equitable discretion, take into account extraordinary positive and negative developments which are not related to the performance of the Executive Board.

Even in case of an overall degree of target achievement of more than 150%, the Performance Bonus Amount is capped at a maximum of 150% of the individual Performance Bonus target amount. If the overall degree of target achievement lies at or below 50%, the Executive Board member is not entitled to the Performance Bonus.

If an Executive Board member takes or leaves office during a financial year, the Performance Bonus is generally calculated pro rata temporis based on the degree of target achievement determined at the end of the financial year. In certain cases defined in the terms and conditions of the Performance Bonus, entitlement to the payout of a Performance Bonus is generally forfeited.

The Performance Bonus Amount is payable following approval of the consolidated financial statements for the past financial year.

Performance Bonus 2

Performance criteria	– two shared criteria (60% weighting): directly linked to the annual guidance externally communicated and, at the same time, following directly from the – also externally communicated – long-term growth targets of adidas – two individual criteria (40% weighting)
Transparency of the performance criteria	– the two shared criteria are transparent and, in case of 100% target achievement, are in line with the guidance externally communicated
Cap	– capped at a maximum of 150% – no payout if overall degree of target achievement lies at or below 50%

Long-Term Incentive Plan 2018/2020 (LTIP 2018/2020)

The LTIP 2018/2020 aims to link the long-term performance-related compensation of the Executive Board to the company's performance and thus to the interests of the shareholders. Therefore, the LTIP 2018/2020 is share-based. It consists of three annual tranches (2018, 2019 and 2020) and each tranche is assessed based on a period of approximately four and a half years. SEE TABLE 3

LTIP 2018/2020 3

Performance criterion	– one shared criterion: absolute increase in net income from continuing operations
Transparency of the performance criterion	– criterion for the respective performance year is transparent and, in case of 100% target achievement, is in line with the guidance externally communicated
Cap	– capped at a maximum of 150% (with externally communicated threshold values which are defined in advance) – no payout in case of result below the threshold value which is defined in advance
Claw back/malus	yes
Share-based	yes
Time period	approx. 4.5 years
Compensation of Executive Board and senior management aligned	yes

Each of the three annual LTIP tranches consists of a performance year and a subsequent lock-up period of slightly more than three years. SEE DIAGRAM 6 At the beginning of 2018, the Supervisory Board determined as performance criterion for each of the three performance years (2018, 2019 and 2020) the absolute increase in net income from continuing operations compared to the respective previous year.

The target values for the annual LTIP tranches follow directly from the externally published long-term net income growth targets of the company. For instance, if net income from continuing operations increased by a total of € 630 million (100% target achievement) in the three-year period from 2018 to 2020, net income from continuing operations would amount to € 2,060 million in 2020. Compared to 2015, this would correspond to an average increase in net income of 23% per year, which would be within the target corridor of 22% to 24%, as defined by adidas in the five-year strategy. SEE TABLE 4

LTIP 2018/2020: Growth targets 4

Performance year	Growth target for net income from continuing operations
2018 (compared to 2017[1])	+ € 210 million
2019 (compared to 2018)	+ € 210 million
2020 (compared to 2019)	+ € 210 million

1 The basis for 2017 is net income from continuing operations in the amount of € 1,430 million (without the negative tax-related one-time effect in the 2017 financial year).

If the increase in net income from continuing operations is below € 210 million in the respective performance year, the target value for 100% target achievement is increased correspondingly for the following performance year, unless the Supervisory Board decides otherwise at its equitable discretion. For instance, if net income increases by € 180 million in the performance year 2019, net income in the performance year 2020 must be increased by € 240 million for 100% target achievement. However, if the increase in net income is higher than € 210 million in a performance year, the target for the following performance years remains unaffected. So despite a net income increase in 2018 of € 279 million reflecting a target achievement of 149%, net income in the following performance years 2019 and 2020 must still be increased by € 210 million, respectively, for a target achievement of 100%.

In case of 100% target achievement, the LTIP 2018/2020 target amount for each of the LTIP tranches corresponds to 40% of the target direct compensation of the respective Executive Board member.

The precise target achievement is determined on the basis of the approved consolidated financial statements for the respective performance year. In this respect, the Supervisory Board may, at its equitable discretion, take into account extraordinary positive and negative developments which are not related to the performance of the Executive Board. The degree of target achievement by which the annual LTIP 2018/2020 target amount determined for the respective Executive Board member is multiplied is derived from the amount of the actual increase in net income from continuing operations for the respective performance year. SEE TABLE 5

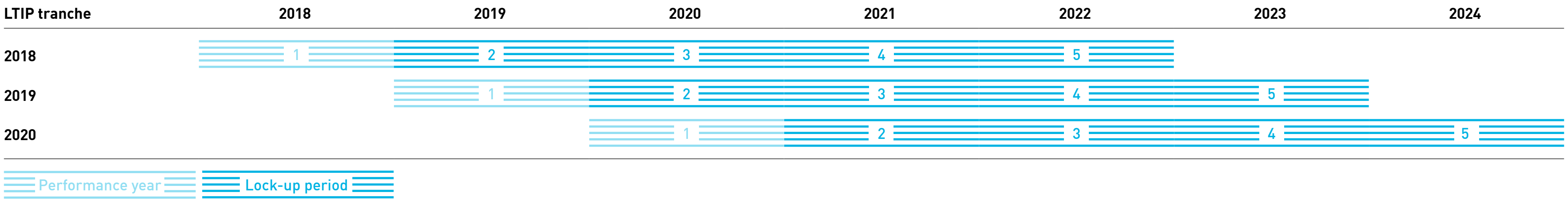
LTIP 2018/2020: Calculation of target achievement 5

Increase in net income from continuing operations compared to the previous year	Degree of target achievement
≥ + € 280 million	150%
+ € 210 million	100%
+ € 140 million	50%
< + € 140 million	0%

If the actual increase in net income from continuing operations compared to the previous year is between the above-mentioned values, the degree of target achievement is determined based on a sliding scale. If the annual increase in net income is below € 140 million, the degree of target achievement is zero. Furthermore, the degree of target achievement is capped at 150%, even if the increase in net income exceeds € 280 million.

By multiplying the degree of target achievement thus calculated with the annual LTIP target amount determined for the respective Executive Board member based on 100% target achievement, the Grant Amount is determined, which is paid out to the Executive Board member for the respective annual LTIP 2018/2020 tranche following the approval of the consolidated financial statements of adidas for the performance year.

LTIP 2018/2020: Annual LTIP tranches 6



1 Performance year: determination of LTIP target amount in case of 100% target achievement.
2 Determination of the degree of target achievement, Grant Amount payable following approval of the consolidated financial statements for the past performance year and investment of LTIP payout amount in adidas AG shares. Start of lock-up period.
3 Lock-up period.
4 Lock-up period.
5 End of lock-up period upon expiry of the month in which the Annual General Meeting of adidas AG takes place.

The Executive Board members have to invest the Grant Amount which remains after deducting applicable taxes and social security contributions (LTIP payout amount) into the acquisition of adidas AG shares. The shares acquired are subject to a lock-up period. This lock-up period ends in the third financial year after the acquisition of the shares upon expiry of the month in which the Annual General Meeting of adidas AG takes place. The Executive Board members may only dispose of the shares after expiry of the lock-up period. SEE DIAGRAM 6 Due to this mechanism, the compensation which the Executive Board members eventually receive from each of the LTIP 2018/2020 tranches is directly dependent on the share price performance during the respective lock-up period of slightly more than three years and is thus dependent on the long-term performance of the company. The Executive Board members are entitled to any dividends distributed in connection with these shares during the lock-up period.

If an Executive Board member takes or leaves office during a performance year, the Grant Amount for the respective annual tranche of the LTIP 2018/2020 is generally calculated on a pro rata basis. The departed Executive Board member does not participate in the annual LTIP 2018/2020 tranches for which the performance year begins after the respective Executive Board member's departure. In certain cases defined in the terms and conditions of the LTIP 2018/2020, any claims in connection with the LTIP 2018/2020 are generally forfeited and adidas AG shares already purchased, for which the lock-up period has not yet expired, must be transferred to adidas without compensation payments.

Furthermore, the terms and conditions of the LTIP 2018/2020 contain malus and claw back provisions; until expiry of the lock-up period (malus) and beyond (claw back), these provisions allow the Supervisory Board at its equitable discretion, under certain circumstances, to reduce the compensation from the LTIP 2018/2020. Such circumstances are, for instance, material misstatements in the financial reports as well as serious compliance violations.

In exceptional cases, at its equitable discretion, the Supervisory Board may grant a special bonus in case of extraordinary performance by an Executive Board member which is not related to performance criteria that were already decisive for granting the Performance Bonus or the LTIP 2018/2020 Bonus. If such special bonus is granted, it is capped at a maximum of 100% of the annual fixed compensation of the financial year for which the special bonus is granted. If a special bonus is granted, the reasons for granting it will be disclosed in the Compensation Report on the financial year concerned.

DEFINED CONTRIBUTION PENSION PLANS

The current members of the Executive Board have defined contribution pension plans. Each year, as part of the pension commitments, the virtual pension account of each Executive Board member is credited with an amount which equals a percentage determined by the Supervisory Board and which is related to the Executive Board member's individual annual fixed compensation. The appropriateness of the percentage is regularly assessed by the Supervisory Board. When making its decision, the Supervisory Board takes into account the targeted individual pension level and the resulting annual and long-term expenses for the company. The percentage most recently determined by the Supervisory Board amounts to 50%. The pension assets on the virtual pension account at the beginning of the respective calendar year yield a fixed interest rate of 3% p.a., however for no longer than until the pension benefits first become due. As a rule, interest is credited as at the close of December 31 in each calendar year, and on the due date in the year in which the pension benefits are first due. Entitlement to the pension benefits becomes vested immediately.[1]

Entitlements to pension benefits comprise pensions to be received upon reaching the age of 65, or, on application, early retirement pensions to be received upon reaching the age of 62 (early pensions), or invalidity and survivors' benefits.[2]

On occurrence of the pension-triggering event, the pension benefits generally correspond to the balance of the pension account including accumulated interest on that date. In case of invalidity or death prior to reaching the age of 62, for the minimum coverage, the Executive Board member's virtual pension account will be credited with the outstanding pension contributions for the time until the Executive Board member would have reached the age of 62, but no longer than for 120 months (without interest accrual). The pension benefits due upon death of the Executive Board member are payable to the widow, the widower or the registered civil partner and the children entitled to pension benefits as joint creditors.

At the option of the Executive Board member or the surviving dependents, the payout of all pension benefits is made either as a one-time payment or in up to ten equal annual installments. If no choice is made by the Executive Board member or by the surviving dependents, the pension benefits are paid out in three equal annual installments. As a rule, in case of a payout in annual installments, the installments are due in January of the respective year.[3] The still outstanding installments of the benefit phase bear the maximum interest rate of the first due date of the pension benefits for the calculation of the actuarial reserve according to the German Actuarial Reserve Ordinance (DeckRV) for life insurance companies.

COMMITMENTS TO EXECUTIVE BOARD MEMBERS UPON TERMINATION OF TENURE

Unless otherwise agreed in the individual case, if the service contract ends upon the Executive Board member reaching the age of 65 or upon non-renewal of the service contract, the Executive Board member is entitled to receive annual fixed compensation on a pro rata basis up to the date on which they leave office as well as a potential prorated Performance Bonus and a potential prorated LTIP 2018/2020 Bonus. Further, Executive Board members are subject to a post-contractual competition prohibition of two years. As consideration, for the duration of the competition prohibition, the Executive Board members generally receive a monthly compensation amount totaling 50% of the monthly fixed compensation last received, subject to offsetting (e.g. of income from other use of their work capacity). Under certain circumstances, the departing Executive Board member also receives a follow-up bonus. This follow-up bonus is payable in two tranches, twelve and 24 months following the end of the contract.[4]

In case of premature termination of tenure in the absence of good cause, the Executive Board service contracts cap potential severance payments at a maximum of twice the total annual compensation, not exceeding payment claims for the remaining period of the service contract (Severance Payment Cap). If the service contract is terminated due to a change of control, a possible severance payment is limited to 150% of the Severance Payment Cap. The Executive Board member

1 The pension plan for the Executive Board member Gil Steyaert deviates from the above: Prior to the occurrence of the pension-triggering event, annual pension contributions are paid for the Executive Board member into a special account at a financial institute which is subject to access restrictions. The rules for this pension plan generally correspond to the rules of the defined contribution pension plans of the other Executive Board members. There are no ongoing interest payments and no credited contributions in the case of invalidity or death. The respective annual pension contributions to be determined by the Supervisory Board are therefore increased for Gil Steyaert by an amount determined based on actuarial principles.
2 The pension plans for Eric Liedtke and Karen Parkin do not provide for early retirement pensions upon reaching the age of 62.
3 The pension plans for Eric Liedtke and Karen Parkin stipulate that the pension benefits are paid out in three equal installments payable in January of the three calendar years following the occurrence of the pension-triggering event. Moreover, under US law, there may be certain waiting periods regarding the payout of the first annual installment. The pension plan for Gil Steyaert stipulates that on occurrence of the pension-triggering event, the access restrictions no longer apply and the amount on the special account at the respective point in time becomes available to the Executive Board member.
4 As regards the current members of the Executive Board, such a follow-up bonus is agreed with Roland Auschel and Eric Liedtke, in each case in the amount of 75% of the Performance Bonus granted to them for the last full financial year.

does not receive a severance payment if they terminate tenure prematurely at their own request or if there is good cause for the company to terminate the employment relationship.

If an Executive Board member dies during their term of office, their spouse or partner receives or, alternatively, any dependent children receive, in addition to pension benefits, the pro rata annual fixed salary for the month of death and the following three months, but no longer than until the agreed end date of the service contract.

EXECUTIVE BOARD COMPENSATION 2018

2018 PERFORMANCE BONUS

For the 2018 financial year, the Supervisory Board determined as performance criteria

- currency-neutral sales growth,
- an increase in the operating margin and
- two criteria relating to the individual performance of the Executive Board members

as success factors.

100% target achievement thereby reflects the guidance communicated for the 2018 financial year, namely 'currency-neutral sales increase of around 10%', and 'an increase in the operating margin to a level between 10.3% and 10.5%'. SEE TABLE 7

2018 Performance Bonus: Target achievement 7

Performance criterion	Weighting	100% target value	Actual value 2018	Degree of target achievement
Currency-neutral sales growth	30%	by 10%	8.3%	72%
Operating margin increase	30%	to 10.4%	10.8%	150%
Individual criterion 1	20%	individual	individual	individual
Individual criterion 2	20%	individual	individual	individual

Based on the targets actually achieved, this results in a degree of target achievement between 67% and 118% (2017: between 132% and 140%) for the individual Executive Board members for the year under review. When determining the respective individual degrees of target achievement, the Supervisory Board did not take into account any extraordinary positive or negative developments which are not related to the performance of the Executive Board.

LTIP 2018/2020: PERFORMANCE YEAR 2018

In the 2018 financial year, the Supervisory Board determined as performance criterion for each of the three performance years (2018, 2019 and 2020) the absolute increase in net income from continuing operations compared to the respective previous year. SEE TABLE 4

LTIP 2018/2020: Target achievement in the performance year 2018 8

Performance criterion	100% target value	Actual value 2018	Degree of target achievement
Increase in net income from continuing operations compared to the previous year	+ € 210 million	+ € 279 million	149%

Based on the actual target achievement, this results in a degree of target achievement of 149% (2017: 150%) for each Executive Board member for the performance year 2018. SEE TABLE 8 When determining the degree of target achievement, the Supervisory Board did not take into account any extraordinary positive or negative developments which are not related to the performance of the Executive Board. The Executive Board members have to invest the Grant Amount which remains after deducting applicable taxes and social security contributions (LTIP payout amount) into the acquisition of adidas AG shares. The shares acquired will be subject to a lock-up period ending upon expiry of the month in which the Annual General Meeting of adidas AG takes place in the 2022 financial year. SEE SECTION ON 'LONG-TERM INCENTIVE PLAN 2018/2020 (LTIP 2018/2020)', P. 43

The Executive Board was not granted a special bonus.

PENSION COMMITMENTS

The service costs for the pension commitments granted to the Executive Board members in the 2018 financial year and the cash values of the vested rights are set out individually. SEE TABLE 9

Pension commitments in the 2018 financial year in € 9

	Service costs		Accumulated pension obligation for the pension commitments excluding deferred compensation	
Executive Board members incumbent as at December 31, 2018	**2018**	**2017**	**2018**	**2017**
Kasper Rorsted	1,052,993	1,243,202	2,114,236	1,523,987
Roland Auschel	402,742	430,138	1,622,119	1,457,786
Eric Liedtke	447,154	502,371	1,587,967	1,387,206
Harm Ohlmeyer (since March 7, 2017)	386,523	385,521	741,407	385,521
Karen Parkin (since May 12, 2017)	375,785	289,045	644,177	289,045
Gil Steyaert (since May 12, 2017) [1]	528,998	296,747	825,745	296,747
Total	**3,194,195**	**3,147,024**	**7,535,651**	**5,340,292**
Executive Board members departed in the 2017 financial year				
Glenn Bennett (until August 4, 2017) [2]	–	872,497	–	–
Robin J. Stalker (until the end of the Annual General Meeting on May 11, 2017) [3]	–	880,423	–	–
Total	**–**	**1,752,920**	**–**	**–**

1 Due to the adjustment of Gil Steyaert's pension commitment in the 2018 financial year, the service costs 2018 correspond to the gross contribution credited by the company for the respective financial year to the special account opened for the Executive Board member as well as to the gross contribution recalculated on a pro rata basis for the 2017 financial year in the amount of € 37,674. The accumulated pension obligation 2018 for Gil Steyaert's pension commitment corresponds to the gross contribution credited by the company since his appointment to the Executive Board to the special account opened for the Executive Board member.

2 The prorated service costs 2017 for Glenn Bennett also comprise the contractually agreed follow-up bonus in the amount of € 693,085 due to his departure at the end of August 4, 2017 as the follow-up bonus is a commitment for other pension benefits in the case of a member leaving office prematurely which is concluded in advance.

3 The prorated service costs 2017 for Robin J. Stalker also comprise the contractually agreed follow-up bonus in the amount of € 739,746 due to his departure with effect from the end of the Annual General Meeting on May 11, 2017 as the follow-up bonus is a commitment for other pension benefits in the case of a member leaving office prematurely which is concluded in advance.

OVERALL COMPENSATION FOR 2018 IN ACCORDANCE WITH THE CODE

Based on the Supervisory Board's determination outlined above, the overall compensation of the Executive Board for the 2018 financial year amounts to € 23,912 million (2017: € 38.013 million). Due to the LTIP 2015/2017 Bonus paid out for the three-year period 2015 to 2017 in the 2017 financial year, the overall compensation for the year under review is lower than the overall compensation for the 2017 financial year.

The recommendations of the Code to individually disclose the compensation components for each Executive Board member and to use the sample tables attached to the Code are implemented in the following.

BENEFITS GRANTED IN ACCORDANCE WITH THE CODE

In the following table, the benefits granted for the 2017 and 2018 financial years in case of 100% target achievement of the performance-related compensation are disclosed including other benefits and service costs, and also including the maximum and minimum achievable compensation. SEE TABLE 10

Benefits granted in € 10

	Kasper Rorsted Chief Executive Officer				Roland Auschel Executive Board member, Global Sales			
	2017	2018	2018 (min.)	2018 (max.)	2017	2018	2018 (min.)	2018 (max.)
Fixed compensation	2,000,000	2,000,000	2,000,000	2,000,000	750,000	920,000	920,000	920,000
Other benefits	452	19,314	19,314	19,314	17,943	17,943	17,943	17,943
Total	**2,000,452**	**2,019,314**	**2,019,314**	**2,019,314**	**767,943**	**937,943**	**937,943**	**937,943**
One-year variable compensation [1]	1,714,286	1,428,571	0	2,142,857	642,857	657,143	0	985,715
Multi-year variable compensation	2,000,000	2,285,714	0	3,428,571	750,000	1,051,429	0	1,577,144
LTIP 2018/2020 (tranche 2018)	–	2,285,714	0	3,428,571	–	1,051,429	0	1,577,144
LTIP 2015/2017 [2]	2,000,000	–	–	–	750,000	–	–	–
Total	**5,714,738**	**5,733,599**	**2,019,314**	**7,590,741**	**2,160,800**	**2,646,515**	**937,943**	**3,500,801**
Service costs [3]	1,243,202	1,052,993	1,052,993	1,052,993	430,138	402,742	402,742	402,742
Overall compensation	**6,957,940**	**6,786,592**	**3,072,307**	**8,643,734**	**2,590,938**	**3,049,257**	**1,340,685**	**3,903,543**

	Eric Liedtke Executive Board member, Global Brands				Harm Ohlmeyer Executive Board member, Chief Financial Officer since March 7, 2017 and with effect from the end of the Annual General Meeting on May 11, 2017, respectively			
	2017	2018	2018 (min.)	2018 (max.)	2017	2018	2018 (min.)	2018 (max.)
Fixed compensation	820,000	1,000,000	1,000,000	1,000,000	561,603	687,225	687,225	687,225
Other benefits	12,575	24,475	24,475	24,475	14,650	17,826	17,826	17,826
Total	**832,575**	**1,024,475**	**1,024,475**	**1,024,475**	**576,254**	**705,051**	**705,051**	**705,051**
One-year variable compensation [1]	702,857	714,286	0	1,071,429	481,374	490,875	0	736,313
Multi-year variable compensation	820,000	1,142,857	0	1,714,286	561,603	785,400	0	1,178,100
LTIP 2018/2020 (tranche 2018)	–	1,142,857	0	1,714,286	–	785,400	0	1,178,100
LTIP 2015/2017 [2]	820,000	–	–	–	561,603	–	–	–
Total	**2,355,432**	**2,881,618**	**1,024,475**	**3,810,190**	**1,619,231**	**1,981,326**	**705,051**	**2,619,464**
Service costs [3]	502,371	447,154	447,154	447,154	385,521	386,523	386,523	386,523
Overall compensation	**2,857,803**	**3,328,772**	**1,471,629**	**4,257,344**	**2,004,752**	**2,367,849**	**1,091,574**	**3,005,987**

Benefits granted in € 10

	Karen Parkin Executive Board member, Global Human Resources since May 12, 2017				Gil Steyaert Executive Board member, Global Operations since May 12, 2017 and August 5, 2017, respectively			
	2017	**2018**	**2018 (min.)**	**2018 (max.)**	**2017**	**2018**	**2018 (min.)**	**2018 (max.)**
Fixed compensation	437,829	687,225	687,225	687,225	437,829	687,225	687,225	687,225
Other benefits	14,070	18,692	18,692	18,692	8,590	20,904	20,904	20,904
Total	**451,899**	**705,917**	**705,917**	**705,917**	**446,419**	**708,129**	**708,129**	**708,129**
One-year variable compensation [1]	375,282	490,875	0	736,313	375,282	490,875	0	736,313
Multi-year variable compensation	437,829	785,400	0	1,178,100	437,829	785,400	0	1,178,100
LTIP 2018/2020 (tranche 2018)	–	785,400	0	1,178,100	–	785,400	0	1,178,100
LTIP 2015/2017 [2]	437,829	–	–	–	437,829	–	–	–
Total	**1,265,010**	**1,982,192**	**705,917**	**2,620,330**	**1,259,529**	**1,984,404**	**708,129**	**2,622,541**
Service costs [3]	289,045	375,785	375,785	375,785	296,747	528,998	528,998	528,998
Overall compensation	**1,554,055**	**2,357,977**	**1,081,702**	**2,996,115**	**1,556,276**	**2,513,402**	**1,237,127**	**3,151,539**

Benefits granted in € 10

	Glenn Bennett Executive Board member, Global Operations until August 4, 2017				Robin J. Stalker Chief Financial Officer until the end of the Annual General Meeting on May 11, 2017			
	2017[4, 5]	2018	2018 (min.)	2018 (max.)	2017[6]	2018	2018 (min.)	2018 (max.)
Fixed compensation	421,115	–	–	–	241,512	–	–	–
Other benefits	19,862	–	–	–	7,265	–	–	–
Total	**440,977**	**–**	**–**	**–**	**248,777**	**–**	**–**	**–**
One-year variable compensation[1]	694,822	–	–	–	556,200	–	–	–
Multi-year variable compensation	887,847	–	–	–	741,800	–	–	–
LTIP 2018/2020 (tranche 2018)	–	–	–	–	–	–	–	–
LTIP 2015/2017[2]	887,847	–	–	–	741,800	–	–	–
Total	**2,023,647**	**–**	**–**	**–**	**1,546,777**	**–**	**–**	**–**
Service costs[3]	872,497	–	–	–	880,423	–	–	–
Overall compensation	**2,896,144**	**–**	**–**	**–**	**2,427,199**	**–**	**–**	**–**

1 Contractually agreed Performance Bonus target amount 2017 due to the intra-year appointments of Harm Ohlmeyer (with effect from March 7, 2017), Karen Parkin (with effect from May 12, 2017) and Gil Steyaert (with effect from May 12, 2017) to the Executive Board.
Contractually agreed Performance Bonus target amount 2017 due to the termination of the Executive Board mandates of Robin J. Stalker (with effect from the end of the Annual General Meeting on May 11, 2017) and Glenn Bennett (with effect from the end of August 4, 2017) during the plan term.

2 Contractually agreed LTIP Bonus target amount 2015/2017 due to the appointments of Harm Ohlmeyer (with effect from March 7, 2017), Karen Parkin (with effect from May 12, 2017) and Gil Steyaert (with effect from May 12, 2017) to the Executive Board during the plan term.
Contractually agreed LTIP Bonus target amount 2015/2017 due to the termination of the Executive Board mandates of Robin J. Stalker (with effect from the end of the Annual General Meeting on May 11, 2017) and Glenn Bennett (with effect from the end of August 4, 2017) during the plan term.

3 Due to the adjustment of Gil Steyaert's pension commitment in the 2018 financial year, the service costs 2018 correspond to the gross contribution credited by the company for the respective financial year to the special account opened for the Executive Board member as well as to the gross contribution recalculated on a pro rata basis for the 2017 financial year in the amount of € 37,674. Service costs 2017 stated pro rata temporis due to the intra-year termination of the Executive Board mandates of Robin J. Stalker (with effect from the end of the Annual General Meeting on May 11, 2017) and Glenn Bennett (with effect from the end of August 4, 2017). The service costs 2017 for Robin J. Stalker and Glenn Bennett also comprise the contractually agreed follow-up bonus (Robin J. Stalker: in the amount of € 739,746, Glenn Bennett: in the amount of € 693,085) due to the intra-year departures as the follow-up bonus is a commitment for other pension benefits in the case of a member leaving office prematurely which is concluded in advance.

4 Exchange rate 1.12662 $/€ (annual average rate 2017).

5 Executive Board compensation stated pro rata temporis due to the intra-year termination of Glenn Bennett's Executive Board mandate at the end of August 4, 2017. Glenn Bennett's service contract terminated with effect from March 31, 2018. The variable compensation components (Performance Bonus and LTI) granted for the 2017 financial year were already fully earned by Glenn Bennett during his term of office as Executive Board member. In addition to the overall compensation set out, Glenn Bennett received the following compensation for the period from August 5, 2017 to December 31, 2017: fixed compensation in the amount of € 287,730 and other benefits in the amount of € 13,571. This compensation and the service costs for the period from August 5, 2017 to December 31, 2017 in the amount of € 122,585 are set out in the Compensation Report as part of the overall payments to former members of the Executive Board in the 2017 financial year.

6 Executive Board compensation stated pro rata temporis due to the intra-year termination of Robin J. Stalker's Executive Board mandate with effect from the end of the Annual General Meeting on May 11, 2017. Robin J. Stalker's service contract terminated with effect from March 31, 2018. The variable compensation components (Performance Bonus and LTI) granted for the 2017 financial year were already fully earned by Robin J. Stalker during his term of office as Executive Board member. In addition to the overall compensation set out, Robin J. Stalker received the following compensation for the period from May 12, 2017 to December 31, 2017: fixed compensation in the amount of € 423,988 and other benefits in the amount of € 18,725. This compensation and the service costs for the period from May 12, 2017 to December 31, 2017 in the amount of € 246,965 are set out in the Compensation Report as part of the overall payments to former members of the Executive Board in the 2017 financial year.

ALLOCATION IN ACCORDANCE WITH THE CODE

Pursuant to the recommendations of the Code, the annual fixed compensation, other benefits, the Performance Bonus, the LTIP Bonus as well as the service costs are disclosed as an allocation for the financial year in which the compensation was granted. SEE TABLE 11

Allocation in € 11

	Kasper Rorsted Chief Executive Officer		Roland Auschel Executive Board member, Global Sales		Eric Liedtke Executive Board member, Global Brands	
	2018	2017	2018	2017	2018	2017
Fixed compensation	2,000,000	2,000,000	920,000	750,000	1,000,000	820,000
Other benefits	19,314	452	17,943	17,943	24,475	12,575
Total	**2,019,314**	**2,000,452**	**937,943**	**767,943**	**1,024,475**	**832,575**
One-year variable compensation [1]	1,685,714	2,400,000	624,286	880,714	707,143	969,943
Multi-year variable compensation	3,405,714	4,250,000	1,566,629	2,975,000	1,702,857	3,080,000
LTIP 2018/2020 (tranche 2018) [2]	3,405,714	–	1,566,629	–	1,702,857	–
LTIP 2015/2017 [3]	–	4,250,000	–	2,975,000	–	3,080,000
Other	–	–	–	–	–	–
Total [4]	**7,110,741**	**8,650,453**	**3,128,858**	**4,623,657**	**3,434,476**	**4,882,518**
Service costs [5]	1,052,993	1,243,202	402,742	430,138	447,154	502,371
Overall compensation	**8,163,734**	**9,893,655**	**3,531,600**	**5,053,795**	**3,881,630**	**5,384,889**

	Harm Ohlmeyer Executive Board member, Chief Financial Officer since March 7, 2017 and with effect from the end of the Annual General Meeting on May 11, 2017, respectively		Karen Parkin Executive Board member, Global Human Resources since May 12, 2017		Gil Steyaert Executive Board member, Global Operations since May 12, 2017 and August 5, 2017, respectively	
	2018	2017	2018	2017	2018	2017
Fixed compensation	687,225	561,603	687,225	437,829	687,225	437,829
Other benefits	17,826	14,650	18,692	14,070	20,904	8,590
Total	**705,051**	**576,254**	**705,917**	**451,899**	**708,129**	**446,419**
One-year variable compensation [1]	559,598	640,228	525,236	495,372	328,886	502,878
Multi-year variable compensation	1,170,246	842,405	1,170,246	656,743	1,170,246	656,743
LTIP 2018/2020 (tranche 2018) [2]	1,170,246	–	1,170,246	–	1,170,246	–
LTIP 2015/2017 [3]	–	842,405	–	656,743	–	656,743
Other	–	–	–	–	–	–
Total [4]	**2,434,895**	**2,058,886**	**2,401,399**	**1,604,015**	**2,207,261**	**1,606,040**
Service costs [5]	386,523	385,521	375,785	289,045	528,998	296,747
Overall compensation	**2,821,418**	**2,444,407**	**2,777,184**	**1,893,060**	**2,736,259**	**1,902,787**

Allocation in € 11

	Glenn Bennett **Executive Board member, Global Operations** until August 4, 2017		Robin J. Stalker **Chief Financial Officer** until the end of the Annual General Meeting on May 11, 2017	
	2018	2017[4,7]	2018	2017[8]
Fixed compensation	–	421,115	–	241,512
Other benefits	–	19,862	–	7,265
Total	**–**	**440,977**	**–**	**248,777**
One-year variable compensation[1]	–	924,113	–	739,746
Multi-year variable compensation	–	3,995,313	–	3,338,100
LTIP 2018/2020 (tranche 2018)[2]	–	–	–	–
LTIP 2015/2017[3]	–	3,995,313	–	3,338,100
Other	–	–	–	–
Total[4]	**–**	**5,360,404**	**–**	**4,326,623**
Service costs[5]	–	872,497	–	880,423
Overall compensation	**–**	**6,232,901**	**–**	**5,207,045**

1 Contractually agreed Performance Bonus target amount 2017 due to the intra-year appointments of Harm Ohlmeyer (with effect from March 7, 2017), Karen Parkin (with effect from May 12, 2017) and Gil Steyaert (with effect from May 12, 2017) to the Executive Board. Contractually agreed Performance Bonus target amount 2017 due to the termination of the Executive Board mandates of Robin J. Stalker (with effect from the end of the Annual General Meeting on May 11, 2017) and Glenn Bennett (with effect from the end of August 4, 2017) during the plan term.
2 The Grant Amount which remains for the respective annual LTIP tranche after deduction of applicable taxes and social security contributions (LTIP payout amount) must be invested in the acquisition of adidas AG shares. These shares are subject to a lock-up period which ends in the third financial year after the acquisition of the shares upon expiry of the month in which the Annual General Meeting of adidas AG takes place. The LTIP payout amount is considered earned only after expiry of the lock-up period and only then can the Executive Board members dispose of the shares at their own discretion. By contrast, the amount deducted for income tax and social security contributions is already fully earned at the time of payout following the approval of the consolidated financial statements by the Supervisory Board.
3 Contractually agreed LTIP Bonus target amount 2015/2017 due to the appointments of Harm Ohlmeyer (with effect from March 7, 2017), Karen Parkin (with effect from May 12, 2017) and Gil Steyaert (with effect from May 12, 2017) to the Executive Board during the plan term.
Contractually agreed LTIP Bonus target amount 2015/2017 due to the termination of the Executive Board mandates of Robin J. Stalker (with effect from the end of the Annual General Meeting on May 11, 2017) and Glenn Bennett (with effect from the end of August 4, 2017) during the plan term.
4 The compensation components set out above constitute the overall compensation both for the 2018 financial year and for the previous year, which have to be set out individually in accordance with German Commercial Law.
5 Due to the adjustment of Gil Steyaert's pension commitment in the 2018 financial year, the service costs 2018 correspond to the gross contribution credited by the company for the respective financial year to the special account opened for the Executive Board member as well as to the gross contribution recalculated on a pro rata basis for the 2017 financial year in the amount of € 37,674. Service costs 2017 stated pro rata temporis due to the intra-year termination of the Executive Board mandates of Robin J. Stalker (with effect from the end of the Annual General Meeting on May 11, 2017) and Glenn Bennett (with effect from the end of August 4, 2017). The service costs 2017 for Robin J. Stalker and Glenn Bennett also comprise the contractually agreed follow-up bonuses (Robin J. Stalker: in the amount of € 739,746, Glenn Bennett: in the amount of € 693,085) due to their intra-year departures as the follow-up bonus is a commitment for other pension benefits in the case of a member leaving office prematurely which is concluded in advance.
6 Exchange rate 1.12662 $/€ (annual average rate 2017).
7 Service costs stated pro rata temporis due to the intra-year termination of Glenn Bennett's Executive Board mandate at the end of August 4, 2017. Glenn Bennett's service contract terminated with effect from March 31, 2018. The variable compensation components (Performance Bonus and LTI) granted for the 2017 financial year were already fully earned by Glenn Bennett during his term of office as Executive Board member. In addition to the overall compensation set out, Glenn Bennett received the following compensation for the period from August 5, 2017 to December 31, 2017: fixed compensation in the amount of € 287,730 and other benefits in the amount of € 13,571. This compensation and the service costs for the period from August 5, 2017 to December 31, 2017 in the amount of € 122,585 are set out in the Compensation Report as part of the overall payments to former members of the Executive Board in the 2017 financial year.
8 Service costs stated pro rata temporis due to the intra-year termination of Robin J. Stalker's Executive Board mandate with effect from the end of the Annual General Meeting on May 11, 2017. Robin J. Stalker's service contract terminated with effect from March 31, 2018. The variable compensation components (Performance Bonus and LTI) granted for the 2017 financial year were already fully earned by Robin J. Stalker during his term of office as Executive Board member. In addition to the overall compensation set out, Robin J. Stalker received the following compensation for the period from May 12, 2017 to December 31, 2017: fixed compensation in the amount of € 423,988 and other benefits in the amount of € 18,725. This compensation and the service costs for the period from May 12, 2017 to December 31, 2017 in the amount of € 246,965 are set out in the Compensation Report as part of the overall payments to former members of the Executive Board in the 2017 financial year.

OVERALL PAYMENTS TO FORMER MEMBERS OF THE EXECUTIVE BOARD AND THEIR SURVIVING DEPENDENTS

In the 2018 financial year, overall payments to former members of the Executive Board and their surviving dependents amounted to € 3.746 million (2017: € 13.520 million). The amount of overall payments is lower than in the previous year because the overall payments for 2017 took into account compensation payments for the former Executive Board members Herbert Hainer, Robin J. Stalker and Glenn Bennett, who departed from the Executive Board in the 2016 or 2017 financial year.

Provisions for pension entitlements were created for former members of the Executive Board who resigned on or before December 31, 2005 and their surviving dependents, amounting to € 43.904 million (2017: € 44.587 million) in total as at December 31, 2018. There are pension commitments toward six former Executive Board members who resigned after December 31, 2005, which are covered by a pension fund or a pension fund in combination with a reinsured pension trust fund. From this, indirect obligations amounting to € 40.969 million (2017: € 40.106 million) arise for adidas AG, for which no accruals were established due to financing through the pension fund and pension trust fund.

The dynamization of the pensions paid to former Executive Board members is effected in accordance with statutory regulations or regulations under collective agreements, unless a surplus from the pension fund is used for an increase in pension benefits after pension payments have already begun.

MISCELLANEOUS

The Executive Board members do not receive any additional compensation for mandates within adidas. The Executive Board members have not received any loans or advance payments from adidas AG.

COMPENSATION OF THE SUPERVISORY BOARD MEMBERS

The compensation system which has been applicable for the members of the Supervisory Board since July 1, 2017 was adopted by the shareholders at the Annual General Meeting on May 11, 2017.

COMPENSATION SYSTEM

In accordance with § 18 of adidas AG's Articles of Association, the compensation of the Supervisory Board members consists of two components: fixed compensation and additional compensation for membership in committees. The Supervisory Board members are not granted performance-related compensation. Furthermore, the Supervisory Board members receive attendance fees and are reimbursed for expenses they incur.

FIXED COMPENSATION FOR SUPERVISORY BOARD FUNCTION

Each member receives fixed compensation which is paid following the end of the respective financial year. The Chairman of the Supervisory Board and his two deputies receive higher fixed compensation. SEE TABLE 12

Fixed compensation for Supervisory Board function 12

	Supervisory Board member	Chairman	Deputy Chairman
	Base amount	300% of the base amount	200% of the base amount
Based on full year	€ 80,000	€ 240,000	€ 160,000

ADDITIONAL COMPENSATION FOR MEMBERSHIP IN A COMMITTEE

Furthermore, the Supervisory Board members receive additional compensation for membership in certain committees; in this regard, too, compensation is increased if the chairmanship of a committee is assumed. In accordance with § 18 of the Articles of Association, the amount of the respective additional compensation is based on the fixed compensation (base amount) determined for the Supervisory Board members by the Annual General Meeting and depends on the tasks and responsibilities connected with the respective committee membership. SEE TABLE 13

Compensation for membership in a committee 13

	General Committee and Finance and Investment Committee		Audit Committee	
	Member	Chairman	Member	Chairman
In % of the base amount	50%	100%	100%	200%
Based on full year	€ 40,000	€ 80,000	€ 80,000	€ 160,000

The compensation paid for a committee chairmanship also covers the membership in such committee. The members of the Steering Committee, the Mediation Committee, the Nomination Committee and committees which are established ad hoc do not receive additional compensation. If a Supervisory Board member is a member of more than one committee, the member only receives compensation for their task in the committee with the highest compensation.

REDUCED FIXED COMPENSATION AND ADDITIONAL COMPENSATION IN CASE OF MEMBERSHIP FOR PART OF FINANCIAL YEAR

If a member belongs to the Supervisory Board or a committee for only part of a financial year, the fixed compensation and additional compensation for membership in a committee are reduced accordingly on a pro rata temporis basis.

ATTENDANCE FEES

For each personal attendance of meetings requiring personal attendance, the Supervisory Board members are also granted an attendance fee in the amount of € 1,000. Members of committees that are formed on an ad hoc basis do not receive an attendance fee. If several meetings take place on one day, the attendance fee is only paid once.

EXPENSES

The Supervisory Board members are reimbursed for necessary expenses and travel expenses incurred in connection with their mandates as well as for the VAT payable on their compensation, insofar as they charge for it separately.

SUPERVISORY BOARD COMPENSATION 2018

FIXED COMPENSATION AND ATTENDANCE FEES

The total compensation paid to the Supervisory Board in the 2018 financial year amounted to € 2.20 million (2017: € 1.78 million). In addition, attendance fees totaling € 129,000 (2017: € 126,750) were paid. SEE TABLE 14 The increase in the total compensation paid for the 2018 financial year compared to the 2017 financial year is attributable, in particular, to the adjustment of the Supervisory Board compensation effective July 1, 2017 and the fact that 2018 was the first financial year in which the Supervisory Board received the adjusted compensation for the entire year.

MISCELLANEOUS

The Supervisory Board members have not received any loans or advance payments from adidas AG.

Compensation of Supervisory Board members in € 14

	2018 Fixed compensation	2018 Compensation committee work	2018 Attendance fees	Total	2017 Fixed compensation	2017 Compensation committee work	2017 Attendance fees	Total
Supervisory Board members								
Igor Landau, Chairman of the Supervisory Board	240,000	80,000	9,000	329,000	195,000	65,000	9,750	269,750
Sabine Bauer, Deputy Chairwoman of the Supervisory Board	160,000	40,000	9,000	209,000	130,000	32,500	9,750	172,250
Willi Schwerdtle, Deputy Chairman of the Supervisory Board	160,000	40,000	9,000	209,000	130,000	32,500	9,000	171,500
Dr. Frank Appel (from the end of the Annual General Meeting on May 9, 2018)	51,398	–	4,000	55,398	–	–	–	–
Ian Gallienne	80,000	80,000	9,000	169,000	65,000	55,860	10,000	130,860
Dieter Hauenstein	80,000	–	6,000	86,000	65,000	–	6,250	71,250
Dr. Wolfgang Jäger	80,000	80,000	12,000	172,000	65,000	65,000	10,750	140,750
Dr. Stefan Jentzsch (until the end of the Annual General Meeting on May 9, 2018)	28,602	–	3,000	31,602	65,000	9,140	7,000	81,140
Herbert Kauffmann	80,000	160,000	12,000	252,000	65,000	117,500	10,750	193,250
Katja Kraus	80,000	–	6,000	86,000	65,000	–	6,250	71,250
Kathrin Menges	80,000	–	6,000	86,000	65,000	–	4,250	69,250
Udo Müller	80,000	–	7,000	87,000	65,000	–	6,250	71,250
Roland Nosko	80,000	40,000	9,000	129,000	65,000	32,500	9,750	107,250
Hans Ruprecht	80,000	80,000	10,000	170,000	65,000	65,000	10,750	140,750
Nassef Sawiris	80,000	–	7,000	87,000	65,000	–	5,250	70,250
Heidi Thaler-Veh	80,000	–	5,000	85,000	65,000	–	5,500	70,500
Kurt Wittmann	80,000	–	6,000	86,000	65,000	–	5,500	70,500
Total	**1,600,000**	**600,000**	**129,000**	**2,329,000**	**1,300,000**	**475,000**	**126,750**	**1,901,750**

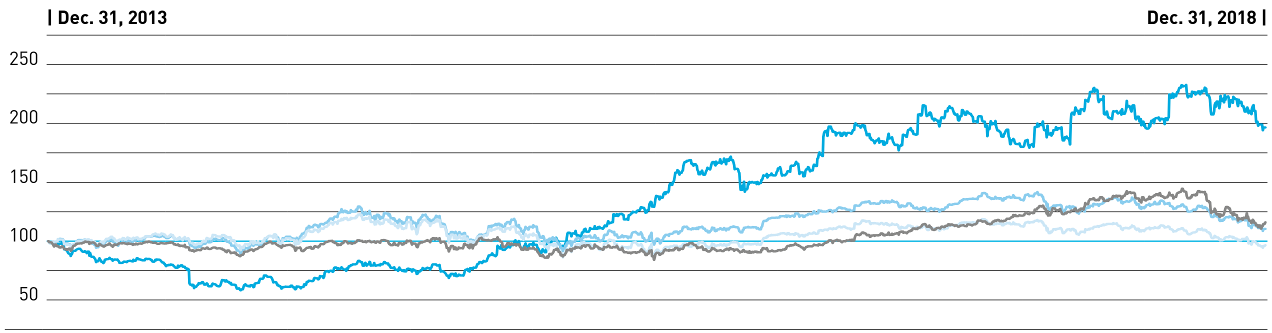
OUR SHARE

Global stock markets were volatile throughout the year and ended 2018 on a negative note. The DAX-30 and the EURO STOXX 50 decreased by 18% and 14%, respectively, while the MSCI World Textiles, Apparel & Luxury Goods Index was down 5%. The adidas AG share outperformed the broader stock market and ended 2018 with an increase of 9% compared to the prior year. As a result of the strong operational performance in 2018 as well as Management's confidence in the strength of the company's financial position and long-term growth aspirations, we intend to propose a dividend per share of € 3.35 at our 2019 Annual General Meeting.

ADIDAS AG SHARE RISES AND OUTPERFORMS BROADER STOCK MARKET IN 2018

In 2018, global stock markets ended the year on a negative note, following a period of pronounced volatility in the second half of the year. US-China trade tension and political turmoil in parts of Europe in combination with nascent concerns about a slowdown of global economic growth weighed on capital markets. In addition, further interest rate hikes by the Federal Reserve put pressure on equities. As a result, the DAX-30 decreased 18%, while the EURO STOXX 50 was down 14% in 2018. The MSCI World Textiles, Apparel & Luxury Goods Index ended the year with a 5% decrease. SEE TABLE 16 The adidas AG share outperformed global stock markets and ended the year 9% above the 2017 year-end level. Strong financial results resulted in an upgrade of the company's full year 2018 profitability outlook in November, which helped to further build investors' confidence in the successful execution of our strategic business plan 'Creating the New' and the company's ability to sustainably grow revenues and improve margins in the years to come. Consequently, the adidas AG share reached a new all-time high of € 216.00 in the course of the year. However, the global stock market sell-off in the second half of 2018 also dragged down our share in subsequent months. Nevertheless, the adidas AG share closed the year at € 182.40 and thus 9% above the prior year-end level, making it one of the top performers in the DAX-30. SEE DIAGRAM 15

Five-year share price development[1] 15



1 Index: December 31, 2013 = 100.

Performance of the adidas AG share and important indices at year-end 2018 in % 16

	1 year	3 years	5 years	10 years
adidas AG	9	103	97	572
DAX-30	(18)	(2)	11	120
EURO STOXX 50	(14)	(8)	(3)	23
MSCI World Textiles, Apparel & Luxury Goods	(5)	25	16	283

Source: Bloomberg.

LEVEL 1 ADR PERFORMS IN LINE WITH COMMON STOCK

Our Level 1 ADR closed 2018 at US $ 104.34, representing an increase of 5% versus the prior year level (2017: US $ 99.82). The less pronounced increase of the Level 1 ADR price compared to the ordinary share price was due to the appreciation of the US dollar versus the euro in 2018. The number of Level 1 ADRs outstanding increased to 9.0 million at year-end 2018 compared to 7.1 million at the end of 2017. The average daily trading volume decreased to around 51,400 ADRs in 2018 (2017: around 60,200). Further information on our ADR program can be found on our website. ADIDAS-GROUP.COM/ADR

ADIDAS AG SHARE MEMBER OF IMPORTANT INDICES

The adidas AG share is included in a variety of high-quality indices around the world, most importantly the DAX-30, the EURO STOXX 50 Index as well as the MSCI World Textiles, Apparel & Luxury Goods Index, which comprises our major competitors. At December 31, 2018, our weighting in the DAX-30, which is calculated on the basis of free float market capitalization and twelve-month share turnover, improved to 3.94% (2017: 3.01%). Our higher weighting compared to the prior year was due to the increase in market capitalization of adidas AG. Within the DAX-30, we ranked 9 on market capitalization (2017: 11) and 11 on turnover (2017: 12) at year-end 2018. Additionally, in recognition of our economic, social and environmental efforts, adidas AG is listed in several key sustainability indices and was rated industry leader in the Dow Jones Sustainability Indices in 2018. SEE TABLE 17

2012 CONVERTIBLE BOND FULLY CONVERTED

In March 2012, adidas AG issued a convertible bond, due on June 14, 2019, for an aggregate nominal amount of € 500 million. Proceeds from the offering have allowed the company to further optimize its debt structure. The bonds were priced with a 0.25% annual coupon and a conversion premium of 40% above the reference price of € 59.61, resulting in an initial conversion price of € 83.46 per share. As a consequence of contractual provisions relating to dividend protection, the conversion price was adjusted to € 80.48 per share. This adjustment became effective on May 10, 2018. The bonds have been callable by the issuer since June 2017. In 2018, 377,630 shares were transferred following the exercise of conversion rights, all of which were serviced from treasury shares of the company. SEE NOTE 27, P. 184 Consequently, as at December 31, 2018, the convertible bond was fully converted (2017: 94%).

2018 EQUITY-NEUTRAL CONVERTIBLE BOND SUCCESSFULLY PLACED

On September 5, 2018, adidas AG successfully placed a € 500 million equity-neutral convertible bond. The proceeds of the offering will be used for general corporate purposes and to finance a portion of the multi-year share buyback program. The convertible bond has a term of five years and has a coupon of 0.05%. The issue price was fixed at 104% of the nominal value, corresponding to an annual yield to maturity of –0.73%, and the offering was 2.7 times oversubscribed. Investors will have conversion rights in respect to the convertible bond which will be settled in cash by reference to the share price. Due to the cash settlement, the issue and conversion of the convertible bond will not result in the issuance of any new shares nor will adidas AG be required to deliver existing shares. The economic exposure to pay cash amounts under the convertible bond upon any exercise of conversion rights by investors is fully hedged.

DIVIDEND PROPOSAL OF € 3.35 PER SHARE

As a result of the strong operational performance in 2018, the company's robust financial position as well as Management's confidence in our long-term growth aspirations, the adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 3.35 per dividend-entitled share to shareholders at the Annual General Meeting (AGM) on May 9, 2019. This represents an increase of 29% compared to the prior year dividend (2017: € 2.60). Subject to the meeting's approval, the dividend will be paid on May 14, 2019. The total payout of € 666 million (2017: € 528 million) reflects a payout ratio of 39.0% of net income from continuing operations (2017: 37.0% excluding the negative one-time tax impact in 2017 as a result of the US tax reform). SEE TABLE 17 This is within the target range of between 30% and 50% of net income from continuing operations as defined in our dividend policy.

Dividend proposal

€ 3.35

FIRST TRANCHE OF SHARE BUYBACK PROGRAM COMPLETED

On March 13, 2018, adidas AG announced the launch of a multi-year share buyback program of up to € 3.0 billion in total until May 11, 2021. The program is executed by buying back shares via the stock exchange under the authorization

The adidas AG share 17

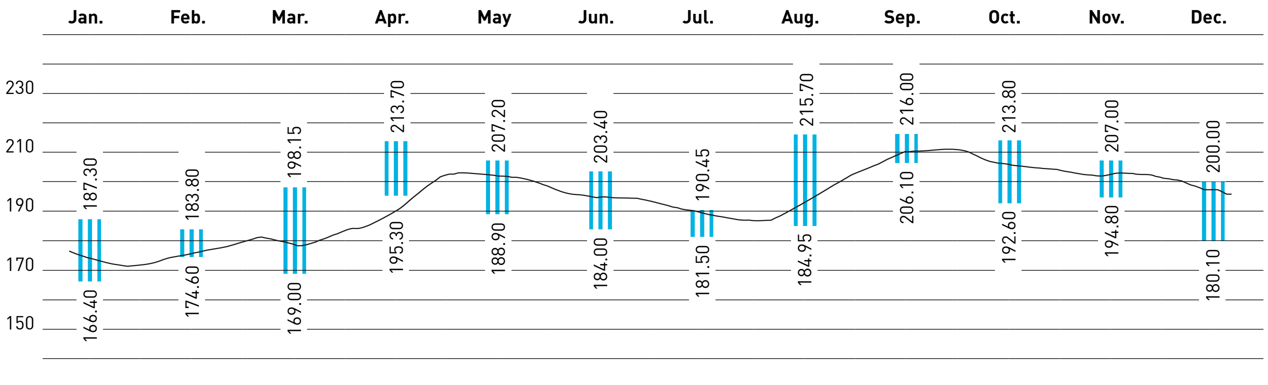
		2018	2017[1]
Number of shares outstanding[2]	shares	199,171,345	203,861,234
Basic earnings per share[3]	€	8.46	7.05
Diluted earnings per share[3]	€	8.45	7.00
Year-end price	€	182.40	167.15
Year high	€	216.00	199.95
Year low	€	166.40	143.80
Market capitalization[4]	€ in millions	36,329	34,075
Dividend per share	€	3.35[5]	2.60
Dividend payout	€ in millions	666[6]	528
Dividend payout ratio[3]	%	39.0[6]	37.0
Dividend yield	%	1.8	1.6
Shareholders' equity per share[4]	€	32.02	29.59
Price-earnings ratio at year-end[7]	%	21.6	23.7
Average trading volume per trading day[8]	shares	824,045	653,389

Important indices

— DAX-30
— EURO STOXX 50
— MSCI World Textiles, Apparel & Luxury Goods
— Deutsche Börse Prime Consumer
— Dow Jones Sustainability Indices (World and Europe)
— FTSE4Good Index Series
— MSCI World ESG Leaders Index
— MSCI Global Sustainability Indices
— MSCI SRI Indices
— STOXX Global ESG Leaders
— ECPI Ethical Equity Indices (Global, Euro and EMU)
— ECPI ESG Equity (World and Euro)
— Ethibel Sustainability Indices (Global and Europe)
— Euronext Vigeo (Eurozone 120)

1 Excluding the negative one-time tax impact of € 76 million.
2 All shares carry full dividend rights.
3 Based on net income from continuing operations.
4 Based on number of shares outstanding at year-end.
5 Subject to Annual General Meeting approval.
6 Based on the number of shares outstanding at the date of preparation of the Consolidated Financial Statements.
7 Based on basic EPS from continuing operations.
8 Based on number of shares traded on all German stock exchanges.

adidas AG high and low share prices per month[1] in € **18**

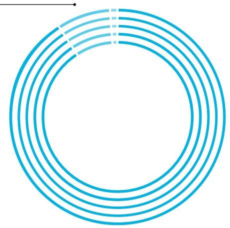


30-day moving average High and low share prices

Source: Bloomberg.

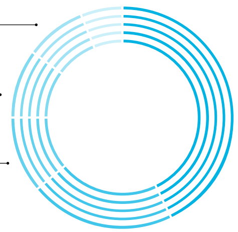
1 Based on daily Xetra closing prices.

Shareholder structure by investor group[1] **19**



1 As of January 2019.

Shareholder structure by region[1,2] **20**



1 As of January 2019.
2 Reflects institutional investors only.

granted by the Annual General Meeting on May 12, 2016. The authorization covers the repurchase of up to 10% of the company's share capital on the stock exchange. The vast majority of the share buyback program will be financed through the company's net cash position as well as the expected strong operating cash flow generation in the years ahead. In a first tranche, between March 22, 2018, and December 4, 2018, the company bought back 5.1 million shares, corresponding to 2.5% of the company's share capital, for a total consideration of € 1.0 billion. The average purchase price per share was € 196.45. A total of 8.8 million treasury shares, which resulted from the current and the previous buyback program, were canceled in October, reducing the company's share count and stock capital correspondingly.

STRONG INTERNATIONAL INVESTOR BASE

Based on our share register, we estimate that adidas AG currently has more than 80,000 shareholders (2017: 70,000). In our latest ownership analysis conducted in January 2019, we identified almost 100% of our shares outstanding. Institutional investors represent the largest investor group, holding 92% of shares outstanding (2017: 87%). Private investors and undisclosed holdings account for 8% (2017: 10%). Lastly, adidas AG currently holds 1% of the company's shares as treasury shares (2017: 3%); this decline versus the prior year mainly reflects the cancelation of treasury shares resulting from our share buyback activities.
SEE DIAGRAM 19

In terms of geographical distribution, the North American market currently accounts for 43% of institutional shareholdings (2017: 40%), followed by the UK with 21% (2017: 18%). Identified German institutional investors hold 10% of shares outstanding (2017: 11%). Belgium and France account for 9% (2017: 9%) and 6% (2017: 6%), respectively. 11% of institutional shareholders were identified in other regions of the world (2017: 15%). SEE DIAGRAM 20

MAJORITY OF ANALYSTS WITH A POSITIVE RATING OF ADIDAS AG SHARE

Around 40 analysts from investment banks and brokerage firms regularly publish research reports on adidas. The vast majority of analysts are confident about the medium- and long-term potential of the company. This is reflected in the recommendation split for our share as at December 31, 2018. 59% of analysts recommended investors to 'buy' our share (2017: 46%). 36% advised to 'hold' our share (2017: 46%) and 5% of the analysts recommended to 'sell' our share (2017: 8%).

VOTING RIGHTS NOTIFICATIONS PUBLISHED

All voting rights notifications received in 2018 in accordance with §§ 33 et seq. of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) (§§ 21 et seq. German Securities Trading Act old version) are published on our corporate website. ↗ ADIDAS-GROUP.COM/S/VOTING_RIGHTS_NOTIFICATIONS Information on reportable shareholdings that currently exceed or fall below a certain threshold can also be found in the Notes section of this Annual Report. SEE NOTE 27, P. 184

MANAGERS' TRANSACTIONS REPORTED ON CORPORATE WEBSITE

Managers' transactions involving adidas AG shares (ISIN DE000A1EWWW0) or related financial instruments, as defined by Article 19 of the European Market Abuse Regulation (MAR), conducted by members of our Executive or Supervisory Boards, or by any person in close relationship with these persons, are reported on our website. ↗ ADIDAS-GROUP.COM/S/MANAGERS-TRANSACTIONS

02 GROUP MANAGEMENT REPORT

OUR COMPANY

Group Management Report: This report contains the Group Management Report of the adidas Group, comprising adidas AG and its consolidated subsidiaries, and the Management Report of adidas AG.

CORPORATE STRATEGY

Everything we do is rooted in sport. With sport playing an increasingly important role in more and more people's lives, on and off the field of play, we operate in a highly attractive industry. Through our authentic sports brands, we push the boundaries of products, experiences and services to drive brand desire and capitalize on the growth opportunities in sport as well as in sports-inspired casual and activewear.

OUR CORE BELIEF: THROUGH SPORT, WE HAVE THE POWER TO CHANGE LIVES

The importance of sport, however, goes far beyond that. Sport is central to every culture and society and is core to an individual's health and happiness. Therefore, we believe that, through sport, we have the power to change lives. And we work every day to inspire and enable people to harness the power of sport in their lives.

OUR MISSION: TO BE THE BEST SPORTS COMPANY IN THE WORLD

It is our mission to be the best sports company in the world. Best means that we design, build and sell the best sports products in the world, with the best service and experience, and that we do so in a sustainable way. Best is what our consumers, athletes, teams, partners, media and shareholders will say about us. We are confident that we will see improvements with regard to market share, leadership and profitability once people are saying that we are the best.

STRATEGIC BUSINESS PLAN: CREATING THE NEW

'Creating the New' is our strategic business plan until the year 2020. Our ambition to further drive top- and bottom-line growth by significantly increasing brand desirability builds the core of Creating the New. The strategic business plan therefore focuses on our brands as they connect and engage with our consumers. This consumer-centric approach is driving significant improvements in the desirability of our brands and has increased our relevance with consumers around the globe. As a result, we are gaining market share in those categories, markets and cities that we have identified as future growth drivers for our company. SEE DIAGRAM 21

STRATEGIC CHOICES

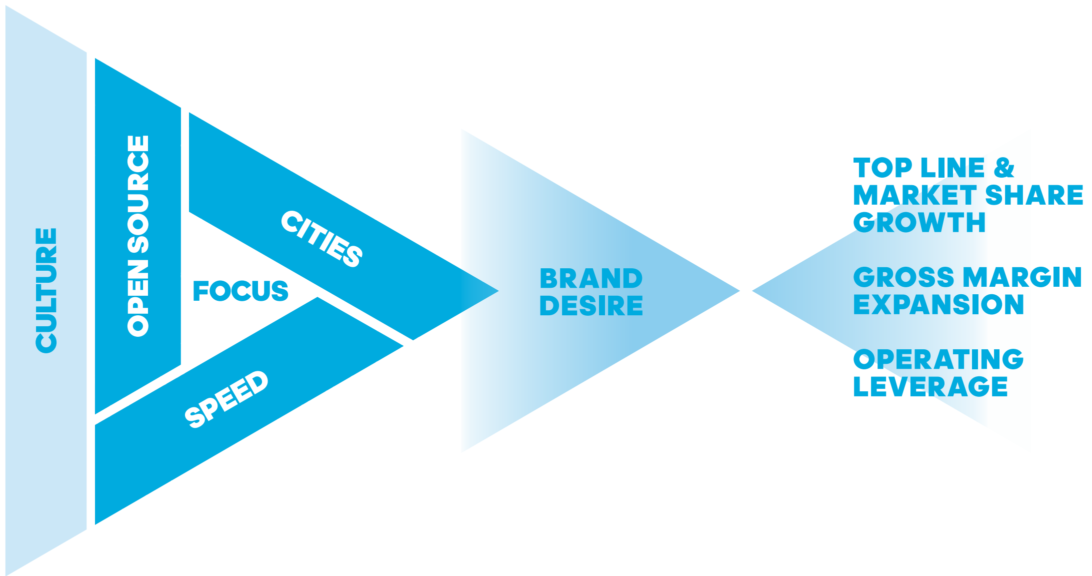
Our strategic business plan has a powerful foundation in our unique corporate culture and is built around three strategic choices that will support us in intensifying our focus on our consumers and will drive brand desirability: Speed, Cities, and Open Source.

Culture

We have great talents in our organization who work with passion for sports and our brands. Our people will bring our strategy to life and our culture will make the difference in achieving our long-term goals. We are convinced that a culture of creativity, collaboration and confidence will be a key enabler for us to Create the New. SEE PEOPLE AND CULTURE, P. 81

Our leaders role-model this behavior. To enhance our leadership structure, we established the Core Leadership Group at the end of 2016. This selected group of leaders is mainly responsible for driving the execution of our strategic business plan, with a particular focus on improving cross-functional collaboration and decision making. In 2017, we

Our strategy: Creating the New 21



continued to sharpen our leadership structure by adding an Extended Leadership Group which supports the Core Leadership Group in implementing our strategy and which will serve as a succession pipeline for Core Leadership Group members. The Leadership Framework, introduced in 2017, unites all leaders in our company through a clear definition of what strong leadership looks like at adidas. In addition, the Global High Potential Group was formed in 2018 to identify and develop high potentials who have the ability to take on more complex, demanding and higher-level responsibilities at a global senior management level.

We believe that a performance culture is essential to successfully executing our strategy. To further promote a performance culture within our company, we have finalized a new way of developing our people and evaluating their performance. In addition, we made major progress in recalibrating our approach to compensation and benefits. Long-term remuneration for our senior management, for instance, was simplified and linked to the development of the company's bottom line and our share price in order to further align the interests of our senior leaders with the interests of our shareholders.

As a company, we value diversity and promote inclusivity. While today our employee base is already very diverse in terms of nationalities, we also aim to continuously increase the share of females in leadership positions. We have made further progress in this regard. Karen Parkin was appointed to the Executive Board already in May 2017. In addition, the share of women in leadership positions across the company increased to 33% in 2018 compared to 29% in 2015.
SEE PEOPLE AND CULTURE, P. 81

Speed

Driving brand desirability begins with putting our consumers at the heart of everything we do and serving them in the best possible way. This involves ensuring that consumers always find fresh and desirable products where and when they want them and with an unrivaled brand experience. This, in turn, means to us being able to anticipate what consumers want and reacting accordingly in a timely manner. Being fast will give us a decisive competitive advantage. The benefits include higher product availability, reduced inventory risk, incremental net sales and higher margins. Speed is therefore a critical and powerful lever for us.

We are using our industry-leading experience to further evolve our entire business model end-to-end, from range planning to product creation, sourcing, supply chain, go-to-market and sales. In this context, our Speed concept builds on three programs:

— **Never out of stock:** We strengthen our existing 'never-out-of-stock' business proposition by setting a global, permanent offer with longer life cycles and continuous reproduction and replenishment. This ensures our most iconic and desired products are permanently available to our consumers.
— **Planned responsiveness:** Systematically monitoring trends at the point of sale enables us to better read demand signals, re-order seasonal products on shorter lead times and deliver them within the season. By doing so, we can repeat seasonal product successes and fulfill higher consumer demand than initially forecasted.
— **In-season creation:** We create ranges later in the season to ensure we capture the latest trends in our industry. This, in turn, helps us to create unexpected newness and drive brand desire.

Since the launch of the Speed programs, we have steadily expanded the coverage. All categories and markets have now been fully onboarded and started to capitalize on the benefits of the Speed programs. The net sales share of speed-enabled products has continuously increased to a level of 37% in 2018, which is fully in line with our overall ambition to increase the share of speed-enabled products to at least 50% by 2020. In addition, we are making further progress to achieve a 20% higher share of full-price sales with this part of our business compared to the regular range.

In addition to focusing on Speed in our existing supply chain and production processes, we also explore new, disruptive business models and technologies to make us faster. At the end of 2015, we opened our first *Speedfactory* SEE GLOSSARY in Ansbach, Germany. Using smart manufacturing, Speedfactory allows the production process to become faster, leading to reduced lead times. Accelerated speed to market and the Speedfactories' proximity to consumers helps us to respond more quickly to trends and shifts in the marketplace, which ultimately enables adidas to satisfy consumers' expectations with greater speed and precision. 2018 saw the introduction of new *high-performance products* SEE GLOSSARY manufactured in our Speedfactories: The AM4 cities series, individually designed and manufactured shoes made for our six global key cities, as well as additional limited editions specific to cultural and sporting moments, such as the Stanley Cup victory of the Washington Capitals, were introduced. And while Speedfactory enables us to rethink conventional manufacturing processes, it also enables us to continuously learn from it, which in turn will help us to also improve efficiency and increase opportunities within the traditional supply chain, which will remain the backbone of our global sourcing activity.
SEE GLOBAL OPERATIONS, P. 74, SEE INNOVATION, P. 78

Cities

Urbanization continues to be a global megatrend. Most of the global population lives in cities and already today cities account for around 80% of global GDP. Cities are shaping global trends and consumers' perception, perspectives and buying decisions. To be successful in the future, we therefore need to win the consumer in the world's most influential cities. We have identified six global megacities in which we want to over-proportionally invest to grow share of mind, share of market, share of trend: London, Los Angeles, New York, Paris, Shanghai and Tokyo.

We aim to deliver extraordinary experiences to consumers in these cities across all touchpoints by engaging more deeply with them in communities where they live, places where they work, fields, courts and streets where they play, and doors where they shop. At the same time, we strive to create high synergies between our activation and commercial efforts. This also includes aligning our initiatives with similar activities of key retail partners.

It is our goal to create an end-to-end ecosystem in these cities which connects consumers to relevant products, through bottom-up activation and holistic retail experiences:

- **Activation:** Our global key cities offer a unique platform to activate our brands. Major successes in 2018 include the '747 Warehouse' around the NBA All-Star weekend in Los Angeles, where we offered cross-category product installations and created an unprecedented experience with creativity, sport and culture for the local community and over 20,000 visitors. We also launched 'Republic of Sports' in Shanghai, where 60,000 creators interacted with us through sports activities, Maker Lab and Parley experiences. In addition, the '/// <3 NYC (adidas loves New York)' campaign in New York created brand heat through a series of community-focused activations.
- **Products:** We continue to drive a multi-pronged strategy of product introductions, focused across all six cities, including global campaign launches and exclusive collections. After the initial 2017 launch of the AM4 series produced in our Speedfactory, we expanded the collection to Tokyo, Shanghai, Los Angeles and New York. We also introduced key technologies, for instance, the launch of Alphaedge 4D exclusively in our global key cities.
- **Experiences:** We are committed to providing premium retail experiences to our consumers with executions that connect, engage and inspire them. The opening of our largest Asia-Pacific Brand Center NJE800 in Shanghai showcased the latest retail concepts and innovations from adidas. The Brand Center features products from all categories and provides a multi-functional training venue, a 'Protect the Oceans' themed Run Lab, and a Creator Lab for customized services. Integrating retail concepts with sports experiences into one sports hall, the new Brand Center provides a space where sports enthusiasts can explore the latest trends and make the most of their creativity. Moreover, in collaboration with our retail partners, we continue to execute our strategy in key trade zones to transform our retail spaces into premium shopping destinations.

The 2018 results for specific KPIs (NPS and market share) signal we are well on track to achieve our long-term target to double revenues in our global key cities by the end of 2020 compared to 2015. Last year, we continued to experience an improvement in brand desire which helped us to extend our market share in our key cities.

Open Source

Open Source is a collaboration-based innovation model that aims to build brand advocacy by opening the brands' doors to the consumer and by inviting him or her to co-create the future of sport and sports culture with us. It is about learning and sharing, about starting conversations between the brand, external experts and consumers, and about giving them the chance to have an impact on what we do. We provide access for externals to tools and resources we use to create, thereby acquiring and nurturing creative capital, and explore new territories so as to create unprecedented brand value for the consumer beyond mere transactional businesses.

We have defined three strategic initiatives for Open Source:

- **Creative collaborations:** Creative collaborations increase our creative capital through new tools, new environments and new perspectives from outside creative thinkers. They are meant to give creativity a platform and provide the right tools for ideas to blossom. In collaboration with the Brooklyn Creator Farm – a design space and creation hub we offer for urban creative talent, where we invite them to fuel innovation in sport with their ideas – we launched our first-ever laceless basketball silhouette N3XT L3V3L with the new Lightstrike midsole, Marquee BOOST, a lightweight model inspired by past designs, and the Pro Vision featuring a Bounce midsole. In addition, we continued our successful creative partnerships with Alexander Wang, Kanye West, Pharrell Williams, and Stella McCartney, among others, to drive brand desire and growth globally.
- **Athlete collaborations:** Through athlete collaborations we aim to build communities of athletes that help shape the future of their sport together with us. Such collaborations include relationships with the world's best athletes and teams, but they also take place on a local level. To directly engage and interact with a broader consumer community, we have expanded our efforts in digital and physical spaces. For instance, in 2018 our 'adidas Runners' communities accounted for 180,000 active runners in 50 cities. And driven by our adidas Runners communities, close to one million runners got involved in the 'Run for the Oceans' campaign with around 200 events taking place in over 60 countries. In total, participants collected over 12 million kilometers and tracked their runs on Runtastic (and Joyrun for those based in China).
- **Partner collaborations:** The strategic initiatives in this area intend to open up our knowledge of sport by working with the best in other fields. By exchanging core competencies, we will create unique value for our brands and ultimately also for our consumers. Our partnership with *Parley for the Oceans* SEE GLOSSARY serves as a prime example. As

a founding member of the organization, our support goes far beyond financial aid to fund beach clean-ups. We keep working with Parley to prevent plastic from entering our oceans and transform it into high-performance sportswear. In 2018, we expanded the sustainability efforts with new silhouettes such as Deerupt, and with a new collection of outdoor footwear and apparel. We have recycled up to 1,000 tons of plastic per year with Parley and produced more than five million pairs of shoes using *Parley Ocean Plastic* SEE GLOSSARY in 2018. SEE SUSTAINABILITY, P. 88 In addition, we joined forces with Carbon, a company pioneering in the field of 3D printing, to launch a new product and platform: Futurecraft 4D. Driven by athlete data, a production process called 'Digital Light Synthesis' enables us to print previously impossible designs without labor-intensive and complex assembly. In 2018, the Futurecraft 4D was launched and all product drops were sold out within 24 hours. SEE INNOVATION, P. 78

We remain committed to embedding external creative capital in our processes to extend our possibilities in creating the future of sport. To ensure that we are at the pulse of the consumer journey at key moments and touchpoints in their lives, we want to grow the numbers of users in our digital ecosystem. We have made significant progress in this regard and are now connected with more than 500 million users through our different platforms and social media channels. With the insights generated through Open Source, we craft better products and services for our consumers, driving brand desire, sales, market share and profitability.

'CREATING THE NEW' ACCELERATION PLAN

In March 2017, we introduced a number of initiatives to foster brand momentum and accelerate top- and bottom-line growth:

Portfolio

Every entity must contribute to the success of our company, be it a brand, a channel or a market. We constantly revisit the performance and strategic fit of our portfolio. After the completion of the sale of the TaylorMade, Adams Golf and Ashworth brands as well as our CCM Hockey business in 2017, we are now operating with a narrowed focus on our core strength areas of athletic footwear and apparel. This will allow us to reduce complexity and pursue our target consumer more aggressively with both the adidas and the Reebok brand. In 2018, we continued to execute upon Reebok's turnaround plan 'Muscle Up', aimed at accelerating the brand's top-line growth in the US and improving its profitability.

adidas North America

North America represents the biggest market in the sporting goods industry with a total share of approximately 40%. At the same time, from a geographical perspective, North America represents the biggest opportunity for the adidas brand, given its relatively small market share compared to other regions. To improve the adidas brand's overall positioning in the region, we have made North America a strategic priority and started to significantly increase our investments into North America in order to be more relevant and always visible to the consumer. In this context, over the last years, we have stepped up investments into our organizational set-up, including the further expansion of our US headquarters in Portland, elevated our marketing efforts and upgraded our distribution infrastructure. As a consequence of those initiatives, North America saw strong double-digit top-line growth in each of the past four years, despite a challenging and promotional environment. While we are pleased with the progress we have been making in North America in recent years, we are still not satisfied with our current position, which leaves significant upside for the years to come. Therefore, going forward, we will continue to execute our game plan for North America in order to continue to increase our market share and reach our target of € 5 billion in revenues for the adidas brand by 2020. North America, however, is more than just a market share story, as our profitability in the region remains below our global profitability level even after significant improvements in 2018.

ONE adidas

We continuously strive for operational excellence. ONE adidas encompasses a set of initiatives that will enable our company to work smarter, more efficiently and in a more aligned way. After having successfully operationalized the initiatives under the *Brand Leadership* SEE GLOSSARY pillar in 2018, we are now focusing on the remaining two pillars – marketing effectiveness and operating efficiency. In order to create a more scalable business model, we will therefore focus on those opportunities that enable us to standardize and harmonize current processes and procedures. In this context, 2018 saw the continuation of several initiatives kicked off in 2017 which are aimed at significantly improving our operating efficiency and profitability in the years to come. Our disciplined execution has already led to initial positive results. For example, our *Non-Trade Procurement* SEE GLOSSARY initiative, which is focused on enabling more efficient sourcing of goods and services not linked to the products sold to the consumer, started to deliver sustainable savings through the application of latest procurement practices and technologies such as e-auctions, e-catalogs and e-marketplaces. We decided to use these benefits to reinvest into the business and continue our investment efforts into our scalable business model. In addition, with the roll-out and expansion of our Global Business Services in 2018, we continue to work on the standardization and harmonization of processes in areas such as Accounting and HR Services. These and other initiatives are designed to enable scalability and operating leverage and we expect more benefits to flow through in the years to come.

Digital

The digital transformation is fundamentally changing the way our consumers behave and the way we work. Technology has enabled us to accelerate building direct relationships with our consumer. Improving digital capabilities along the entire value chain enables us not only to interact with the consumer, but also to become faster, better and more efficient in every part of the organization. In 2018, we made good progress with multiple digital accelerators. After the initial launch in 2017, we rolled out our adidas App to a further 23 countries. As a result, by the end of 2018, our adidas App was live in 25 countries, with more than seven million downloads. Furthermore, we launched Creators Club in the US and Japan. With this membership program, we provide our consumers with personalized content and offerings, easy access to products and events, exclusive offers and promotions, recognitions and rewards, as well as an integrated experience with our sustainability programs. By providing consumers with a premium, connected and personalized shopping experience, we are on the right track to reach our 2020 own e-commerce revenue target of € 4 billion. In 2018, our own e-commerce platform was our fastest-growing channel with a currency-neutral revenue increase of 36%. In addition, we are developing our enterprise-level digitalization capabilities, such as end-to-end Digital Creation, with the goal of digitizing the entire value chain from product creation to point of sale.

FINANCIAL AMBITION UNTIL 2020

Creating long-term value for our shareholders drives our overall decision-making process. Therefore, we are focused on rigorously managing those factors under our control, making strategic choices that will drive sustainable revenue and earnings growth and, ultimately, operating cash flow. We are committed to increasing returns to shareholders with above-industry-average share price performance and dividends. SEE INTERNAL MANAGEMENT SYSTEM, P. 103

Our unique corporate culture and the three strategic choices will continue to be step-changers with regard to brand desirability and brand advocacy. In combination with the initiatives that are part of our acceleration plan, this will enable us:

- **To achieve top-line growth significantly above industry average:** We aim to increase currency-neutral revenues annually between 2015 and 2020 at a rate between 10% and 12% on average (initially, in March 2015: high-single-digit currency-neutral increase).
- **To win significant market share across key categories and markets:** We have defined key categories within the adidas and Reebok brands that will spur our growth going forward. From a market perspective, we have defined clear roles for each of our markets, depending on macroeconomic trends, the competitive environment and our brand strength in the respective markets.
- **To improve our profitability sustainably:** We plan to substantially improve the company's profitability, growing our net income from continuing operations by an average of between 22% and 24% per year between 2015 and 2020 (initially, in March 2015: increase of around 15%; updated in March 2017: increase between 20% and 22%).
- **To deliver on our commitment to increase shareholder returns:** Creating the New includes a strong commitment to generating increasing returns for our shareholders. Given our firm confidence in the strength of the company's financial position and future growth ambitions, we target a consistent dividend payout ratio in a range between 30% and 50% of net income from continuing operations. Our dividend policy is complemented by a multi-year share buyback program announced in March 2018. Under the current program, we plan to buy back own shares for up to € 3 billion in total until May 2021, of which € 1 billion was utilized in 2018.

ADIDAS BRAND STRATEGY

MISSION: TO BE THE BEST SPORTS BRAND IN THE WORLD

The adidas brand has a long history and deep-rooted connection with sport. Its broad and diverse sports portfolio, from major global sports such as football and running, to regional heartbeat sports such as American football and rugby, has enabled the brand to transcend cultures and become one of the most recognized and iconic global brands, on and off the field of play. The adidas brand's mission is to be the best sports brand in the world, by designing, building and selling the best sports products in the world, with the best service and experience and in a sustainable way.

Driven by a relentless pursuit of innovation as well as decades of accumulating sports science expertise, the adidas brand has developed a truly unique and comprehensive sports offering. Spanning footwear, apparel, equipment and services, the brand caters for all, from elite professional athletes and teams to any individual who wants to make sport part of their lives. We help athletes of all levels to make a difference – in their game, in their lives, in their world. This is anchored in our core belief that, through sport, we have the power to change lives.

CONSUMER OBSESSION: CREATING FOR THE CREATORS

The consumer is at the heart of everything the adidas brand does. By constantly developing desirable products and inspiring experiences, the brand strives to build a strong image, trust and loyalty with consumers. Through Creating the New, the adidas brand has refined its strategic direction, operational processes and incentive systems, to foster a culture of consumer obsession across its entire organization.

— **Operating model:** To ensure long-term success, it is important that we continue to challenge ourselves to learn and grow. We must constantly iterate to become faster and stronger. Therefore, the adidas brand continues to evolve directed by the guiding principles of *Brand Leadership* SEE GLOSSARY, our operating model. The aim of Brand Leadership is to provide an organizational structure which enables a 'consumer-obsessed' culture that can act with speed, agility and empowerment. In 2018, we created a new Advanced Concepts team across the Sport Performance business units. The purpose of this team is to lead, control and manage the adidas innovation pipeline in order to service and deliver superior concepts to the different categories. This will allow the Future team to focus on larger upstream innovation with the intent and focus being to create new brand platforms and extensions of existing platforms. Furthermore, we created a vertically integrated Outdoor organization. This will enable us to incubate the Outdoor business, test new business models and nurture new business opportunities. Vertical integration and co-location will allow the Outdoor team to operate in a start-up manner, make quick decisions and drive clear accountability across all functions.

— **Creator archetype:** Owing to the rapid evolution of sport and sports culture, the adidas brand targets key consumer groups and influencers to create brand desirability and momentum through a well-defined consumer segmentation strategy. The consumer grid comprises six key quadrants (Male Athlete, Female Athlete, Young Creator, Streetwear Hound, Amplifier, and Value Consumer), which are not mutually exclusive. Within this grid, it is key to win the most influential consumers, defined as the creator archetype. True to the brand's values, these influential consumers define themselves as a work in progress – are all doers and makers, first to adopt, focused on what's new and what's next. A large portion of creators live, play and work in the world's most influential and aspirational cities, a key reason for the company's Cities strategic choice.

— **Consumer centricity:** Companies that put the consumer's voice as a centerpiece of their decision-making process have proven higher levels of success in creating brand advocacy. Therefore, we implemented a global Net Promoter Score (NPS) ecosystem in order to drive brand momentum in a measurable and objective manner. NPS, first introduced in 2015, has become an important part of the adidas brand's advocacy program. Through this program, we strive to understand consumers' perception (positive and negative) of the brand and the key drivers which motivate them to recommend the brand to their friends. SEE INTERNAL MANAGEMENT SYSTEM, P. 103

PRODUCT FRANCHISES: CREATE THE MOST DESIRED SYMBOLS OF SPORT IN THE WORLD

We are convinced that footwear has the highest influence on brand perception among product categories. Footwear is also the most powerful driver of NPS, which in turn translates directly into consumer purchase intent and our potential to grow market share. Therefore, the adidas brand is focused on relentlessly creating newness in footwear, as a function of cutting-edge technological innovation with references to history, drawing from deep knowledge and an archive which are unrivaled in the industry. At the same time, the brand has a clear strategy to reduce the number of footwear models, putting a stronger focus on key franchises that can really make a difference for the brand. Such footwear franchises are defined as long-term concepts that we commit to for a multi-year period. The goal of franchises is not only to shape sport, but also to influence culture. They are built to create trends, rather than follow. They are targeted directly at the consumer through iconic design, stories and functions, and have the potential to be iterated and expanded over time. Their life cycles are being carefully managed, to ensure longevity. In addition, franchises will be prioritized throughout the value chain, building on the company's strategic choices of Speed, Cities and Open Source. The adidas brand expects its top footwear franchises to represent at least 30% of the brand's footwear business by 2020. In 2018, key adidas brand footwear franchises included UltraBOOST, PureBOOST, Alphabounce, Predator, and NMD. On the apparel side, we continued to build out franchises on the success of the Z.N.E. Hoodie and Tiro Pant.

WOMEN'S: A NEW DIMENSION TO DRIVE GROWTH

Winning the female consumer continues to be a key focus as it offers one of the largest business opportunities for the adidas brand, with the women's category leading the growth in the sportswear industry. In 2018, the adidas brand further invested resources in expanding a cross-functional women's organization and support infrastructure to set direction for creative, ranging, merchandising and marketing as well as to steer cross-category planning. When it comes to winning the female consumer, adidas has focused its initiatives across product, retail, and activation. Highlights from these initiatives include:

— **Product:** adidas has been investing in key product areas that are critical to winning the trust of the female consumer, including bras, tights and running footwear, as well as improving overall apparel fit for the female consumer. In 2018, adidas introduced new bras and tights with positive response from both consumers and testers. adidas has also invested in research around the vertical female athlete, that will enable the future creation of products that will help her improve her game.
— **Retail:** adidas has taken steps toward enhanced merchandising and storytelling across our brand, building off female consumer shopping insights, to enable a seamless shopping experience for her to mix and match product. adidas has also rolled out a bra fitting training program in adidas own-retail stores, covering more than 500 own-retail doors with continued investment planned, ensuring the floor staff is upskilled in bra fitting services to better support our customers in finding the right product.
— **Activation:** One of the cornerstones of the adidas Women's approach continues to be the Creator Network. Powered by sport, fueled by culture, and fostered by collaboration, the Creator Network is a collective of athletes, influencers and innovators such as Karlie Kloss, Hannah Bronfman and Robin Arzon. Additionally, adidas has invested in female communities in key cities across the world, creating a direct relationship with the female consumer to collaborate with her, gather product feedback, gain insight on future opportunities and understand the barriers to sport she faces. A key highlight in this regard was the launch of a new purpose-driven platform at the US Open in New York in August 2018 focused on removing obstacles to sport for girls and elevating the conversation around equality in sport across genders.

MARKETING INVESTMENTS: MEAN MORE BY DOING LESS

The adidas brand is focused on creating inspirational and innovative marketing concepts that drive consumer advocacy and build brand equity. As a result, we are committed to continue increasing our marketing investments going forward. While the brand historically spent almost half of its marketing investments on partnership assets, with the remainder on brand marketing activities such as digital, advertising, point-of-sale and grassroots activations, we will decrease the ratio of marketing investments spent on *promotion partnerships* SEE GLOSSARY to less than 45% by 2020. In addition, the brand will consolidate and focus resources to have the biggest effect on the creator and the brand's key franchises. This will be achieved by focusing on three priorities:

— **Reason to believe:** By harnessing the brand's creator positioning, the emotion of sport, and the power of sport to change lives, the adidas brand will communicate a reason to believe in the brand, letting the world know what distinguishes adidas from the competition.
— **Reason to buy:** The second priority is to harmonize and deliver globally consistent and impactful communication around the brand's key franchises. By investing more money against fewer items, the adidas brand will strive to elevate and maintain the iconic status of its key franchises, giving the consumer clear and compelling reasons to buy the product.
— **Sports communities:** This is where loyalty is built and earned. The adidas brand defines sports communities as those places where athletes are fully immersed in their sport with peers and friends. It's the football cage, the run base or the street court. Until 2020, the brand will therefore significantly step up its grassroots and local activation efforts, led by initiatives in the world's most influential cities.

In terms of partnership assets, while reducing the ratio of marketing spend and the number of partnerships, the adidas brand will nonetheless continue to bring its products to the biggest stages in the world through:

— **Events with global reach:** such as the FIFA World Cup, the UEFA EURO, the UEFA Champions League, the Olympic Games, and the Boston and Berlin Marathons.
— **High-profile teams:** such as the national association football teams of Germany, Spain, Argentina, Mexico, Colombia, Belgium and Japan, as well as top clubs such as Manchester United, Real Madrid, Bayern Munich, Juventus and Flamengo Rio de Janeiro in football, the New Zealand All Blacks in rugby, and American universities such as Miami, Arizona State and Texas A&M.
— **High-profile individuals:** such as football stars Lionel Messi, Paul Pogba, Gareth Bale, Mesut Özil and Gabriel Jesus, basketball stars James Harden and Damian Lillard, American football players Aaron Rodgers and Von Miller, baseball athletes Kris Bryant and Carlos Correa, as well as tennis stars Garbiñe Muguruza and Alexander Zverev.

In addition, the adidas brand also has a number of strategic partnerships and creative collaborations in place. The strategic partnership with Kanye West is likely to be the most significant one ever created between an athletic brand and a non-athlete, while the collaboration between adidas Originals and Pharrell Williams remains highly influential. Top designers and design studios the brand works with include Yohji Yamamoto, Stella McCartney, Raf Simons and Alexander Wang. In 2018, we added new collaborators such as Childish Gambino and Jonah Hill.

SUSTAINABILITY

The adidas brand is committed to sustainability and our strategic partnership with *Parley for the Oceans* SEE GLOSSARY serves as a prime example. adidas has changed the game by starting mass production of shoes using *Parley Ocean Plastic* SEE GLOSSARY, and the brand continues to push for a more eco-innovative future. In 2018, we activated close to a million runners across the world to raise funds and awareness for the fight against ocean plastic through the Run For The Oceans. We created more than five million pairs of shoes using Parley Ocean Plastic, alongside two million pieces of apparel, and restated our ambition to reduce the use of virgin plastic.
SEE SUSTAINABILITY, P. 88

ROLE OF CATEGORIES

The adidas brand has assigned each category a role and ambition until 2020, allowing the brand to exploit short- and medium-term potential, while at the same time incubating long-term opportunities for the brand. There are three overarching roles: Lead, Grow, and Authenticate.

Lead

- To lead in the sporting goods industry, we believe it is a must to lead in the world's most popular sport, football. As such, the adidas brand aspires to be the number one football brand in every market by 2020. This will be driven by focusing on winning the football creator in key cities as well as investing in the brand's football footwear franchises. In 2018, the adidas brand implemented innovations in its football footwear business with the continued focus on the Predator, 'X' and Nemeziz franchises as well as re-launching the most iconic football boot of all time – Copa. Leveraging the FIFA World Cup, the biggest event in sport, adidas achieved its objective of being the most influential brand during the event via its most personal campaign ever. The brand campaign featured a launch film with more than 50 assets and a global call to action for consumers to co-create content. The campaign drove reach, achieving the highest engagement rate for adidas in 2018.
- The adidas brand also strives for leadership in lifestyle in every market with Originals. Not only is adidas the original sports brand, it also was the first brand to bring sport to the street. Brand credibility and heritage is an important prerequisite to win the discerning streetwear hound consumer. These consumers are looking for substance and craft and are inspired by stories and design. In 2018, we incubated new concepts and achieved a greater balance between our classic models and new and innovative concepts. We have also incorporated more technology innovation such as BOOST or Carbon 4D into Originals products. At the same time, we continued to proactively manage the life cycles of our iconic franchises – Superstar and Stan Smith – to ensure healthy sell-through and inventory levels.

Grow

- The running category is the adidas brand's biggest growth opportunity across all genders and price points. The brand's goal is to double sales in the category by 2020 compared to the 2015 financial year. Many innovations in the sports industry start in running. The adidas brand, for example, has introduced groundbreaking innovation in materials such as BOOST and pioneering new manufacturing processes driven through Speedfactory. To spur growth, amongst other things, adidas Running will significantly refine and evolve its franchise strategy for the male and female athlete across price points, increase its investment in running communities and grassroots activations through the adidas Runners communities in over 100 cities around the world, as well as play a central role in driving the future of digital in sport in cooperation with Runtastic. Running will also continue to play a major part in our sustainability strategy through the Run For The Oceans activation.
- The second category where the adidas brand is focused on driving significant market share gains is adidas Core. adidas Core targets a more price-conscious consumer, particularly in emerging markets, offering entry-price-point styles across all categories. To ensure success, the adidas Core formula employs a 'fast fashion' business model. This means quick reaction to emerging trends through shorter lead times and excellence in retail execution.
SEE INNOVATION, P. 78
- The training category is the adidas brand's largest performance category and is also the apparel engine of the brand. Led by cutting-edge innovation in fabrics and materials, the adidas brand aims to significantly increase its apparel footprint through Training, which provides products for general training purposes as well as for specific sports, as well as through Athletics, which is geared to capturing the sports mindset of every athlete off the pitch. Given the high visibility of its products in all markets, this category plays a central role in amplifying the brand.

Authenticate

- In order to be the best sports brand in the world, the adidas brand also needs to be true to sports on a local level. As such, the brand will continue to cater to a wide range of sports such as golf, basketball, American football, baseball, rugby, tennis, volleyball, swimming and boxing. To maximize impact and resources, in key markets and cities, the adidas brand will prioritize those sports that are most significant in terms of local culture, participation and national pride.

REEBOK BRAND STRATEGY

MISSION: TO BE THE BEST FITNESS BRAND IN THE WORLD

Reebok is an American-inspired global brand with a deep fitness heritage and the mission of being the best fitness brand in the world. To realize this mission, Reebok has gone through a transformation from traditional sports to the sport of fitness. On this journey, Reebok has invested in its newly established 'Sport' unit to develop products that cater to all fitness routines, while returning to its fitness roots in 'Classics' to support a fashion-forward lifestyle outside of the gym. Driven by its ambition to be the innovation leader in fitness, Reebok continues to merge its iconic past with new technologies that revolutionize both performance and lifestyle products.

CONSUMER OBSESSION: THE GAME CHANGERS

Reebok's consumer obsession focuses on being distinctive, relevant, and authentic with its focus consumers – the Game Changers. These consumers, equally women and men, of all ages, are driven by becoming their absolute best. The Game Changers participate in a range of activities, are fitness-centric, and are inspired by the broader fitness world. They share four essential qualities to create a unified mindset: self-betterment, perseverance, confidence and non-complacency. These are the core values that hold the Game Changers together. They blend fitness into their lives, care about style, and are passionate about what they do. Through robust research and interaction with consumers, Reebok has taken significant time to understand the complexities of their fitness lifestyle across both product performance needs and style desires and seeks to exceed expectations across the spectrum.

Within that consumer group, Reebok will continue to focus on the female Game Changers. Rooted in Reebok's heritage, the brand is putting women at the heart of everything. This female-centric approach, with women being the focal point of content strategy, product creation, marketing activation and distribution, is a fundamentally different approach compared to other brands in the industry. It will allow Reebok to become truly dual-gender, with the goal of its women's business representing 50% of the brand's net sales. In 2018, Reebok successfully launched the PureMove Bra, a revolutionary sports bra featuring patented fabric technology that adapts to movement and intensity. This product was then featured in a women's-only brand campaign.

PRODUCT FRANCHISES: LEVERAGING THE BRAND'S FITNESS DNA

Reebok recognizes the importance of building strong apparel and footwear franchises, establishing innovative but repeatable product lines that become annuities for the brand and essential items for the consumer. This is not only crucial for enhancing consumer perception and brand consideration, but for the efficiency of the Reebok brand.

For this reason, Reebok continues to heavily invest in franchises, making them a key priority. By 2020, Reebok expects key apparel franchises to represent at least 25% of the brand's total apparel business. Key franchises include *performance products* SEE GLOSSARY such as the Lux Tight or Epic Short. The newest franchise, the PureMove Bra, won several covetable awards in 2018, including TIME's Best Inventions of 2018.

In footwear, Reebok continues to grow franchises that have been authenticated by their respective communities, such as the CrossFit Nano and the FloatRide Run. In 2018, the FloatRide Run Fast, an iteration of the running franchise, won the prestigious Runner's World Gear of the Year award. In addition, Reebok leverages its unique fitness DNA through iconic styles such as the Aztrek, the Classic Leather and the Club C.

Reebok puts a strong emphasis on innovation. The brand is committed to maintaining a full and innovative product pipeline, bringing new technologies, styles and processes to life. In this context, 2019 will see continued storytelling around the Sole Fury, footwear built with a distinct split cushioning outsole, removing excess weight for 360-degree breathability and lightweight cushioning. Beyond technology platforms, Reebok remains committed to investing into innovation that consumers can relate to, fostered by unique collaborations and stories. SEE INNOVATION, P. 78

MARKETING INVESTMENTS: AMPLIFYING BRAND PURPOSE AND DRIVING SCALE

Reebok is focused on creating inspirational marketing capabilities that build brand equity and consumer advocacy, while unleashing powerful brand messages. A key element of Reebok's marketing and communication strategy is to connect emotionally to consumers through its 'Be More Human' platform, supported by several relevant assets and influencers in the digital ecosystem.

- **Be More Human:** Inspiring people to be their absolute best selves is not only the brand's guiding principle, but also the essence of Reebok's global marketing campaign Be More Human. Launched in 2015, Be More Human celebrates everyday people who choose to embrace fitness and lead more fulfilling and less self-focused lives. With the latest evolution, Reebok celebrated strong women who have made positive changes to the world in unique ways. The campaign featured some of the world's most respected athletes and sought-after artists, including Katrin Davidsdottir, Danai Gurira, Gigi Hadid, Ariana Grande and Nathalie Emmanuel. These women told their personal stories about overcoming barriers to become their best selves and were featured alongside influential women who have built organizations that are empowering women and making history.

- **Authentic and influential fitness assets:** To amplify the brand and increase its relevance vis-à-vis the fitness consumer, Reebok has entered into a series of partnerships with some of the world's most influential artists and athletes, such as fashion icon Victoria Beckham, rapper and songwriter Future, and American football pro bowler J. J. Watt. In 2018, music artist Cardi B, actress Gal Gadot, and UFC superstar Conor McGregor joined Reebok's strong roster of brand ambassadors. In addition, to validate its authenticity as the best fitness brand in the world, Reebok has entered into partnerships with some of the fastest-growing and most innovative organizations in the fitness world, such as CrossFit, Les Mills, and Midnight Runners. Most recently, Reebok announced the formation of the Boston Track Club, a professional running club with elite runners. Finally, continuing to build relationships with fitness instructors remains a crucial component of Reebok's goal of connecting with the global fitness community. With over 155,000 fitness instructors currently being part of its global network, Reebok has made major progress toward its goal to be the brand of choice for instructors around the world.
- **Digital ecosystem:** Reebok is changing the way it operates digitally in order to be relevant and authentic in the digital ecosystem, particularly for women. As a result, this ecosystem is the main channel for communication and marketing initiatives as well as from a commercial perspective, providing experiences and products online. In 2018, Reebok improved site speed and usability of its consumer-facing digital ecosystem. Reebok is focused on continuing to optimize the consumer experience globally, with 2019 seeing a site redesign and the launch of a new membership program.

ROLE OF THE CATEGORIES

To achieve the ambition of becoming the best fitness brand in the world, Reebok recognized the need to combine its performance authenticity with even better product and stronger lifestyle credentials for a consumer who is both fitness and style obsessed. To that end, Reebok combined its activities in Running and Training and created the Sport business. This unit, along with Classics, plays a vital role for the Game Changers, allowing the brand to amplify its impact on the fitness enthusiast and leverage commercial opportunities from their active lifestyle.

Sport's insight-driven and consumer-led approach supports authentic experiences for both highly specialized and versatile products. These products are at the forefront of fitness and true to the culture and community that the Game Changers train, run, and live in. Additionally, the Reebok Sport category has developed several contemporary silhouettes, which epitomize the intersection of performance, innovation and style. Reebok Classics celebrates the brand's unique heritage across multiple iconic silhouettes.

MUSCLE UP: REEBOK TRANSFORMATION STRENGTHENS BRAND FUNDAMENTALS

Over the last years, Reebok has made major progress in its transformation from a general sports brand to a 100% fitness-focused brand. At the same time, the brand's overall market share remains below levels seen in the past. In addition, there has been no growth in Reebok's home market, North America, and the brand's margins have not been accretive to the company's overall profitability. As a result, Reebok announced a turnaround plan called 'Muscle Up' in 2016 aimed at accelerating Reebok's top-line growth in North America and improving the brand's overall profitability.

With efficient and effective distribution being key to Reebok's future success in the all-important North American market, the company has significantly reduced its store base in the market over the past two years. In total, the company has closed nearly 50% of its own stores in the US market – both concept stores and factory outlets – since the introduction of Muscle Up. In addition, the brand has also streamlined its wholesale business, putting a clear focus on elevating brand equity and driving profitable growth.

In addition to progressing on the brand's turnaround efforts in its home market, Reebok continues to execute on several transformational Muscle Up projects to enhance the profitability of the brand. Initiatives span marketing effectiveness, organizational efficiency and measures to improve product margins. By relentlessly executing against those initiatives Reebok has already realized meaningful profitability improvements, as reflected by the brand's increase in gross margin of 7.0 percentage points to 43.7% over the past two years.

While Reebok will continue to relentlessly execute the initiatives aimed at further improving its profitability, the brand will accelerate its efforts to drive high-quality revenue growth by shortening go-to-market timelines, driving product innovation, further focusing on its own e-commerce channel, and expanding partnerships with the most important wholesale customers.

SALES AND DISTRIBUTION STRATEGY

TRANSFORMING THE MARKETPLACE

Our Global Sales function drives the commercial performance of the company by converting brand desire into profitable and sustainable business growth. It is our ambition to deliver the best shopping experience within the sporting goods industry across all consumer touchpoints. We strive to transform the marketplace by actively shaping and accelerating the growth of our profitable and integrated trade network. Our objective is to establish scalable business solutions in order to deliver premium experiences, thereby meeting and surpassing consumer expectations with an integrated brand offering.

DRIVING OPERATIONAL EXCELLENCE ACROSS OUR GLOBAL MARKETS

Our sales strategy is crafted by a centralized and integrated marketplace team which supports the flawless execution of our brand strategies and drives operational excellence across the globe. In this context, we continued to execute our 2020 strategic business plan, 'Creating the New', across our six global markets during 2018. At the beginning of the year, we completed the integration of the markets Greater China, Japan, South Korea and South-East Asia/Pacific into one consolidated market for Asia-Pacific. This allows us to better serve the converging consumer and customer demands in the region for the years to come. In a changing global landscape, our diverse market portfolio is an important asset in maximizing the business, elevating our competitiveness and achieving our ambitions towards 2020.

SEAMLESS CONSUMER JOURNEY ACROSS OUR CHANNELS

With more than 2,300 own-retail stores, more than 14,000 mono-branded franchise stores and more than 150,000 wholesale doors, we have an unrivaled network of consumer touchpoints within our industry. In addition, through our own e-commerce channel, our single biggest store available to consumers in over 40 countries, we are leveraging a consistent global framework.

We are also seeing considerable success in leveraging our strong cross-functional partnerships with key wholesale partners, which is critical for ensuring a consumer journey to the full extent. By seamlessly integrating the channels within our market portfolio, we are uniquely positioned to pursue and succeed in strategies that deliver premium consumer experiences and increase the productivity of our distribution footprint. We replicate this model to capitalize on new consumer opportunities through own-retail destinations (own-retail stores and own e-commerce sites) as well as our wholesale partner doors (wholesale managed spaces online and brick & mortar). This is how we create halo effects across all consumer touchpoints, resulting in further marketplace expansion.

In 2018, we advanced our sales strategy with several initiatives focused, amongst others, on premium consumer experiences, marketplace transformation as well as productivity and efficiency of the sales platform.

Premium consumer experiences

We aim to be 'omni-present' along the consumer journey and strive to capture the full sales potential on the platforms available to our consumers. We also strive to minimize occasions when consumer demand is not met, by offering innovative solutions. Based on these objectives, we focus on the following omni-channel initiatives:

— 'Inventory Check' allows online shoppers to view in-store product availability.
— 'Click & Collect' allows consumers to order online and purchase or reserve items for pick-up in a local store.
— 'Ship from Store' allows us to service consumers faster than before by turning our stores into mini distribution centers.
— 'Buy Online, Return to Store' not only provides consumers with a convenient way to return product purchases but also offers new buying opportunities.
— 'Partner Program' enables us to expand our online offering to a larger group of consumers by making it available to selected key wholesale partners.
— 'Endless Aisle' provides in-store visitors with access to our full range of products through our e-commerce platform.
— Our 'adidas App' is an always-on connection to the adidas brand and offers premium shopping experiences.

Digital focus

In 2018, we continued our focus on and investments into digital partners. As part of our Partner Program initiative that was launched in 2016, we continued to successfully onboard partners across Europe, North America, Emerging Markets and Asia-Pacific, allowing us to deliver incremental sales growth and learnings that will be leveraged to evolve and further grow the program in the future. In addition, 2018 saw the expansion of the adidas App to a further 23 countries across all major markets, thereby becoming an important new consumer touchpoint in the adidas e-commerce ecosystem. The App is directly linked to the adidas e-commerce store and provides consumers with personal conversations, a frictionless checkout, seamless order tracking as well as personalized content and access to our newly created membership program – the Creators Club. The success of the App is significantly enhanced by continued investments in Customer Relationship Management (CRM), which will enable us to develop an even deeper consumer understanding and connection.

Marketplace transformation

Our goal is to leverage and scale the success of our initiatives across our channels to better serve consumers. The key contributor to this approach is *controlled space.* SEE GLOSSARY Whenever we can actively manage the way our brands and products are presented at the point of sale, the impact on the consumer experience, and ultimately on our operational and financial performance, is significant. We have the power to do so in own retail (including e-commerce) and in wholesale (franchise stores, wholesale managed space online and brick & mortar). By 2020, we aim to generate more than 60% of our revenues through controlled space.

For us, own retail acts as a catalyst to our controlled space ambition. We amplify our success in own retail by translating key learnings to franchise stores and expanding franchising as a business model in existing as well as into new geographies. In 2018, we made significant investments in remodeling our stores and sharpening the top of the pyramid of our store fleet. By doing so, we have strengthened our own retail presence in key cities and key trade zones. We extended our flagship fleet by opening a flagship store on Shanghai's East Nanjing Road and remodeled the existing Beijing Sanlitun store. We expect these flagships to set new standards in terms of product presentation, execution and service that will be replicated across all other channels. We expect e-commerce to continue to be the fastest-growing channel that we operate, with revenues forecast to grow to € 4 billion in 2020. In wholesale, we will continue to expand our footprint with a focus on prioritized key accounts, targeting important consumer hotspots and trade zones, especially those that are part of our Cities initiative. Strategic partnerships to operate controlled space remain an important thrust of this expansion. In that regard, we will continue to support our key wholesale partners, ensuring that we have premium space in their new flagship stores.

Cities and trade zones

In the last couple of years, we saw continued success in our key cities New York, Los Angeles, Paris, London, Shanghai and Tokyo. Our *Net Promoter Score (NPS)* SEE GLOSSARY further improved year on year in our key cities during 2018, helping to drive revenue growth to achieve our target to double revenues in our key cities by 2020 compared to the 2015 level. We will continue to focus on trade zones within the cities, specifically on how we deploy product, retail and activation initiatives. Our intention is to create one holistic brand experience for our consumers within these key commercial areas across all shopping channels and platforms.

Productivity and efficiency of sales platform

We are committed to further driving productivity improvements across our sales platform through a multi-faceted approach:

- **Premium presentation:** Our physical selling spaces are an important factor in driving Net Promoter Score (NPS) and full-price sell-through. We further evolved the brand experience through the launch and expansion of premium store concepts such as *Stadium* SEE GLOSSARY and *Neighbourhood* SEE GLOSSARY for the adidas brand as well as *FitHub* SEE GLOSSARY for the Reebok brand. Our own-retail concepts are designed for scalability. Consequently, we will continue to roll them out across our store base, which yields benefits across channels, considering the positive spillover impact on our wholesale and franchise partners.
- **Consumer service excellence:** Our Sales Academy program continues to help us to transform the culture and effectiveness of our sales teams. As a result, consumers enjoy significantly elevated service levels which have proven commercially rewarding through higher *conversion rates* SEE GLOSSARY and increased average selling prices.
- **Personalized interaction:** Our commitment to deliver a premium shopping experience is reflected online through our digital brand flagship stores, adidas.com and reebok.com, as well as our adidas App. E-commerce and digital communication are powerful tools for our brands to engage with consumers.
- **Insight-driven decision-making:** We continue to invest in our analytical capabilities and technical infrastructure to become faster and more insight-driven in decision-making. Leveraging data such as cross-channel product sell-through and consumer purchasing behaviors delivers actionable insights in areas such as assortment planning and product life cycle management.
- **Distribution channel mix:** Based on a thorough analysis of the profitability of our distribution channels in each of our markets, in 2018 we continued with our optimization program to shift focus and resources to our most profitable channels. By doing so, we have improved the distribution mix of our company and consequently the underlying profitability of our Global Sales organization.

We are confident that our sales strategy will help us realize significant improvements in brand desirability (as measured by our NPS), market share, net sales, and profitability.
SEE INTERNAL MANAGEMENT SYSTEM, P. 103

GLOBAL OPERATIONS

Global Operations manages the development, production planning, sourcing, and distribution of our company's products. The function strives to increase efficiency throughout the company's supply chain and ensures the highest standards in product quality, availability, and delivery. With the consumer in mind, we deliver competitively priced products in a sustainable manner, when and where they are wanted.

CLEARLY DEFINED PRIORITIES FOR GLOBAL OPERATIONS

Global Operations delivers upon our company's mission to be the best sports company in the world. First, the function creates the best products by establishing state-of-the-art infrastructure, processes, and systems that enable us to focus on innovative materials and manufacturing capabilities. Second, Global Operations is focused on delivering best services through innovative distribution capabilities by enabling product availability through the omni-channel approach to supply chain agility. Third, Global Operations strives to deliver the best experience to our customers and consumers in a sustainable way. SEE DIAGRAM 22

Best product: Global Operations is driving innovation in new materials, new product constructions, and new ways of manufacturing that deliver consumer value and enable competitive advantage. By investing in tools that more directly connect design and factory production, Global Operations is changing traditional models of development to deliver constant newness and increased speed-to-market capabilities. The function also plays a critical role in driving operational efficiency to support the company's growth ambition. Global Operations has been successfully consolidating and improving legacy structures, thereby reducing complexity and mitigating material and labor costs for the company through material and packaging consolidation.

Best service: Global Operations strives to develop, produce, source, and distribute all ordered articles on time and in full. Therefore, a non-financial KPI 'On-Time In-Full' (OTIF) measures adidas delivery performance towards our customers and our own-retail stores. SEE INTERNAL MANAGEMENT SYSTEM, P. 103 In 2018, adidas delivered 78% of its adidas and Reebok brand products on time and in full (2017: 78%), which is broadly in line with the overall target of 80%. In Greater China and Russia/CIS, OTIF levels reached above 90% of our order quantities.

OTIF 2018

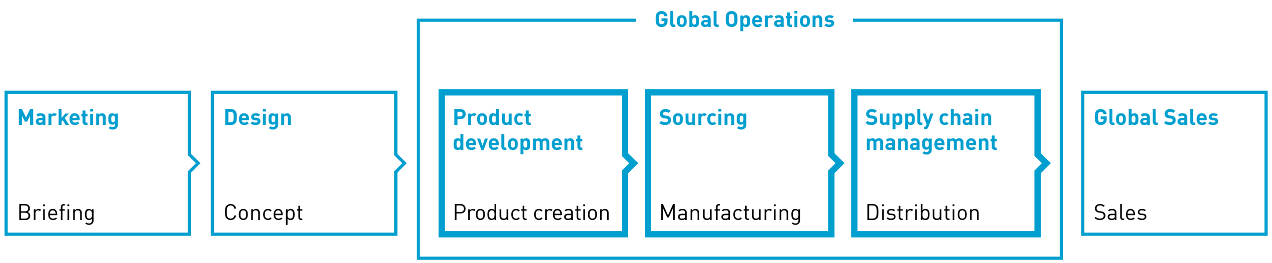
78%

Best experience: Global Operations contributes to the adidas strategic business plan 'Creating the New' to accomplish our mission. The function strengthens brand desire by creating and providing the right product to consumers – in the right quality, size, color, and style, in the right place and at the right time, across the entire range of the company's channels and brands. Global Operations builds capabilities that further improve supply chain efficiencies, while mitigating costs, thereby ensuring a continuously sustainable and competitive supply chain. Global Operations is driving several strategic initiatives to push Creating the New.

STRATEGIC COMPANY PRIORITY 'SPEED'

'Speed' is a strategic priority for the company. Our ambition is to be the first fast sports company in the sporting goods industry. SEE CORPORATE STRATEGY, P. 62 We are consumer obsessed; thus, we want to respond quicker to consumer demand. We want to make our products available when and where they are wanted across our wholesale, retail, and e-commerce channels. Our aim is to always be on trend and always in stock. We are moving away from predominantly developing products in advance of seasonal merchandising calendars and are getting closer to responding quickly to consumer demands with in-season development and rapid replenishment manufacturing. Bringing products to market faster allows our customers and direct-to-consumer channel to place orders closer to the actual time of sale, facilitating buying decisions that are based on better market knowledge. In 2018, we made further progress around our strategic priority with advanced creation and production capabilities and we are working to achieve at least 50% of the company's net sales through speed-enabled articles by 2020. With the 'Speed' initiative, we expect to increase sales and achieve

Global Operations in go-to-market process 22



a higher share of full-price sell-through compared to the regular range.

Advanced production capabilities: To increase 'Speed' also on production timelines, in 2018 Global Operations continued to expand its efforts to enable later ordering and further reduced production lead times. The function succeeded in providing 60 days or less production lead times for the vast majority of our footwear, apparel and hardware products. In addition to shortening our overall production lead times, Global Operations has scaled its fast replenishment capabilities of best-selling articles, offering more articles within seasons based on actual sell-through data, with 20% of all articles across all product categories established on 30 days production lead times.

Speedfactory: Powered by end-to-end automated manufacturing processes and innovative materials, with *Speedfactory* SEE GLOSSARY we create high-quality performance products faster than ever before to react to moments that matter in key markets. With that we also enable our key customers to co-create in an interactive production process while creating customer engagement and ultimately brand desire. Insights gained from our Speedfactories will enable us to drive digital manufacturing also into our existing supply chain. SEE CORPORATE STRATEGY, P. 62

DIGITALIZING THE END-TO-END CREATION-TO-SHELF VALUE CHAIN

In recent years Global Operations has focused on digitalizing the product creation process, leveraging digital capabilities and technologies across design and development teams. In 2018, we further expanded these efforts towards digitalizing the end-to-end creation-to-shelf value chain. This covers the pre-season marketing planning phase to product design, development, sourcing, and into the sell-in process. This is now established as a key strategic priority under the umbrella of digital transformation.

To connect the end-to-end value chain, we have brought key building blocks together and we aim to scale up our new way of working with one of our Business Units. With digitally created products we support a more efficient creation process internally enabling a 'right first-time' approach. Externally, digital products will become more prominent in the interaction and communication with our partners, allowing us to make faster product iterations and take better decisions earlier in the process. This new way of working will enable a faster time-to-market and create a holistic and immersive digital sell-in experience for our key customers. Our ambition in 2019 is to continue building the digital infrastructure for the future, gradually rolling out the new capabilities across our businesses, and extending the platform to invite consumers to co-create with us, while also working closer with our key customers in the early phases of the creation process.

FUTURE OF MATERIAL SOURCING

Global Operations constantly looks for the next generation of materials by focusing, amongst others, on knitted footwear, direct-to-textile digital printing, and sustainable materials. Building on our successful partnership with *Parley for the Oceans* SEE GLOSSARY, in 2018, we continued to roll out *Parley Ocean Plastic* SEE GLOSSARY across our key categories, with running footwear and football apparel playing a major role. To facilitate the growing demand for Parley Ocean Plastic and other sustainable materials, we built a dedicated sourcing operation with the aim to ensure a steady and transparent supply chain. We expanded our sourcing countries for ocean plastic in 2018 from Maldives to Sri Lanka and will continue to grow in 2019, focusing on South East Asia and expanding collaboration with Small Island Development States. We developed a code of conduct specific to the plastic collection and processing that is now applied by our selected partners operating in countries in scope. SEE SUSTAINABILITY, P. 88

AUTOMATION TO IMPROVE PRODUCTION EFFICIENCY

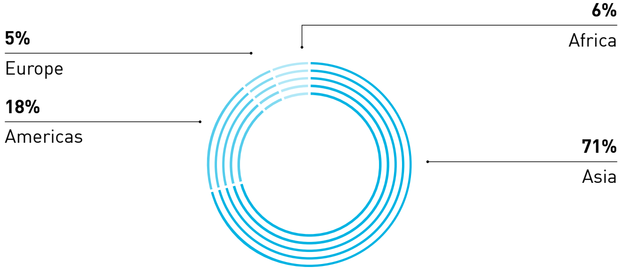
Driving the level of automation in our supply chain remains of overriding importance for Global Operations. In this context, automation technologies such as auto cutting, computerized stitching, robotic adhesive spray system, and auto packing solutions are important focus areas, as they allow us to reduce our dependency on manual labor while ensuring consistent and highest quality standards. To further improve our production efficiency, we will continue to increase the level of automation in our supply chain in the years to come.

MAJORITY OF PRODUCTION THROUGH INDEPENDENT MANUFACTURING PARTNERS

To keep our production costs competitive, we outsource almost 100% of production to independent manufacturing partners (adidas only operates two own production sites – one in the USA and one in Germany). In 2018, adidas changed the definition of independent manufacturing partners from individual manufacturing facilities to supplier group level (i. e. companies we work with that might produce in several manufacturing facilities). Based on this new definition, we worked with 130 independent manufacturing partners in 2018 that were producing in 289 manufacturing facilities (2017: 296).

Of our independent manufacturing partners, 71% are located in Asia (2017: 79%), 18% in the Americas (2017: 11%), 6% in Africa (2017: 1%), and 5% in Europe (2017: 9%). SEE DIAGRAM 23 While we provide our manufacturing partners with detailed specifications for production and delivery, they possess excellent expertise in cost-efficient, high-volume production of footwear, apparel, and *hardware*. SEE GLOSSARY

Independent manufacturing partners by region[1] 23



1 Figures include the adidas and Reebok brands, but exclude local sourcing partners, sourcing agents, subcontractors, second-tier suppliers and licensee factories.

In line with the definition change from individual manufacturing facilities to supplier group level, 26 of the 130 independent manufacturing partners are considered key strategic partners and produce the vast majority of our products in

Key strategic partner relationships 24

	Total	Footwear	Apparel	Hardware
Number of key strategic partners	26	11	8	7
Average years as key strategic partner	17.8	17.0	17.2	19.6
Share of all production volume	74%	92%	62%	54%
Share of all production value	78%	92%	57%	61%
Strategic relationships < 10 years	15%	18%	13%	14%
Strategic relationships 10 – 20 years	42%	36%	63%	29%
Strategic relationships > 20 years	42%	45%	25%	57%

82 manufacturing facilities worldwide (2017: 109). We value long-term relationships: 84% of our key strategic partners have worked with adidas for more than ten years and 42% have a tenure of more than 20 years. SEE TABLE 24

Key strategic partner relationships > 20 years

42%

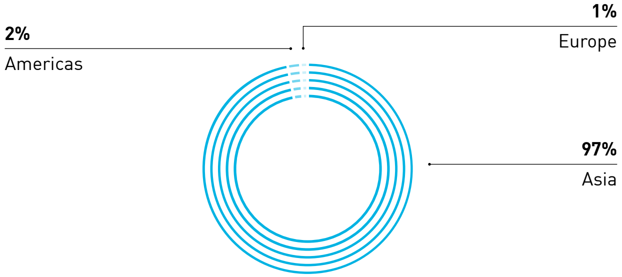
The length of the relationship is determined by specific performance criteria which are regularly measured and reviewed by Global Operations. To ensure the high quality that consumers expect from our products, we enforce strict control and inspection procedures of our manufacturing partners and in our own factories. Effectiveness of product-related standards is constantly measured through quality and material claim procedures. In addition, we track social and environmental performance criteria of our suppliers through the C- and E-KPI tracking system. Adherence to social and environmental standards is promoted throughout our supply chain. SEE SUSTAINABILITY, P. 88 Current supplier lists can be found on our website.

ADIDAS-GROUP.COM/SUSTAINABILITY/S/SUPPLY-CHAIN-APPROACH

VIETNAM REMAINS LARGEST FOOTWEAR SOURCING COUNTRY

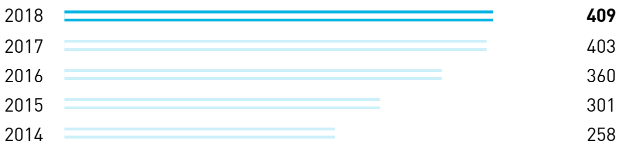
97% of our total 2018 footwear volume was produced in Asia (2017: 97%). Production in Europe and the Americas combined accounted for 3% of the sourcing volume (2017: 3%). SEE DIAGRAM 25 Vietnam represents our largest sourcing country with 42% of the total volume (2017: 44%), followed by Indonesia with 28% (2017: 25%) and China with 18% (2017: 19%). In 2018, our footwear manufacturing partners produced approximately 409 million pairs of shoes (2017: 403 million pairs). SEE DIAGRAM 26 Our largest footwear factory located in Vietnam produced approximately 11% of the footwear sourcing volume (2017: 11%).

Footwear production by region[1] 25



1 Figures include the adidas and Reebok brands.

Footwear production[1] in million pairs 26

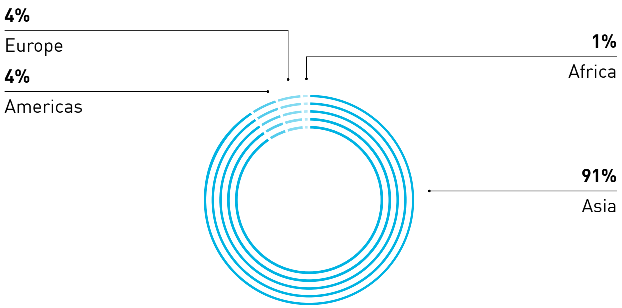


1 Figures include the adidas and Reebok brands.

CAMBODIA BECOMES LARGEST SOURCE COUNTRY FOR APPAREL

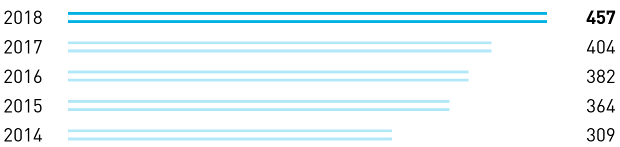
In 2018, we sourced 91% of the total apparel volume from Asia (2017: 93%). The Americas represented 4% of the volume, Europe 4%, and Africa 1% (2017: the Americas 4%, Europe 3%, and Africa 1%). SEE DIAGRAM 27 Cambodia is the largest sourcing country, representing 24% of the produced volume (2017: 22%), followed by China with 19% (2017: 23%) and Vietnam with 18% (2017: 18%). In total, our manufacturing partners produced approximately 457 million units of apparel in 2018 (2017: 404 million units). SEE DIAGRAM 28 The largest apparel factory produced approximately 9% of this apparel volume and is located in China (2017: 10%).

Apparel production by region[1] **27**



1 Figures include the adidas and Reebok brands.

Apparel production[1] in million units **28**

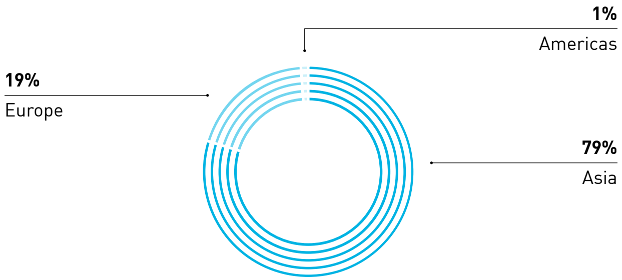


1 Figures include the adidas and Reebok brands.

CHINA REMAINS MAIN SOURCE OF HARDWARE PRODUCTS

In 2018, 79% of our hardware products, such as balls and bags, were produced in Asia (2017: 82%). Europe accounted for 19% (2017: 16%) and the Americas represented 1% of the total volume (2017: 2%). SEE DIAGRAM 29 China remained our largest sourcing country, accounting for 38% of the sourced volume (2017: 40%), followed by Turkey and Pakistan with 18% each (2017: 15% and 18%, respectively). The total hardware sourcing volume was approximately 113 million units (2017: 110 million units), with the largest factory accounting for 18% of production (2017: 15%) located in Turkey. SEE DIAGRAM 30

Hardware production by region[1] **29**



1 Figures include the adidas and Reebok brands.

Hardware production[1] in million units **30**

1 Figures include the adidas and Reebok brands.

INCREASED AVAILABILITY BY OPTIMIZING THE DISTRIBUTION CENTER NETWORK

By creating a higher commonality of our products across the various channels, Global Operations ensures higher flexibility at each consumer touchpoint. This, in turn, enables a broader range of products to be available at the point of sale, including online orders for pick-up in our own-retail stores or own-retail stores able to sell inventory available in other own-retail stores. SEE SALES AND DISTRIBUTION STRATEGY, P. 72

In 2018, Global Operations focused on further optimizing its distribution center network, while at the same time preparing it for future consumer demand. In this context, we extended one distribution center on a large scale in Rieste, Germany and built a new distribution center in Suzhou, China – both went live in 2018. In addition, we started with the construction of a new distribution center in Pennsylvania, USA and expanded our existing West Coast third-party facility, aimed at supporting our future growth expectations for North America, in particular around the company's e-commerce and own-retail businesses. Lastly, to improve our consumer service in the UK as well as to position us well for Brexit, we added a new e-commerce facility to our existing distribution network in the market in 2018.

INNOVATION

Creating innovative concepts to meet the needs of athletes and consumers is a prerequisite to strengthening our market position in the sporting goods industry and a premise to being the best sports company in the world. We therefore remain highly committed to maintaining a full and innovative concept pipeline, bringing new groundbreaking technologies and processes to life, investing into sustainable enablers and exploring the possibilities of digitalization across our entire value chain. True to the vision of creative collaboration, our innovation approach is widely based on our Open Source mindset.

MEETING THE NEEDS AND EXPECTATIONS OF OUR CONSUMER

The modern innovation landscape extends beyond product and increasingly requires innovation teams to consider the development of experiences and services and to provide greater levels of transparency and direct integration of our consumer through co-creation. In partnership with our consumer insight teams, foresight and trend analysis efforts are shared on an ongoing basis, documenting shifts in society and culture. This provides the starting point to build concepts of relevance.

The FUTURE team at adidas is tasked to develop a strong portfolio of innovation capabilities such as new materials, production processes and consumer-centric scientific research to provide a platform for meaningful concept development. Projects are incubated within the company and aligned to the broader sourcing, marketing, creative and strategic functions across the organization, ensuring a robust and impactful innovation pipeline.

During 2018, adidas continued to implement a centralized project team to drive the process for the application and management of publicly funded research projects. Located within the FUTURE team, the team is responsible for collaborating with governmental organizations on a local, national and European level to develop key projects with strong consortia partners, tackling major societal challenges that will impact our consumer and industry. Three major projects were finalized in 2018, spanning research on a new class of fully recyclable sporting goods, on human/computer interaction concepts for wearable computing trends, and on the development of an entire eco-system for innovative internet-based services catering to the consumer.

INNOVATION APPROACH BASED ON OPEN SOURCE MINDSET

Our approach to innovation reflects our commitment to the Open Source mindset, where we seek to build value together with athletes and consumers, universities, industry-leading companies as well as national and international governments and research organizations. In addition to opening up our doors to valuable feedback, we also get inspired by the input from knowledgeable partners. We work with several partners to unlock further potential through collaborations:

- **BASF:** Together with BASF we manage and enhance BOOST, an industry-first cushioning technology designed to deliver maximum energy return, responsiveness and comfort to athletes.
- **Carbon:** Together with Carbon, a Silicon Valley-based tech company, we are revolutionizing product creation through hardware, software and molecular science, to enable mass production of additively manufactured components, coming to life with adidas 4D.
- **Fashion for Good:** Together with Fashion for Good, a global initiative to make all fashion sustainable, we are accelerating and scaling sustainable innovation in the apparel industry through, among other things, mentorship of circular apparel start-ups.
- **Oechsler:** Together with Oechsler, an expert in high-tech automated manufacturing of technical components and assemblies, we operate our Speedfactories in Ansbach, Germany, and Atlanta, USA.
- **Parley for the Oceans:** Together with Parley for the Oceans, we are developing products partially created from upcycled plastic waste, intercepted before it reaches the ocean from beaches and coastal communities.

FIVE PILLARS OF INNOVATION

Within our innovation principles, we identified five strategic pillars which enable us to develop the best products and experiences for athletes and consumers, while at the same time drive game-changing innovations in the fields of manufacturing, digital and sustainability.

Athlete innovation

Our clear focus is to produce the best and most innovative products for athletes to enable them to perform at their very best. To achieve this, we work closely together with athletes and teams as well as numerous universities and industry-leading companies, to deliver against the needs of our target consumer.

Manufacturing innovation

To simplify manufacturing, enable product innovation and increase speed-to-market capabilities, the company's innovation activities are also focused on new manufacturing technologies. Our goal is to combine state-of-the-art information technology with new manufacturing processes and innovative products. For this reason, we commit ourselves to long-term cooperation with industry-leading companies and organizations to take a leading role in manufacturing innovation.

Digital and experience innovation

The adidas brand was amongst the first in the industry to comprehensively bring data analytics to the athlete. With decades of continuous investment in sports science, sensor technology and digital communication platforms, adidas has already taken a leading role in terms of changing the sporting goods industry through technology. With the increasing speed of digitalization, this field will remain one of our core areas.

Sustainability innovation

Our commitment to manage our business in a responsible way has long been one of the company's principles. To stay at the forefront of sustainable innovation, adidas is pursuing a proactive approach to establish internationally recognized best practices and achieve scalable improvements. As part of our sustainability roadmap we have set ourselves the target for 2020 to invest in materials, processes and innovative machinery which will allow us to upcycle materials into products and reduce waste. SEE SUSTAINABILITY, P. 88

Female athlete innovation

Our long-term commitment to the female athlete continues to be a focus for the company. To fuel the growth of our women's business, we have taken a holistic approach to understanding the female athlete's performance and non-performance needs throughout her active life by looking at this target group as an integrated part of our business but from a separate and unique angle. With a focus on the female consumer, it is crucial to fully understand the specific product needs of the female athlete to help unlock her full potential. To enable this, we are working to establish a robust network of industry leaders and academic experts with our 'Path to Expert' approach, which will help to accelerate the building of insights and foresights that keep us at the forefront of product innovation.

COMMERCIALIZATION OF INNOVATIONS

We believe developing industry-leading technologies and consumer experiences is only one aspect of being an innovation leader. Equally important is the successful commercialization of those innovative concepts:

- **adidas 4D:** The high-performance footwear produced under the adidas 4D concept features midsoles crafted with light and oxygen using Digital Light Synthesis, a unique technology developed by Carbon. The 4D midsole pioneers a digital footwear component creation process that eliminates the necessity of traditional prototyping or molding. With the new technology, adidas officially departs from 3D printing and brings additive manufacturing in the sports industry into a new dimension. adidas produced more than 100,000 pairs of this high-performance footwear in 2018 and is working with Carbon to develop new machinery to continue scaling for mass production. Futurecraft 4D, the first shoe to feature a 4D midsole, was recognized with the 'Gold Lion Design' and the 'Silver Lion Innovation' awards in Cannes in 2018.
- **Parley Ocean Plastic:** Products made of *Parley Ocean Plastic* SEE GLOSSARY focus both on the needs of our athletes, by living up to their performance promise, and on the needs of the world, by helping to protect our oceans from marine plastic pollution. We have taken sustainability to the product level and continue to roll it out across our product portfolio. In 2018, we made five million pairs of shoes containing Parley Ocean Plastic, across various footwear franchises in both Sport Performance and Sport Inspired. In addition, two million pieces of our 2018 apparel offering featured Parley Ocean Plastic, including jerseys for high-profile teams such as Real Madrid, Bayern Munich, Juventus Turin and Manchester United.
- **AM4 Series:** The 'adidas made for (AM4)' products are created at the adidas Speedfactory facilities in Ansbach and Atlanta. In 2018, we launched AM4 products for Los Angeles (AM4LA), New York (AM4NYC), Shanghai (AM4SH) and Tokyo (AM4TKY), completing the 'Key City Series' which started with London (AM4LDN) and Paris (AM4PAR) in 2017. During 2018, there were additional AM4 limited editions specific to cultural and sporting moments, such as the AM4NHL which was built in the Atlanta Speedfactory to reward the 2018 Stanley Cup winner Washington Capitals. Each run is bespoke product tailored to unique demands and local insight, produced at speed and scale.
- **Creators Club:** This new digitally enabled membership program rewards loyal consumers with invitations to exclusive events and access to limited-edition products. In addition, it enhances the e-commerce shopping experience for members through an even faster checkout process and new order-tracking options. The program allows us to deepen the relationship with our consumers and to gain valuable insights into their expectations and needs. Creators Club launched in the US toward the end of 2018, with other markets to follow in 2019.
- **PureMove Bra:** Treated with Motion Sense Technology, the Reebok PureMove Bra changes the game for women's sports bras. The PureMove Bra will naturally stiffen when high-intensity workouts begin, and releases when complete for comfort. Based on strong consumer feedback on the launch, this exclusive material is now being modeled into more extended sizes and additional applications. For the PureMove Bra initiative, Reebok partnered with the University of Delaware.
- **Cotton + Corn:** Reebok's Cotton + Corn is the first bio-based shoe, certified in the US and Western Europe, and 'made with things that grow': an upper comprised of organic cotton and a base originating from industrial grown corn, which is a non-food source. Cotton + Corn was also launched in a vegan version and will be extended to multiple colorways in upcoming seasons. For the Cotton + Corn initiative, Reebok partnered with DuPont Tate & Lyle Bio Products, a leading manufacturer of high-performance bio-based solutions.

NEW PRODUCT LAUNCHES GENERATE THE MAJORITY OF SALES

As in prior years, the majority of sales were generated with products newly introduced in the course of 2018. New products tend to have a higher gross margin compared to products which have been in the market for more than one season. As a result, newly launched products contributed over-proportionately to net income in 2018. We expect this development to continue in 2019 as we will present a wide range of new, innovative products. SEE OUTLOOK, P. 128

In 2018, brand adidas and Reebok sales were again driven by the latest product offerings. At brand adidas, products launched during the course of the year accounted for 74% of brand sales (2017: 79%), while only 3% of sales were generated with products introduced three or more years ago (2017: 2%). At Reebok, 67% of footwear sales were generated by products launched in 2018 (2017: 69%). Only 11% of footwear product sales relate to products introduced three or more years ago (2017: 12%).

R&D EXPENSES DECREASE 18%

Expenses for research and development (R&D) include expenses for personnel and administration, but exclude other costs, for example costs associated with the design aspect of the product creation process or the majority of costs related to company-wide Open Source initiatives. In 2018, as in prior years, all R&D costs were expensed as incurred. The company's R&D expenses decreased 18% to € 153 million from € 187 million in the prior year.

R&D expenses
€ 153 m

In 2018, R&D expenses as a percentage of sales equated to 0.7% (2017: 0.9%). The number of people employed in R&D activities at December 31, 2018, was 1,041 compared to 1,062 employees in the prior year. This represents 1.8% of total employees. SEE TABLE 31

Key R&D metrics[1, 2] 31

	2018	2017	2016	2015	2014
R&D expenses (€ in millions)	153	187	149	139	126
R&D expenses (in % of net sales)	0.7	0.9	0.8	0.8	0.9
R&D employees	1,041	1,062	1,021	993	985

1 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 2015 and 2014 figures reflect continuing operations as a result of the divestiture of the Rockport business.

PEOPLE AND CULTURE

At adidas, we believe that our people are the key to the company's success. Their performance, well-being and knowledge have a significant impact on brand desire, consumer satisfaction and, ultimately, our financial performance. Through the delivery of our People Strategy, we focus our efforts on four fundamentals: the attraction and retention of the right talents, role model leadership, diversity and inclusion, as well as the creation of a unique corporate culture.

PEOPLE STRATEGY ENABLES A CULTURE FOR DELIVERING 'CREATING THE NEW'

As an integral part of our corporate strategy 'Creating the New', the People Strategy is a testament to thinking that our 2020 strategy can only be executed if we speak to our people on all levels and win both their hearts and minds. The People Strategy consists of four pillars that serve as a basis for creating the culture and environment for our people in order to successfully support Creating the New. SEE DIAGRAM 32 These four pillars also serve as a tool for prioritization, sense-checking and measuring our HR actions and initiatives. The People Strategy is implemented through a portfolio of projects which will directly deliver into each of the four pillars. In 2018, we made good progress by advancing the following initiatives.

The four pillars of our People Strategy 32

People Strategy
Defines and inspires the right organizational culture for 'Creating the New'

Attraction and retention of the right talents	Role model leadership	Diversity and inclusion	Culture
Meaningful reasons to join and stay	**Role models who inspire us**	**Bring forward fresh and diverse perspectives**	**A creative climate to make a difference**
Attract and retain great talent by offering personal experiences, choices and individual careers.	Inspire and nurture role model leadership.	Represent and live the diversity of our consumers in our people.	It is our goal to develop a culture that cherishes creativity, collaboration and confidence – three behaviors we deem crucial to the successful delivery of our corporate strategy.

ATTRACTION AND RETENTION OF THE RIGHT TALENTS

Our 'employer of choice' status continues to garner worldwide recognition and enables us to attract, retain and engage industry-leading talent to sustain the company's success and growth. In 2018, adidas locations around the world leveraged our employer brand attributes for attraction, retention and engagement strategies. This work contributed to several top rankings worldwide, including the Glassdoor and LinkedIn Best Employer rankings, as well as Best Employer in Digital Talent Communication. This has also helped us to attract some of the industry's top talent.

Our offices in China, Hong Kong, Italy, the Netherlands, South Africa, Spain, Taiwan, and the United Arab Erimates received the Top Employer Institute awards in 2018 for their efforts to provide an exceptional work environment for our people. With its certification, the Top Employer Institute recognized adidas' People Strategy, its organization-wide Learning and Development framework which encourages different kinds of learning and its career management model. adidas promotes and encourages employee mobility across the organization and holds line managers accountable for developing the succession pipeline.

ROLE MODEL LEADERSHIP

The quality of current and future talent and leadership is key to our success. We want to inspire and nurture role model leadership. With specifically designed talent management tools, we identify talents at all levels of our company who have the potential to become future leaders or key players within the organization. In order to prepare them for more complex future roles, they have tailored individual development plans and participate in targeted development programs. These are complemented by dedicated apprenticeship and trainee programs to attract great talent.

In 2018, we made further progress with this People Strategy pillar.

Leadership groups

We have established three groups with selected leaders and talents within the company:

- The **Core Leadership Group** (CLG) is the most senior group, made up of around 20 members from our senior leadership population. Members of this group jointly represent critical positions and roles across our company worldwide. This group partners with the Executive Board in leading the execution of the Creating the New strategy, accelerating its delivery across functions, as well as developing and inspiring the next generation of leaders. The CLG also serves as the succession pool for the Executive Board.
- The **Extended Leadership Group** (ELG) has around 120 members. The ELG collaborates across markets and functions to lead the execution of the strategic initiatives that form the Creating the New portfolio, and drives continuous improvement and consistency across the organization. The ELG also mentors and sponsors the Global High Potential Group and serves as a succession pool for the CLG.
- The **Global High Potential Group** (GHIPO) was formed in 2018 consisting of around 50 members with an equal gender balance. The GHIPO group enables us to identify and develop high potentials who have the ability to take on more complex, demanding and higher-level responsibilities at a global senior management level.

We hold two physical-presence CLG and ELG events per year, together with the Executive Board, to ensure these groups interact and align on the execution of Creating the New as well as our People Strategy. The GHIPO also meets twice per year for an on-site learning experience in our key markets. Throughout the year, all groups remain in touch via virtual meetings and calls. SEE CORPORATE STRATEGY, P. 62

Leadership Framework

To drive clarity and accountability, leaders at adidas were engaged to further activate our global *Leadership Framework* SEE GLOSSARY in 2018. The Leadership Framework is based on the three company behaviors creativity, collaboration and confidence (the *'3Cs'* SEE GLOSSARY) and articulates the particular behaviors that are expected of leaders at adidas. The framework was developed jointly with employees worldwide who provided feedback on what great leadership within adidas looks like to them. It provides a global and universal language that is inclusive, reduces the need for local interpretations, and outlines concrete behaviors that serve as a measure of leadership effectiveness. It is built into the way we hire and promote as well as rate performance. The framework was first activated and cascaded to employees globally through the CLG and ELG groups.

Leadership development experiences

We offer a portfolio of leadership development programs for corporate office employees for all grades and levels:

- **Executive Development Experience:** We are partnering with Harvard Business School in delivering a tailored learning experience for all of our senior manager population. In 2018, the CLG and ELG attended the in-residence Executive Development Experience at Harvard Business School. The rest of our senior managers are experiencing the same content in a live-virtual online learning setting.
- **Manager Development Experience and Director Development Experience:** In an effort to develop current and future leaders of our company, we introduced the Manager Development Experience (MDE) in 2018. MDE is a flexible approach to develop the leadership skills and abilities of our lower management level employees. MDE is designed to provide a customizable learning experience that uses the Leadership Framework as its foundation and drives the development of personal and team mastery. MDE is inspired by sport – what can the world of sport teach leaders about managing themselves and others? In 2019, we will introduce the Director Development Experience (DDE). DDE is based on the same principles with the Leadership Framework at its core and allows a customizable learning experience for our middle management level employees.
- **Talent Carousel:** Our internal career development program Talent Carousel has entered its fourth year, with the second generation graduating in 2018. The program encourages employees from all over the world to apply and become one of 20 finalists to take a cross-functional and international career step by starting a new role in a new location. Candidates remain in the program for 24 months with the right to return to their home location, while being developed with the goal of them assuming senior management positions in the future.

Succession management

Our succession management approach aims to ensure stability and certainty in business continuity through the development of strong internal pipelines for our critical leadership positions. We achieve this through a globally consistent succession process that identifies these important leadership positions within the organization, and matches identified top talent as successors for these roles. We conduct regular reviews to ensure individual development plans are in place to prepare successors for their potential next steps. The leadership groups we have established serve as succession pools for the highest levels of our organization.

Future talent programs

- **Apprenticeship and Dual Study Program:** The adidas Apprenticeship Program offers young pupils who want to join our company directly out of school the opportunity to gain business experience in a two- to three-year rotation program. It includes vocational training in retail, shoe technology, IT or other areas. The Dual Study Program for young school graduates offers – in cooperation with various universities – theoretical and practical experience at adidas in fields such as digital commerce, finance or international business including at least one three- to six-month international rotation. At the end of 2018, we employed 55 apprentices in Germany (2017: 65) and 45 Dual Study Program students (2017: 37).

- **Global Trainee Program:** The Functional, Digital and Design Trainee Program is an 18- to 24-month program providing graduates with an international background and excellent educational credentials the opportunity to start a functional career within adidas. The program comprises assignments in various functional and cross-functional departments. At least one of these assignments takes place abroad. At year-end 2018, we employed 61 participants in our Global Trainee Program (2017: 63).
- **Internships:** Our global internship program offers students three to six months of work experience within adidas. In 2018, we employed 447 interns in Germany (2017: 765).

Employee collaboration and learning

We believe that a robust and state-of-the-art internal communication platform is essential for driving employee engagement and fostering learning, as well as for open collaboration within our organization. We use an enterprise collaboration platform called 'a-LIVE', which encourages employees to share knowledge, collaborate and discuss current topics. In addition, we have established an 'Ask the Management' platform on our intranet, enabling employees to openly address questions to our senior managers and the Executive Board.

Via a-LIVE we offer all employees access to the Learning Campus, where employees are able to utilize learning opportunities 24/7 in a virtual environment. We also offer in-person learning activities. As a result of the global implementation of our Learning Management System that continued through 2018, we have increased the accessibility of employee training and development activities across the globe. Through the Learning Campus, our people are able to develop skills to support their current performance and future career development. In 2018, 21,228 employees (2017: 23,113) accessed our Learning Campus digitally, while 6,810 employees (2017: 4,295) employees participated in in-person learning activities, ranging from two hours to two days in duration. In mid-2018, we launched the LinkedIn Learning platform, giving all corporate office employees access to content across subjects in business, creative and technology areas. Employees who accessed this digital learning content in the first six months spent an average of around 70 minutes per month on self-directed learning. This uptake of learning is in the upper third of benchmarks for global organizations.

In 2018, adidas core learning programs were launched to support strategic business initiatives, build capabilities connected to our 3Cs and support development of future cross-functional organizational capabilities. Input into the program offer is managed through a business needs assessment supported by our HR organization.

DIVERSITY AND INCLUSION

We believe it is crucial for the success of our company to have a diverse workforce comprised of individuals with different ideas, strengths, interests and cultural backgrounds. We see a great benefit in the diversity of our employees, as this helps us to better fulfill the wishes and multi-faceted demands of our consumers around the world. All our employees are appreciated – regardless of gender, nationality, ethnic origin, religion, world view, disability, age, sexual orientation or identity.

Nationalities at HQ in Germany
> 100

At our company's headquarters in Herzogenaurach, Germany, we have employees from more than 100 nations. As part of our global diversity approach we proactively pursue a portfolio of internal and external activities as well as memberships. Throughout the company we continue to support our Employee Resource Groups – specific networks that give employees from various walks of life a voice. We have women's networks in North America, Latin America, Europe and Asia, LGBTQ networks in North America and Europe as well as a network to connect people with different ethnic backgrounds in North America, and an experienced generation network in Europe.

The Executive Board and senior management teams are provided with quarterly diversity reporting to support decision making and target setting, and we continue to invest in diversity and gender intelligence training across the organization.

In 2018, functional and local market teams continued to develop dedicated action plans to invest in a stronger female talent pipeline, data analysis on gender balance and a more balanced organization in terms of gender, age and origin. As an example, Latin America saw a notable increase in the female leadership ratio throughout the year as a result of intensified efforts in driving a set of initiatives. This included a significant increase in the number of employees receiving gender intelligence training, the initiation of senior leadership mentoring with a balanced 50:50 ratio, as well as the launch of 'Lean In' learning circles, a concept and reference tied to our partnership with the 'Lean In' organization.

To inspire action outside of our company, we are active members in both 'Charta der Vielfalt' ('Diversity Charter') and the Diversity and Inclusion in Asia Network (DIAN), that allow us to promote communication and the sharing of best practices and insights. adidas is also listed in the genderdax and has become a member company within the Bloomberg Gender-Equality Index.

Gender intelligence training

We continued the delivery of our global 'BIG Deal' gender intelligence training, with 300 senior managers upskilled in 2018, resulting in a total of over 600 employees since the launch of the training in 2016. 'BIG' stands for Balanced, Inclusive, Gender Intelligent, and is a one-day workshop designed to give participants new insights and practical tools that support them in building an inclusive company culture. Participants are challenged to re-visit and think critically about some of their key thoughts and beliefs around diversity, stereotyping and bias in the workplace. BIG Deal training will become part of the Director Development Experience. Moreover, we have made the move to internalize the delivery of the BIG Deal training with a Train the Trainer program to increase the roll-out speed and scope. Thus far, a total of almost 30 internal facilitators have been upskilled – with training delivered to around 900 colleagues in North America in 2018. Our headquarter-based facilitators in Germany will initiate delivery of BIG Deal training in 2019.

Mixed leadership teams

At adidas, we believe in mixed leadership teams as a competitive advantage and driver of success. A prerequisite for increasing the number of women at the highest levels of management is the general promotion of women within the company worldwide at all levels of management. We have various initiatives in place, e.g. with members of the Executive Board agreeing to mentor female talents as well as an equal gender split in our Global High Potential program to guarantee that our succession pipeline is balanced. In addition, our women's network is also working on mentoring circles to foster the professional development of junior colleagues.

Already in 2011, adidas proactively set itself the goal of increasing the number of women in management positions globally. By the end of 2018, the company had recorded a total of 33% of women globally in management positions (2017: 31%), exceeding the 2020 target of 32%. ↗ ADIDAS-GROUP.COM/S/EMPLOYEES Pursuant to the German 'Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector', the adidas AG Supervisory Board determined target figures for the percentage of female representation on the Executive Board, including corresponding deadlines for their achievement, and the Executive Board determined such target figures for the first two management levels below the Executive Board, including deadlines for their achievement, for adidas AG. SEE CORPORATE GOVERNANCE REPORT INCLUDING THE DECLARATION ON CORPORATE GOVERNANCE, P. 35

Women in management positions
33%

CULTURE

It is our goal to develop a culture that cherishes creativitiy, collaboration and confidence (the 3Cs) as well as high performance – the behaviors we deem crucial to the successful delivery of our corporate strategy. In fact, our culture and people serve as the foundation and a key enabler of the Creating the New strategy.

Performance management

To drive high performance within the company, in 2018 we replaced our performance management approach called 'The Score' with '#MYBEST', which is a new and holistic performance development approach combining monthly high-quality conversations between the employee and the line manager as well as regular upward and peer feedback options with quarterly target setting and performance evaluation.

The approach is based on the evaluation of multiple dimensions:

- **Target achievement:** qualification of how well an employee has delivered upon established quarterly objectives
- **Behaviors:** qualification of how well an employee is living the company Leadership Framework and 3C behaviors
- **Peer and upward feedback:** employees can request and incorporate feedback from colleagues and direct reports in their overall assessment for a more holistic review.

Wages, benefits and incentives

We are committed to rewarding our employees with compensation, benefit and incentive programs that are competitive in the marketplace and are aligned with our performance culture. Remuneration throughout the company comprises fixed and variable monetary compensation, non-monetary rewards as well as other intangible benefits. The cornerstone of our rewards program is our Global Salary Management System, which is used as a basis for establishing and evaluating the value of employees' positions and salaries in a market-driven and performance-oriented way.

The various variable compensation and benefits components we offer our employees include:

- Bonus program – Short Term Incentive (STI) program
- Profit participation program – 'Champions Bonus' (Germany)
- Long-Term Incentive (LTI) Plan for senior management and Executive Board members
- 401-K Retirement Plan (USA) and adidas Pension Plan (Germany)
- adidas Stock Purchase Plan.

We are continuously improving our remuneration approach and are therefore investing in a number of projects and initiatives to increase the significance of our remuneration programs, as well as to ensure we are investing in the right people at the right level. One of the improvements we conducted was the initiation of a new compensation adjustment approach. The approach was introduced in Germany and the US in 2017 and 2018, and is designed to minimize salary differences and, more importantly, inequity of employees on the same positions and grades. It is based on a higher level of detail for external market data and addresses internal pay gaps – also helping to ensure that we pay equally at the same level for female and male employees. Furthermore, we developed a monitoring approach to identify potential pay gaps and work continuously to improve and close these gaps on a country-by-country basis. To further enhance our efforts and transparency on this topic we support initiatives such as 'Lean In' and will also in 2019 put a strong emphasis on continuously closing potential gaps.

In addition, we improved transparency and governance for senior management remuneration. Analytics for our global management population provided higher transparency about actual remuneration as well as internal and external positioning of compensation and benefits packages. The aim was to ensure objective decision making for management remuneration, and to continue standardizing our pay structures. In 2017, we rolled out a global Long-Term Incentive Program for senior management. This program provides Restricted Stock Units (RSU), linked to our Earnings per Share (EPS) targets and to our share price performance. It closely links the goals of our senior management with those of our shareholders – sustainable success and long-term growth – and fosters a company ownership mentality. SEE NOTE 28, P. 189

Our subsidiaries also grant a variety of benefits to employees, depending upon locally defined practices and country-specific regulations and norms.

Stock Purchase Plan

Participation in the Stock Purchase Plan is provided to employees in Germany, the US, the Netherlands and Greater China (China mainland, Taiwan and Hong Kong), offering 45% of the total employee population the possibility to participate. By the end of 2018, approximately 4,800 employees (2017: 3,600) participated in the program.

Work-life integration

We aim to harmonize the commercial interests of the company with the professional, private and family needs of our employees. Our Work-Life Integration initiatives and programs include the provision of flexible working times and place, people development and leadership competence related to work-life integration, as well as family-oriented services.

In addition to providing flexible working opportunities such as teleworking, sabbaticals and parent/child offices, we have two day-care facilities at our headquarters in Herzogenaurach, Germany. After opening our first full-time care center 'World of Kids I' that offers places for 130 children aged three months to school entry age in 2013, an outdoor group with 20 additional places for kindergarten children was added in 2017, as well as the second facility 'World of Kids II' in 2018, providing 138 spots for nursery and kindergarten children. In 2019, this will be complemented by 15 ad hoc places to support all parents in emergency situations or during short-term assignments. On-site, our external partners are upskilled and trained on an educational approach that is based on our company values such as creativity, diversity and inclusion, democracy, health and movement. Additionally, World of Kids is among 100 digital leading model childcare centers in Germany and has been supported with technical equipment (e.g. iPads or cameras for kids). Other global locations also offer various forms of benefits and support services to ensure that our employees are able to access and secure quality childcare. With the ongoing expansion of our infrastructure and childcare offering, we as a company emphasize our commitment to a family-friendly environment to integrate work and private life – and enable balanced careers.

For parental leave and re-entry, programs are in place to provide employees with advice early on and options for their return to work, also taking into consideration flexible working hours and work locations. In Germany, we guarantee our employees on parental leave their positions, which are only filled temporarily. In the US, in addition to regular parental leave for new parents (up to 10 weeks at home, 70% of their salary), adidas offers an extra two weeks' paid parental leave for parents. Furthermore, adidas' special parental bonding leave provides parents with the possibility to stay home for up to six months within the first twelve months after the child's birth or placement. While unpaid, it offers parents the opportunity to stay home longer and take care of their new arrival and new life together.

Continuing in Germany in 2018, every employee with an adidas AG contract whose working tasks can be carried out independently of campus facilities, campus equipment or personal interaction on-site is eligible to work 20% of their total working time off-campus. This new policy and agreement is based on our belief that results can be achieved in the same quality and quantity, regardless of people's location. Over the course of the year we evaluated our off-campus working approach in Germany. Approximately 3,400 employees took part in a survey, and based on the positive feedback we decided to roll out the off-campus working approach globally. Our North America market implemented the concept in November, and additional markets will begin the implementation process in 2019.

In line with the expansion efforts at the headquarters campus in Herzogenaurach, in 2018 we opened HalfTime, a 14,000m² event center with integrated employee restaurant that is designed with an open floor plan and with rooms that are adaptable to different configurations, such as private meetings, discussions and workshops. In 2019, a new building called Arena will become the company's new main office with capacity for around 2,000 employees, centralizing most of the employees in Herzogenaurach on the World of Sports campus. Continuing the successes of our newly established workplace spaces (called BASE, Pitch 1 and Pitch 2), we are integrating the activity-based working concept, which means that employees no longer have assigned desks and instead choose from a variety of rooms and spaces, dependent on their needs.

MEASURING THE SUCCESS OF OUR PEOPLE STRATEGY

Our HR function measures the success and the effectiveness of the company's efforts with regard to its people initiatives through a set of chosen KPIs. We use two people KPIs: employee experience as an internal measure and employer rankings as an external measure.

Employee engagement

We have set ourselves the goal of becoming the best sports company in the world by becoming a truly consumer-centric organization and putting our people at the heart of everything we do. When it comes to measuring whether we are living up to these ambitions, our consumers and people are the best data sources.

We are convinced that our employees' feedback will play a crucial role in our pursuit of creating a desirable employee experience so we can continue to attract and retain top talent. We can only tell if we are successful by asking our people and hence empower them to share their feedback on a regular basis. In support of this thinking, in 2017 we launched 'People Pulse' – our approach and system platform for measuring the level of employee satisfaction with the experience adidas provides as an employer – for all office employees with an email account.

People Pulse allows for the measurement of employeeNPS (eNPS). SEE INTERNAL MANAGEMENT SYSTEM, P. 103 The calculation logic of the eNPS score is identical with brand NPS: Based on the main question 'On a scale of 0–10, how likely are you to recommend adidas as a place to work?', the total share of detractors (responses below 7) is deducted from the total share of promoters (responses scoring 9 and 10), producing the eNPS score. This approach as well as a focus on collecting open-comment feedback from employees on a regular basis allowed the reduction of the questionnaire to a short pulse check of seven questions maximum, with the eNPS question at the center.

The People Pulse cadence is made up of two components:

- The eNPS question, which is asked in every survey to allow for tracking of the results over time.
- Changing focus topics which are directly derived from the company's strategic agenda as well as the new Leadership Framework and the 3Cs.

In 2018, we saw People Pulse gain significant traction, to a point where it is now fully embedded within the organization globally. 90% of eligible employees participated at least once over the course of the year. We place a major focus on delivering an effective insights-to-action process, which was achieved through a change of cadence from monthly to quarterly tracking as of July 2018 for additional depth of insights, centralized tracking of action plans and the creation of a global People Pulse Ambassador community to facilitate sharing of successes and best practices.

Company-wide focus on eNPS and influencing factors, as well as on targeted follow-up actions and communication, led to a positive trend in eNPS in 2018. We now not only leverage People Pulse for general feedback on the employee experience at adidas, but also as a tool to gather employee insights regarding important elements of our strategy such as Brand Leadership or Leadership Framework adoption.

Given the above, targets that were agreed with the Executive Board for the baseline year were mainly qualitative in nature with the exception of the participation rate:

Target	Result 2018
Reporting of People Pulse results	– Reports with scores and anonymized comments are provided to the Executive Board as well as leaders down to the Board -3 level. – Employees have access to the overall company results via a SharePoint workspace and our global intranet a-LIVE.
Minimum participation rate per quarter of 50% and accumulated participation rate of 80% at least once every six months	– Participation in 2018 rose to 60% on average per pulse. – More than 90% of eligible employees participated in at least one pulse.
Results recipients to, among others, – actively show leadership commitment and ownership by openly discussing the results – drive action on identified areas of improvement	– Leaders partner with HR and relevant functions to review, cascade and communicate results. – Discussion with network of 'People Pulse Champions' to share best-practice examples.

HR FOUNDATIONS FOR OUR PEOPLE STRATEGY

In 2018, the adidas HR function defined and kicked off a multi-year HR Cloud transition roadmap to strengthen, future-proof and further enhance the HR system landscape of the company. The cloud transition will further drive standardization, digitization and automation across HR to scale, as well as enable HR to proactively manage the workforce and enable the organization to increasingly make data-driven decisions.

In 2018, we also focused on further enhancing and expanding the HR Shared Service Center function for Germany to also cover services for the Netherlands. In addition, a second HR Shared Service Center has been launched and established out of Portland to provide services for North America. All employee queries relating to compensation, benefits, time management and HR systems are being centrally channeled and managed through this department. HR Partners are thus enabled to focus fully on supporting line managers and employees on topics such as career counseling, people management and coaching. In the second half of 2018, the HR Shared Service Center functions were organizationally consolidated into a cross-functional Global Business Services (GBS) business unit to further professionalize the company's shared services approach.

GLOBAL EMPLOYEE POPULATION

On December 31, 2018, the company had 57,016 employees (2017: 56,888). Thereof, 7,830 were employed at adidas AG. SEE TABLE 33 On a full-time equivalent basis, our company had 49,563 employees (thereof 7,182 adidas AG) on December 31, 2018 (2017: 48,775). SEE TABLE 34 Personnel expenses decreased to € 2.481 billion in 2018 (2017: € 2.549 billion), representing 11% of sales (2017: 12%). SEE NOTE 35, P. 212 An overview of the development of our employee base in the past ten years can be found in the ten-year overview. SEE TEN-YEAR OVERVIEW, P. 240

Number of employees

57,016

Employee statistics[1] — 33

	2018	2017
Total number of employees[2]	57,016	56,888
Total employees		
Male	51%	50%
Female	49%	50%
Management positions		
Male	67%	69%
Female	33%	31%
Average age of employees (in years)	31	30
Average length of service (in years)	4	4

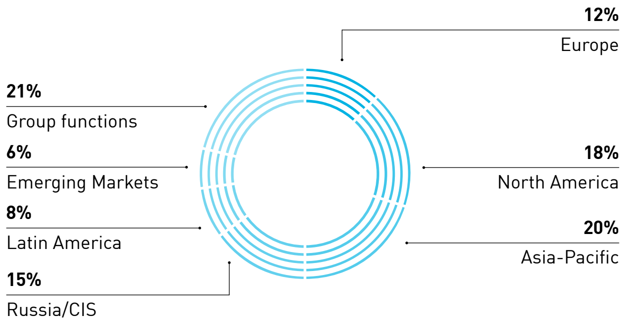
1 At year-end. Figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 Number of employees on a headcount basis.

Number of employees by function[1] — 34

	Employees[2]		Full-time equivalents[3]	
	2018	2017	2018	2017
Own retail	32,297	32,698	25,880	25,640
Sales	3,857	3,795	3,742	3,680
Logistics	6,175	5,890	5,976	5,617
Marketing	5,764	5,964	5,565	5,742
Central administration	5,574	5,157	5,251	4,835
Production	888	1,132	803	1,105
Research and development	1,041	1,062	971	1,002
IT	1,420	1,190	1,377	1,154
Total	**57,016**	**56,888**	**49,563**	**48,775**

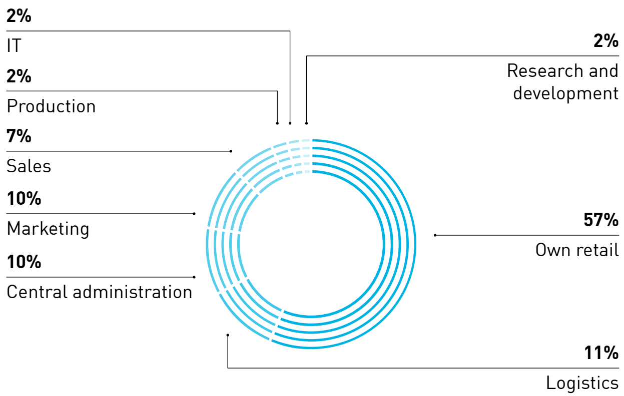
1 At year end. Figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 Number of employees on a headcount basis.
3 Number of employees on a full-time equivalent basis; deviations in totals may arise due to calculation of full-time equivalents.

Employee split[1] — 35



1 At year end.

Employees by function[1] — 36



1 At year end.

SUSTAINABILITY

Being a sustainable business is about striking the balance between shareholder expectations and the needs and concerns of our employees and consumers, the workers in our supply chain and the environment. We believe that acting as a responsible company will contribute to lasting economic success.

OUR APPROACH

Our commitment to sustainable practices rests on the company's mission: To be the best sports company in the world. Best means that we design, build and sell the best sports products in the world, with the best service and experience and in a sustainable way. We have a clear roadmap for 2020 and beyond, which is a direct outcome of our business strategy 'Creating the New'. We believe that, through sport, we have the power to change lives. But sport needs a space to exist. These spaces are increasingly endangered due to man-made issues, including human rights violations, pollution, growing energy consumption and waste. Our holistic approach to sustainability responds to the challenges that endanger the spaces of sport and simultaneously our planet and people. Building on existing programs, it tackles these subjects that are most material to our business and our stakeholders, and translates our overall sustainability efforts into tangible goals for 2020 that have a direct impact on the world of sport we operate in. ↗ ADIDAS-GROUP.COM/SUSTAINABILITY

MATERIAL TOPICS

We seek to ensure that we address the topics that are most salient to our business, our stakeholders as well as the challenges ahead. To identify these topics, we openly engage with our stakeholders and involve their views and opinions in decisions that shape our day-to-day-operations. 2017 saw a refreshment of this formal materiality exercise. Building on the insights gained from past assessments we categorized potential relevant topics in a first step. We then validated these topics through in-depth discussions with experts across all relevant functions. In doing so, our focus centered on the importance a topic has for our business performance and stakeholders but also considered the impact adidas has on these topics. Our ongoing evaluation of these topics in 2018 has shown that we can confirm our strategic ambitions and embedded goals that we aim to reach by 2020.

SEE NON-FINANCIAL STATEMENT, P. 101

We are using external frameworks to determine the selection of material topics, and to ensure alignment with global development priorities. One of these frameworks is the UN Sustainable Development Goals (SDGs) which represent a global call for action to promote prosperity for all while protecting the planet. We have used internal and external methods that helped us identify the SDGs on which we believe our business has the most impact, and where our sustainability roadmap can lead to positive impact. Although our current roadmap and underlying targets were implemented prior to the adoption of the SDGs, we see a clear correlation between the SDGs and our own commitment to sustainable development. Consequently, we have been able to link prioritized SDGs with both the environmental priorities related to the selection of materials, manufacturing, use and disposal of our products, and the needs and concerns of people in the adidas value chain. Finally, we see an alignment with SDG 17 on Partnerships as we are strongly committed to collaborating with our industry partners and all other levels of society to find long-lasting solutions to global environmental and social challenges.

CORRELATION BETWEEN UN SDGS AND OUR SUSTAINABILITY ROADMAP

STAKEHOLDER DIALOGUE AND TRANSPARENCY

Engaging openly with stakeholders and establishing ways to increase transparency and disclosure has long been central to our approach. Our stakeholders are those people or organizations who affect or are affected by our operations, including our employees, consumers, suppliers and their workers, customers, investors, media, governments and NGOs.

The adidas 'Stakeholder Relations Guideline' specifies key principles for the development of stakeholder relations and details the different forms of stakeholder engagement. Through active participation in, for example, the Better Cotton Initiative (BCI), the Zero Discharge of Hazardous Chemicals (ZDHC) working group, the Sustainable Apparel Coalition (SAC), the Leather Working Group (LWG) and the Apparel and Footwear International RSL Management (AFIRM) Working Group, we work closely with leading companies from a variety of sectors to develop sustainable business approaches and to debate social and environmental topics on a global level. This is also supported by our membership in organizations such as the World Federation of the Sporting Goods Industry (WFSGI), the Fair Factories Clearinghouse (FFC), the Fair Labor Association (FLA), the Bangladesh Accord on Fire and Building Safety and the German government-led Partnership on Sustainable Textiles ('Textilbündnis'). In addition, we build awareness, capacity and knowledge of laws and rights among factory management and workers by partnering with leading providers such as the International Labour Organization's (ILO) Better Factories program in Cambodia. As an active participant in the Bali Process Government and Business Forum we have formally endorsed our commitment to the Acknowledge, Act, Advance Recommendations, that outline actions to advance long-term efforts to improve supply chain transparency, the treatment of workers, and ethical recruitment. ↗ ADIDAS-GROUP.COM/S/PARTNERSHIPS

We believe transparent communication to our stakeholders is critical. For that reason, we regularly disclose important sustainability updates from our work throughout the year on our corporate channels including our corporate website. A key element is the publication of our global supplier factory lists, showing factories we source from. The lists were first disclosed in 2007 and are updated twice a year. In addition, we publish lists of the factories that manufacture products for major sports events such as the FIFA World Cup or Olympic Games, and we disclose the names of factories of suppliers who process materials for our primary suppliers or sub-contractors, where the majority of *wet processes* SEE GLOSSARY are carried out. ↗ ADIDAS-GROUP.COM/S/SUPPLY-CHAIN-STRUCTURE

GOVERNANCE STRUCTURE

A cross-functional governance structure ensures timely and direct execution of the programs that drive achievement of our voluntarily set goals for 2020. A Sponsor Board composed of functional heads and senior representatives from Social and Environmental Affairs (SEA), Global Operations (GOPS), Global Brands, Human Resources, Global Workplaces, Retail Concept, Sales, Finance and Communication oversees the progress made toward our goals in bi-monthly meetings and gives direction for further development of the sustainability roadmap. The Sponsor Board works in close alignment with the strategic working group that is tasked with the monitoring of ongoing relevant developments within the company and the reporting of progress to the Sponsor Board. Ultimately, the program owners ensure operational execution of the programs. Important updates and requests for decision making are shared with the Executive Board and designated sustainability champions on a regular basis.

EXTERNAL RECOGNITION

adidas continuously receives positive recognition from international institutions, rating agencies, NGOs and socially responsible investment analysts for our sustainability initiatives. In 2018, the company was again represented in a variety of high-profile sustainability indices and subject to comprehensive corporate sustainability assessments.
SEE OUR SHARE, P. 57

For the 19th consecutive time, adidas was selected to join the Dow Jones Sustainability Indices (DJSI), the world's first global sustainability index family tracking the performance of the leading sustainability-driven companies worldwide. adidas was assessed for its corporate economic, environmental and social performance and rated as overall leader in the Textiles, Apparel and Luxury Goods Industry, receiving industry-best scores in seven criteria: Innovation Management, Materiality, Supply Chain Management, Human Rights, Environmental Policy and Management Systems, Operational Eco-Efficiency and Social Reporting. As a result of our response to the Carbon Disclosure Project (CDP) in 2018, adidas was again awarded with a B score in the Climate Change submission (2017: B) and with a B- score in the Water submission (2017: A-). The company continued to be positioned among the top ten in the leather and textiles industry in the annual Green Supply Chain Corporate Information Transparency Index (CITI), which forms the first quantitative evaluation system designed to assess brands' environmental management of their supply chains in China. adidas also improved its score to top the Corporate Human Rights Benchmark (CHRB) evaluation in 2018, coming in first overall, with more than 100 companies across various industries assessed against the CHRB's criteria of human rights performance. The company scored particularly well in criteria such as 'Embedding Respect and Human Rights Due Diligence', 'Remedies and Grievance Mechanisms' as well as 'Performance: Responses to Serious Allegations'.
↗ ADIDAS-GROUP.COM/S/RECOGNITION

OUR PROGRESS

Following our ambition to be transparent toward our stakeholders, for years, adidas has regularly reported about its sustainability performance by measuring and disclosing the progress made toward our targets. The following presents the list of material topics within our programs and details the progress made and challenges faced in 2018.

PRODUCT SAFETY AND TRANSPARENCY

Product safety is an imperative. As a company we have to manage the risk of selling defective products that may result in injury to consumers or impair our image. To mitigate this risk, we have company-wide product safety policies in place that ensure we consistently apply physical and chemical product safety and conformity standards.
↗ ADIDAS-GROUP.COM/S/PRODUCT-SAFETY

In 1998, adidas pioneered the Restricted Substances Policy ('A-01' Policy). The 'A-01' Policy covers the strictest applicable local requirements and includes best-practice standards as recommended by consumer organizations. It prohibits, for example, the use of chemicals considered harmful or toxic, the sourcing or processing of raw materials from any endangered or threatened species and the use of leathers, hides or skins from animals that have been inhumanely treated, whether these animals are wild or farmed. The policy is updated and published internally and externally at least once a year based on findings in our ongoing dialogue with scientific organizations, and it is mandatory for all business partners, who have to confirm receipt and acknowledgement of the latest policy update each year in a written format.

To ensure successful application of the policy, we monitor and influence standards and regulations through external observation and interaction, promote internal business understanding and offer global support by developing guidelines and systems. One example is our 'Product Safety and Compliance' workspace on our global intranet a-LIVE. It serves as a platform for all employees involved in product creation by providing them with the information required to ensure we conceptualize, develop, produce and distribute products that follow national and international regulations and best-practice standards as well as are in accordance with the laws of intellectual property. Both our own quality assurance laboratories and external testing institutes are used to constantly monitor material samples to ensure supplier compliance with our requirements, with the aim to efficiently manage product safety and avoid any product recalls. Materials that do not meet our standards and specifications are rejected. Senior management from Social and Environmental Affairs as well as Global Operations reviews and signs off policy updates and is informed about proper execution and monitoring.

One of the recent results of our ongoing collaboration with the AFIRM Group was the creation of a consolidated AFIRM Restricted Substances List that harmonizes Restricted Substances Lists across the industry. We co-hosted the AFIRM Group RSL summit with more than 400 participants in Vietnam in 2018 to inform about the latest updates and drive the agenda of a global best-practice industry approach. We further continued our participation in public stakeholder consultation processes initiated by the European Commission (e.g. ECHA) and US state legislative initiatives to inform governmental entities on implications and opportunities of drafted legislation.

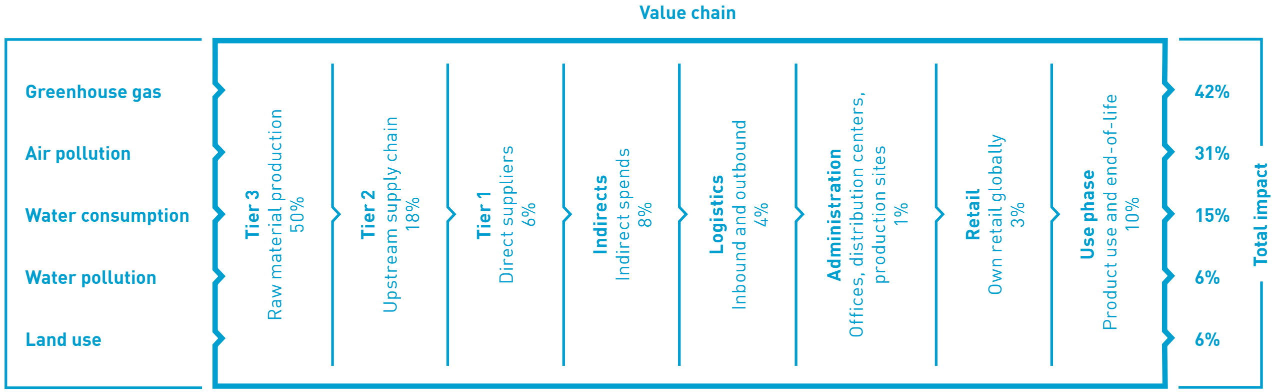
In 2018, adidas announced a voluntary recall of children's swimwear products in the Infinitex 3-Stripe range after having received customer reports about a potential unexpected peeling off of the three stripes on swimwear in this range when in contact with water. A subsequent third-party investigation showed that using the affected swimwear products could pose a potential safety risk to children as the stripes might get caught on objects or other children and become entangled, potentially leading to injuries. Sales of affected swimwear products in all sizes were stopped immediately, which was supported by communication on both our corporate website and e-com website. No injuries have been reported to us to date.

ENVIRONMENTAL IMPACTS

Managing the environmental impacts at our own sites and along the value chain is a key focus of our work. We have developed an approach to address water efficiency and quality and are committed to steadily increasing the use of more sustainable materials in our production, products and stores while driving toward closed-loop solutions. We are committed to reducing our absolute energy consumption and CO_2 emissions, transitioning to clean energy and looking into energy-harvesting opportunities.

In 2016, for the first time, we conducted a fact-based pilot analysis to assess our organizational environmental footprint. SEE DIAGRAM 37 The aim was to better understand where our main environmental impacts occur along our value chain, and to translate them into monetary terms. Using the baseline of

Organizational footprint[1] 37



1 Greenhouse gas: carbon dioxide, methane and nitrous oxide. Air pollution: i.a. sulphur oxides, nitrogen oxides, particulate matter, toxic organic substances. Water consumption: i.a. surface water, ground water. Water pollution: i.a. nitrogen and phosphorus, toxic organic substances, heavy metals. Land use: arable land, pastures and grassland, industrial land use, unsustainable forest area.

2015, we focused on five main environmental impacts: Greenhouse Gas (GHG) emissions, water consumption, land use as well as air and water pollution. Results show that only 4% of our impact relates to our core operations, that means operations related to all of our administration offices, distribution centers and own production sites globally, as well as own-retail stores globally. The biggest impact however occurs in the upstream supply chain in factories beyond the Tier 1 suppliers we have a direct relationship with. We are using the results for the further evolution of our sustainability strategy and programs, and in 2018 we looked into options to further develop the methodology, with the aim to repeat this analysis.

In addition to responding to climate change through tailored programs that improve the environmental footprint in our own operations and in the supply chain, adidas is proactively addressing the impacts of climate change through various partnerships. The company joined the 'UN Climate Neutral Now' initiative in 2015 and committed to action steps as a champion of the initiative, such as the continued estimation and reduction of its emissions. In 2018, adidas reinforced its support to accelerate the transformative change needed to reach greenhouse gas emission neutrality in the second half of the 21st century by joining the 'UN Fashion Industry Charter for Climate Action'. The initiative will build a roadmap for the industry to deliver the goals from the Paris Agreement. As a participant, adidas commits to the target of achieving a 30% reduction in GHG emissions by 2030, aiming to build the way toward carbon neutrality by 2050.

Own sites

Since 2008, the adidas 'Green Company' program strives to achieve ambitious savings in water, waste and energy at adidas own sites globally. The program includes administrative offices, production facilities and distribution centers, and covered more than 90% of our global employee base (excluding own retail) in 2018. In 2015, we presented a set of targets to be achieved by 2020, including targets for carbon emissions reduction that were calculated considering a science-based methodology and context-based targets for water reduction.
↗ ADIDAS-GROUP.COM/S/ENVIRONMENTAL-APPROACH

In 2018, despite an increased number of sites considered in our reporting, we achieved an accumulated reduction of 24% in combined carbon net emissions (baseline 2015). This is the result of the implementation of ambitious energy efficiency programs, the use of carbon offsetting for key locations in Europe, as well as the introduction of real-time monitoring of performance in key locations that enable us to react fast if performance is not on track. We also managed to improve water efficiency at our sites, which is mainly due to increased awareness of our employees. Between 2008 and 2018, we saw a 31% accumulated reduction in water consumption per employee. SEE TABLE 38

To support the achievement of our Green Company targets, we have implemented an Integrated Management System (IMS) that combines three existing management systems for environment (ISO 14001), energy (ISO 50001), as well as health and safety (OHSAS 18001). The IMS helps us to drive further business integration and take impact-relevant decisions for our operations globally. A dedicated IMS policy ensures solid application among all adidas entities affected, and our global intranet a-LIVE enables best-practice sharing among all employees. We aim to continuously expand certifications to key sites and prepare them to pass the external certification process by conducting regular internal audits. By the end of 2018, a total of 20 sites held an ISO 14001 certification (2017: 17), including our headquarter offices in Herzogenaurach and Portland, our offices in Amsterdam, Boston, Panama, Shanghai and Tokyo, as well as our distribution centers in Germany, Indianapolis/USA and Brantford/Canada.

In 2017, the adidas Executive Board challenged all adidas facilities worldwide to remove single-use plastic items that are disposable and generally used only once before they are thrown away, such as plastic bags, water bottles and cutlery. By now, the majority of facilities managed to phase out single-use plastics where possible. Single-use plastic might, however, still be in use where not replaceable, e.g. for hygiene reasons. The announcement that was made on our global intranet a-LIVE was one of the most successful posts to date, showing the high commitment and engagement of both our Executive Board and employees worldwide toward responsible business practices.

The progress toward all Green Company targets is tracked through an environmental data reporting system and is disclosed in detail in our annual 'Green Company Report' that will be available on our corporate website as of April 2019.
↗ ADIDAS-GROUP.COM/S/ENVIRONMENTAL-APPROACH

Own sites: Progress toward 2020 targets 38

2020 Targets		2018	2017	2016
Emissions	3% absolute annual reduction in CO_2 Scope 1 and Scope 2 net emissions[1] (baseline 2015)	(24%)	(29%)	(11%)
Water	35% reduction in water consumption per employee (baseline 2008)	(31%)	(27%)	(23%)

1 Scope 1: Emissions that arise directly from sources that are owned or controlled by adidas entities, such as fuels used in our boilers; Scope 2: emissions generated by purchased electricity consumed by adidas entities.

Supply chain

As almost all of our production is outsourced, a significant part of our environmental impact occurs, at different intensities, throughout the supply chain. Therefore, for adidas, sourcing is not only about ensuring high product quality and timely delivery, it also means working with our suppliers to ensure they are able to continuously improve their environmental footprint. We do so by providing them with policies and best-practice guidance for environmental management, by offering training sessions tailored to their needs, and by measuring their progress toward clear reduction targets we expect them to achieve by 2020. SEE TABLE 39 Progress toward these targets is regularly reported to senior management for review and further decisions.

Using the environmental performance of adidas own sites as best-practice examples, we provide a set of specific mandatory policies and guidelines to our suppliers. The adidas 'Workplace Standards' (the supply chain code of conduct) as well as supportive guidelines such as our 'Environmental Guidelines' are updated regularly and build the basis for our engagement with suppliers. In 2018, we released a newly developed 'Environmental Good Practice Guide and Toolkit' to our suppliers. The guide serves as a manual to recommend good industry practices for reducing environmental impacts of manufacturing facility operations. It outlines the adidas approach to the implementation of Environmental Management Systems, data management, wastewater management, and Green Building Management, and provides over 60 saving opportunities on energy, water, and waste management and renewable energy.

adidas has initiated a system of multi-level and cross-functional training sessions with its global supplier network. We undertake several steps to support and to ensure suppliers' performance is on track to achieve their 2020 targets. SEE TABLE 39 In 2018, we continued to support a couple of initiatives to accelerate suppliers' target achievement. We started the 'Energy and Water Investment Plan' project with facilities located in five of our main sourcing locations (Cambodia, China, Indonesia, Vietnam and Taiwan) that were off track to achieve their targets, or that were recently added to the scope of our monitoring. These facilities are required to conduct on-site assessments and develop an investment plan enabling them to deliver on their energy and water reduction targets, with the aim to identify potential efficiency measures and achieve actual savings by implementing these saving opportunities on-site before the end of 2019. We also saw the successful completion of an 18-month 'Energy and Water Efficiency' project that we co-funded together with the International Finance Corporation (IFC) and which benefited six supplier facilities in Vietnam. The aim of this partnership was to provide access to advisory services as well as low-cost financing for suppliers who wish to invest in improving their energy and water footprint but need technical support or the upfront capital to do so. Since the start of the project in 2017, suppliers have implemented more than 60 saving opportunities, with notable annual savings in energy consumption, greenhouse gas emissions and water consumption. As part of the project with the IFC, we conducted a renewable energy assessment, identifying those suppliers with the feasibility of using renewable energy.

We set ambitious reduction intensity targets for our strategic suppliers[1] at Tier 1 and Tier 2 level, aiming to systematically improve their environmental performance. By 2020, we expect them to reduce their overall energy consumption, water use and waste volume by 20% compared to their performance in 2014. We also set a 35% target for reduction in water use for our strategic apparel material suppliers[2] at Tier 2 level. 2018 results show the promising efforts we are putting into driving resource efficiency. Suppliers are on track to meet their 2020 reduction targets across all categories (footwear, apparel, and accessories and gear), with overachievers compensating low performers in the aggregated reduction results. SEE TABLE 39

A tool called 'E-KPI' helps us to measure suppliers' environmental compliance overall and assess their performance and progress toward the 2020 targets. Using a benchmarking approach, the E-KPI allows for a high level of

Supply chain: Progress toward 2020 targets — 39

2020 Targets[1]		2018	2017	2016
Water	20% reduction in water consumption at strategic Tier 1 supplier facilities	(24%)	(15%)	(11%)
	35% reduction in water consumption at strategic Tier 2 apparel material supplier facilities	(27%)	(24%)	(7%)
Energy	20% reduction in energy consumption at strategic Tier 1 supplier facilities and strategic Tier 2 apparel material supplier facilities	(15%)	(7%)	(9%)
Waste	20% reduction in waste volume at strategic Tier 1 supplier facilities and strategic Tier 2 apparel material supplier facilities	(22%)	(10%)	(4%)

1 Aggregated reduction results for suppliers with 2014 baseline in all categories (apparel, footwear and accessories and gear). Externally verified data for the previous year.

1 Strategic suppliers account for around 75% of all production volume.
2 Apparel material suppliers are specialists in printing and dyeing operations. Based on results from previous years and a change in our tracking methodology, in 2017 the target for our apparel material suppliers was adjusted to a 35% reduction by 2020.

transparency into suppliers' actual consumption intensity, hence supporting us in defining suppliers' specified areas for improvement and training needs that match their respective situation. We will continue to support suppliers to identify resource efficiency measures and rollout in our supply chain.

An additional way we try to minimize our suppliers' environmental impacts at their manufacturing plants is by helping them establish sound environmental management systems. The majority of our footwear sourcing volume, 98% (2017: 95%), is produced in factories which are certified in accordance with the International Environmental Standards ISO 14001 and/or the Workplace Health and Safety Management Standards OHSAS 18001.

Volatile Organic Compounds (VOCs), which are typically found in solvents used in our manufacturing process, can – in high concentration – cause breathing difficulties and other health problems for production workers. By applying innovative as well as environmentally sound bonding and priming technologies while following the adidas guidelines on the use of chemicals, our athletic footwear suppliers have been able to reduce the use of VOCs from well above 100 grams per pair in 1999 to around 11 grams in 2018.

Chemical management: The management of chemicals in multi-tiered supply chains is a complex challenge and requires many actors contributing to the achievement of effective and sustainable solutions. For years, adidas has been running leadership programs in Chemical Management within its area of direct influence. In consultation with external stakeholders including chemical experts, environmental organizations and industry federations, adidas has defined an end-to-end-approach spanning the management of chemical input, monitoring supplier progress and reporting supplier data publicly to controlling the finished end product. Our approach was reviewed by the Sponsor Board and approved by SEA and GOPS senior management.

Our targets for 2020 include achieving 100% sustainable input chemistry by means of adopting the ZDHC Manufacturing Restricted Substances List (MRSL), phasing out hazardous chemicals and providing our strategic suppliers with a list of positive chemistry (the bluesign bluefinder).

↗ ADIDAS-GROUP.COM/S/CHEMICAL-FOOTPRINT

In 2018, we analyzed the feedback of our suppliers on the MRSL acknowledgement letters and now aim to build an automated system to monitor and track supplier compliance with the MRSL. Starting in 2019, we will run a pilot with the majority of our strategic apparel material suppliers at Tier 2 level that will help us to define an MRSL monitoring and tracking strategy. We contributed to the ZDHC Wastewater Guidelines, an international wastewater standard officially released in 2016, and put further efforts into the elimination of hazardous chemicals from the production processes by strengthening our wastewater monitoring approach and adopting the ZDHC Wastewater Guidelines. Following these guidelines, our suppliers are required to test and publicly report their wastewater test results on the ZDHC Wastewater Gateway twice a year. After piloting the reporting in 2017, suppliers accounting for more than 80% of the wet processes reported their data in 2018. We made progress toward the 2020 target to have 80% of auxiliaries and 90% of dyestuffs bluesign-approved, recording 76% of auxiliaries and 87% of dyestuffs from our strategic apparel suppliers as bluesign-approved by the end of 2018. We also met the target to uphold our commitment of being more than 99% free of poly- and perfluorinated substances (PFCs) in our products for the fall/winter 2019 season.

Products free of PFC

>99%

Transportation

In 2018, we tracked again the environmental impact related to the transport of our goods. Compared to the previous year, performance remained relatively stable with major changes being a slight increase in sea freight for footwear products and a slight increase in air freight for apparel products and accessories and gear. The vast majority takes place via sea freight. SEE DIAGRAM 40

Freight types used to ship adidas and Reebok products[1] in % of products shipped — 40

Apparel	2018	2017
Truck	7	7
Sea freight	87	89
Air freight	6	4
Footwear	**2018**	**2017**
Truck	1	1
Sea freight	97	96
Air freight	2	3
Accessoires and gear	**2018**	**2017**
Truck	19	17
Sea freight	78	81
Air freight	3	2

2018 2017

1 Figures are expressed as a percentage of the total number of products transported. Data covers products sourced through Global Operations, excluding local sourcing.

SUSTAINABLE MATERIALS AND PROCESSES

We are committed to steadily increasing the use of more sustainable materials in our production, products and stores and are driving toward closed-loop solutions. Our approach to sustainable materials is influenced by new technological trends and developments, engagement with stakeholders including scientific organizations, as well as market availability. Any major changes in the material selection that impact product costs are subject to review and approval by senior management. Execution is tracked and managed by the respective materials development and sourcing departments, progress toward targets is reported to senior management for review and further decision.

We are aware that products made out of synthetic fiber can cause negative environmental impacts during their use phase. We acknowledge microfiber pollution as a complex challenge for our industry, and are proactively addressing the problem. To foster collaboration and drive joint action toward further improvements, in 2018, for example, we hosted a two-day microfiber industry summit to which we invited experts from institutes, academia, NGOs, industry associations and other brands to create awareness and drive harmonization, especially with a focus on a global harmonized testing standard. ↗ ADIDAS-GROUP.COM/S/PRODUCT-MATERIALS

Sustainable cotton

As a founding member of the Better Cotton Initiative (BCI), adidas is working to reduce the use of conventional cotton and has committed to increasing the sourcing volumes of Better Cotton, with the aim of achieving 100% *sustainable cotton* SEE GLOSSARY by 2018. BCI aims to reduce the use of pesticides, promotes efficient water use, crop rotation and fair working conditions, and strives to transform cotton production worldwide by developing Better Cotton as a sustainable mainstream commodity. Not only was this objective met, but adidas is a frontrunner in reaching its intended target. In 2018, 100% (2017: 93%) of the cotton we sourced globally was sustainable cotton[3]. Our success is the result of clear target setting – both with suppliers and with internal teams who support the sourcing of Better Cotton for our products.

Sustainable cotton sourced
100%

Recycled polyester

Recycled polyester is a synthetic fiber based on post-consumer waste, such as plastic bottles and used garments. The raw material is reprocessed and spun into fibers. Using recycled polyester has many benefits over virgin polyester. It helps us to reduce our dependency on non-renewable petroleum and decreases our carbon impact when compared to conventional polyester. Polyester is the most used material in adidas products, and using more recycled polyester is one way we seek to improve our environmental footprint while still making high-performance products for the athlete.

We aim to replace all virgin polyester with recycled polyester in all adidas and Reebok products where a solution exists by 2024. We have set clear internal milestones for our product creation teams and have tracked a steady increase in the use of recycled polyester in our adidas and Reebok products throughout the last seasons.

Parley Ocean Plastic

Since 2015, adidas has partnered up with *Parley for the Oceans* SEE GLOSSARY, an environmental organization and global collaboration network. As a founding member, adidas supports Parley for the Oceans in its education and communication efforts and commits to the Parley A.I.R. (Avoid, Intercept, Redesign) strategy. We aim to avoid the use of plastic in our own operations, are working to prevent plastic from entering the oceans and are using *Parley Ocean Plastic* SEE GLOSSARY as an eco-innovative replacement for virgin plastic. We are driving eco-innovation around materials and products, and new ways of using them, with the ultimate goal of reinventing current plastic and instead transforming it into performance sportswear.

In 2018, we continued to roll out Parley Ocean Plastic across our key categories and were able to exceed our target, with more than five million pairs of shoes containing Parley Ocean Plastic made. To facilitate the growing demand for Parley Ocean Plastic and other sustainable materials, we have built a dedicated sourcing operation with the aim to ensure a steady and transparent supply chain. Together with Parley for the Oceans, we developed a code of conduct specific to the collection and processing of plastic, that is now applied by our selected partners operating in countries in scope.

Shoes containing Parley Ocean Plastic
>5m

SEE GLOBAL OPERATIONS, P. 74, SEE ADIDAS BRAND STRATEGY, P. 67, SEE INNOVATION, P. 78, ↗ ADIDAS-GROUP.COM/S/SUSTAINABILITY-INNOVATION

3 99% of all cotton volume was sourced according to the Standards of the Better Cotton Initiative, around 1% was sourced as organic cotton and 0.03% was sourced as conventional cotton.

Waste and packaging

Our commitment to reducing our plastic footprint has already resulted in some tangible outcomes, such as the phase-out of plastic bags in our own retail stores globally already in 2016 and the elimination of single-use plastics across the majority of adidas locations worldwide. Where the use of plastics – for example in transport packaging – is still unavoidable, adidas is relying on counterbalancing measures and promoting sustainable alternatives. In 2018, the company supported the global innovation platform Fashion for Good with a donation of € 1.5 million which equates to the company's environmental impact of plastic packaging. The foundation is driving the development of innovative, durable and reusable materials for the fashion industry. adidas has been a partner of the foundation since the beginning of 2018.

Take-back programs

In 2018, we rolled out our global take-back program to nine stores in some of our selected key cities (London, Paris, New York and Los Angeles) and markets, with the main objective to raise consumers' awareness of what happens to products at the end of their life. Consumers can drop off old shoes and apparel from any brand. The collected items are then sent to the adidas Distribution Center, where they are picked up by a service provider that sorts products according to different quality criteria. Products either go into a second-hand market or are further recycled into secondary raw material, to be used for new products in various industries. A small portion of products (less than 5%) cannot be recycled and thus is sent for disposal. ↗ ADIDAS-GROUP.COM/S/PRODUCT-END-OF-LIFE

Water treatment technologies

In 2018, we continued to look into different technologies with the aim to develop a holistic approach on how to save water overall, including water reduction during pre-treatment or the creation of a closed-loop water treatment system in dyeing factories.

APPROACH TO HUMAN RIGHTS

adidas recognizes its responsibility to respect, protect and promote human rights and the importance of showing that we are taking the necessary steps to fulfill this obligation as a business. We do this by striving to operate responsibly along the entire value chain, by safeguarding the rights of our own employees and those of the workers who manufacture our products through our Workplace Standards, and by applying our influence to affect change wherever human rights issues are linked to our business activities. Since its inception in 1997, our human and labor rights program for our supply chain has been built on the back of intense stakeholder outreach and engagement, seeking to understand and define the most salient issues to address as a company.

↗ ADIDAS-GROUP.COM/S/HUMAN-RIGHTS

Throughout 2018, we engaged with a broad spectrum of human and labor rights advocacy groups, working collaboratively with the FLA in calling for the Cambodian government to address freedom of expression and association, including support for the continued operation of Cambodia's Arbitration Council, which handles labor disputes. We benchmarked our current sourcing practices in Myanmar against the recommendations of the UN-backed Fact-Finding Mission on Myanmar. Together with other stakeholders, we have maintained a seat on FIFA's Independent Advisor Board on Human Rights, providing input and recommendations to FIFA on the hosting of the 2018 Russia World Cup. Finally, we have continued to support the Business Network for Civic Freedoms and Human Rights Defenders (HRDs) and contributed to guidance published on the role of business in protecting HRDs.

As part of its human rights efforts, adidas developed a modern slavery outreach program that looks beyond strategic suppliers on Tier 1 level, seeking to gain greater transparency in its supply chain. In 2018 we continued our efforts to tackle modern slavery risks in our upstream supply chain, targeting the areas that fall outside of our mainstream auditing activities. Examples range from providing targeted modern slavery training to 1,800 frontline Sourcing and Procurement employees globally to engaging with our suppliers on Tier 2 level across key sourcing countries in Asia on identifying and remediating non-socially responsible practices. We have directed our efforts at raw material suppliers for natural rubber at Tier 3 level and are part of an FLA multi-stakeholder project to investigate risks in the natural rubber supply chain in Vietnam. To strengthen our commitment to the responsible recruitment and treatment of migrant labor, we engaged in a project with the International Organization for Migration focused on specific high-risk migrant corridors in Asia. Our efforts have been recognized in the KnowTheChain 2018 benchmarking for addressing forced labor risks, with adidas ranking first out of the 44 apparel and footwear companies that were part of the assessment.

KnowTheChain
1st place

WORKING CONDITIONS IN OUR SUPPLY CHAIN

Core to the human rights approach of adidas is its commitment to ensuring fair labor practices, fair compensation and safe working conditions in factories throughout its global supply chain. Our active efforts are guided by the adidas 'Workplace Standards', our supply chain code of conduct. The standards form a contractual obligation under the manufacturing agreements adidas signs with its main business partners to provide provisions for workers' health and safety and ensure environmentally sound factory operations, follow International Labour Organization (ILO) and United Nations (UN) conventions relating to human rights and employment practices, as well as the model code of conduct of the World Federation of the Sporting Goods Industry (WFSGI). Specific reference to the code provisions of the ILO conventions is provided in the adidas 'Guidelines on Employment Standards'. The SEA senior management reviews and approves all policies and implementation processes of the labor rights program.

adidas regularly rates suppliers on their ability to deliver fair, healthy and environmentally sound workplace conditions by means of conducting announced and unannounced audits through adidas personnel or an approved external auditor. We use a KPI rating system for social compliance (C-KPI) and attach scores between 1 and 5, with 1 being the worst and 5 being the best. According to the results, our sourcing teams decide the course of action, ranging from the definition of training needs at the factories to reinforcement mechanisms such as sending warning letters or even termination of contracts.

Any cases of non-compliance identified during audits are given a certain time frame for remediation. Potential new suppliers are assessed in a similar way and orders can only be placed if approval by the SEA team has been granted. adidas operates several grievance channels allowing workers or third parties to submit complaints about violations of the Workplace Standards or human rights generally. All complaints are reviewed and investigated, and the outcome is reported on our website. Factory conditions are also inspected by independent auditors through our participation in the Fair Labor Association, which we joined as a founding member in 1999. We are committed to independent and unannounced factory inspections and external verification of our programs.

At the end of 2018, adidas worked with 684 independent supplier facilities[4] (2017: 782) who manufacture products for our company in 51 countries (2017: 56). The fall in the number of facilities is due to further consolidation of our supply chain and local sourcing integration under Global Operations. We worked with 64 licensees whose suppliers manufactured products in 375 factories across 41 countries (2017: 62 licensees in 360 factories across 44 countries). More than 70% of the factories are located in the Asia-Pacific region.

Onboarding

In 2018, we conducted initial assessments (IA), the first approval stage for new entry factories, in 221 factories (2017: 209). The total number increased by around 5% compared to 2017, mainly due to our decision to extend our IA monitoring coverage to suppliers at Tier 2 level. 55 factories (2017: 50 factories) were either rejected directly after the initial assessment identified zero tolerance issues, or were 'rejected with a second visit' due to identification of one or more threshold issues, which means they were rejected but given the chance to remediate the non-compliance issues within a specific timeframe. SEE TABLE 41 90% of all initial assessments were undertaken in Asia (2017: 81%), with China accounting for 41% of these assessments (2017: 42%).

Overall, at the end of 2018, the 'first-time rejection rate' of 30% of all new factories visited was similar to the previous year (2017: 29%) and the 'final rejection rate' was at 3% (2017: 2%). SEE TABLE 41 This shows the importance and impact of pre-approval screening, as well as the efforts undertaken by the suppliers to resolve issues and come into conformance with our Workplace Standards. The remediation of factory issues is beneficial for workers as it raises the bar in terms of better and timelier pay, improved benefits, reduced hours, and the legal protection of formal employment contracts and results in significant improvements in basic health and safety within the workplace. Suppliers who have threshold issues are normally given three months to remediate those issues before being re-audited for final acceptance.

Worldwide rejections after initial assessment due to compliance problems — 41

	2018	2017
Total number of first-time rejections[1]	55	50
First-time rejection rate	30%	29%
Total number of final rejections[2]	5	4
Final rejection rate	3%	2%

1 Factories that were directly rejected after first visit, i.e. with no chance of being visited a second time, and factories that were rejected after initial assessments but which were given a chance for a second visit.
2 Factories that were directly rejected after first visit, i.e. with no chance of being visited a second time, and factories that were rejected after being visited a second time.

Visits and training

During 2018, 546 factory visits (2017: 226) were undertaken. The considerable increase in visits was linked to our engagement with factories to improve working conditions, and our efforts to empower workers through several targeted projects. These visits involved various types of monitoring, suggestions for sustainable remediation, and project meetings with factory management.

4 Independent supplier facilities refer to individual Tier 1 facilities (factories) of our manufacturing partners (suppliers) that adidas has a manufacturing agreement with, and their Tier 2 subcontractor facilities, excluding own factories and licensee facilities. Facilities that work with our licensees are reported separately. Some of these facilities may produce both for adidas directly and for licensee.

Number of training sessions by region and type[1] 42

Region	Fundamental[2] 2018	Fundamental[2] 2017	Performance[3] 2018	Performance[3] 2017	Sustainability[4] 2018	Sustainability[4] 2017	Total 2018	Total 2017
Asia	31	42	13	4	15	49	59	95
Americas	55	24	2	0	10	1	67	25
EMEA	12	7	4	2	1	3	17	12
Total	**98**	**73**	**19**	**6**	**26**	**53**	**143**	**132**
In %	69	55	13	5	18	40	100	100

Type and number of training sessions

1 Training sessions conducted for suppliers, workers, licensees, agents and adidas employees.
2 Fundamental training covers Workplace Standards and SEA introduction, FFC training as well as SEA policies and standard operating procedures.
3 Performance training covers specific labor, health, safety and environmental issues.
4 Sustainability training covers management systems and KPI improvements as well as factories' internal monitoring programs.

Additionally, we conducted 143 training sessions and workshops for suppliers, licensees, workers and adidas employees (2017: 132). The 8% increase in the number of training sessions is aligned with the increase in the number of visits, to support and enable the suppliers to improve their workplace conditions and environmental performance. In total, 1,282 people (2017: 1,907) attended the training sessions, which mainly covered fundamental topics, and which were executed within smaller groups. SEE TABLE 42

Worker empowerment

In parallel to our existing grievance systems such as anonymous local language-based worker hotlines, we implemented additional digital tools that enable workers to ask questions and raise concerns directly with their employers. Following the successful piloting of an innovative 'SMS Worker Hotline' back in 2012, we have progressively improved our suppliers' operational grievance mechanisms, using an application-based 'Workers Voice' platform that was available and used in 97% of our strategic factories across ten countries by the end of 2018. SEE TABLE 43

Grievance application 43

2020 Target	2018	2017	2016
Implementation of 'Workers' Voice' Grievance Platform at strategic suppliers: 100%	97%	63%	58%

The top three types of complaints in 2018 were related to the categories of benefits, personal issues and working hours. Responses received through this platform are carefully tracked and help us understand the main challenges and worker rights issues faced by workers in the factories, ultimately allowing us to monitor how the factory management teams find solutions and communicate back to their workers.

Complementing the various grievance channels, we measure the level of worker satisfaction through annual in-factory surveys. The survey results are shared with auditors and the factory management and offer insights into worker concerns, as well as potential areas for workplace improvement. By the end of 2018, worker satisfaction surveys were conducted in 123 supplier factories in twelve countries (2017: 47 factories across nine countries). Upon completing the survey, factories are required to develop improvement plans for the 'top three' issues and then track progress regularly. Based on the feedback captured by the surveys we have seen, for example, constructional improvements in canteens and worker dormitories as well as a positive drive to develop better training programs for workers and supervisors.

Alongside factory-led training, adidas has also offered tailored training for supervisors since 2016. Up until the end of 2018, more than 700 supervisors in 55 factories across five countries received such training. Supervisors have shown a strong commitment to the training courses and post-event assessments. And we have received very positive feedback from trainers and factory management regarding the supervisors' improved work performance. As part of our larger efforts to empower female workers in our supply chain, we initiated a 'Women's Empowerment Program' in Pakistan to train women on how to secure better career opportunities in the workplace. Since its start in 2015, the program has benefited more than 400 on-job women as well as women workers made redundant.

Monitoring

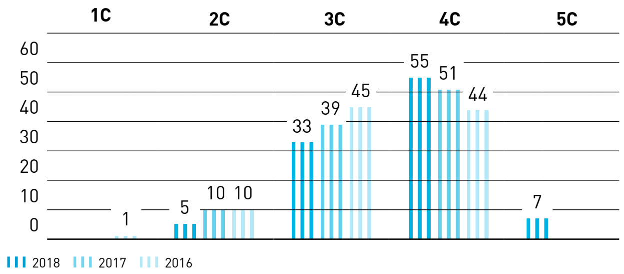
We audit our suppliers regularly against our Workplace Standards. In 2018, a total of 1,207 social compliance audits and environmental assessments (2017: 1,015) were conducted. Performance audits at our current suppliers dropped by 10%, which is in line with the decrease in the number of suppliers.

Number of audits by region and type 44

Region	Initial assessment[1]		Performance audit[2]		Environmental assessment[3]		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Asia	198	170	479	544	379	138	1,056	852
Americas	14	9	64	70	16	12	94	91
EMEA	9	30	43	37	5	5	57	72
Total[4]	**221**	**209**	**586**	**651**	**400**	**155**	**1,207**	**1,015**

1 Every new factory has to pass an initial assessment to prove compliance with the Workplace Standards before an order is placed. The data includes both initial assessments and initial assessment follow-ups.
2 Audits conducted in approved factories that have passed the initial assessment.
3 Includes environmental assessments and SAC HIGG data verification. 2018 figures also include wastewater test assessments according to the ZDHC Wastewater Guidelines.
4 Includes audits done in licensee factories.

Social compliance performance rating of strategic supplier factories by C-KPI rating 45



The total number of environmental assessments increased notably compared to the previous year, as a result of additional wastewater tests carried out in accordance with the ZDHC Wastewater Guidelines in 2018. SEE TABLE 44 In addition, 102 self-governance audits and collaboration audits were conducted (2017: 114). When a factory reaches a compliance maturity level of 4C and above, we empower the supplier to conduct their own self-governance audits and develop appropriate remediation plans, which we periodically review. Collaboration audits are conducted in partnership with other brands, or as part of joint remediation exercises.

The number of audits in factories manufacturing goods for licensees increased slightly by 3% compared to 2017, up to 323 in 2018, in line with the increase in percent we have seen in the number of licensees, from 62 in 2017 to 64 in 2018. The number of self-governance and collaboration audits at licensee factories totaled 19 at the end of 2018 (2017: 26).

The number of audits using in-house technical staff decreased to 354 (2017: 409), while audits conducted by third-party monitors commissioned by suppliers, adidas business units and licensees increased to 620 at the end of 2018 (2017: 606). In addition, 233 test assessments according to the ZDHC Wastewater Guidelines were conducted.

A total of 47% (2017: 48%) of all direct and licensee facilities were audited in 2018. 'High-risk' locations in Asia[5], the major sourcing region of adidas, received extensive monitoring in 2018 with an audit coverage that was close to 65% (2017: 70%). As a general principle, factories located in low-risk countries (i.e. with strong government enforcement and inspectorate systems) are considered out of scope for our audit coverage.

Our audits help us rate our suppliers according to their social and environmental compliance performance with a C-KPI and E-KPI rating tool, respectively. An evaluation of E-KPI is contained in the description of the environmental performance of our supply chain.

In 2018, almost two-thirds of our strategic factories[6] achieved a rating of 4C or better, compared to 31% in all direct factories, indicating that strategic factories have achieved much more advanced compliance levels. Additionally, 7% of our strategic factories have achieved 5C rating, indicating that they have mature social compliance systems and practices in place. SEE DIAGRAM 45, SEE TABLE 46

Of our strategic licensee factories, 80% successfully embedded governance systems, supply chain management, purchasing practices and product safety compliance requirements into their business practices. 20% achieved a 'Sustainability Leadership' level, signaling that in addition to achieving high scores in other sections, they also scored above 80% in the sustainability section of the Report Card, which measures the existence of policies and implementation, stakeholder engagement, public reporting and communication. SEE TABLE 46

Non-compliances identified in active factories

Our suppliers are evaluated against a number of critical compliance issues. While threshold issues are serious but correctable non-compliances that can be addressed in a specified timeframe through remedial action, zero-tolerance issues – such as forced labor, child labor practices and critical

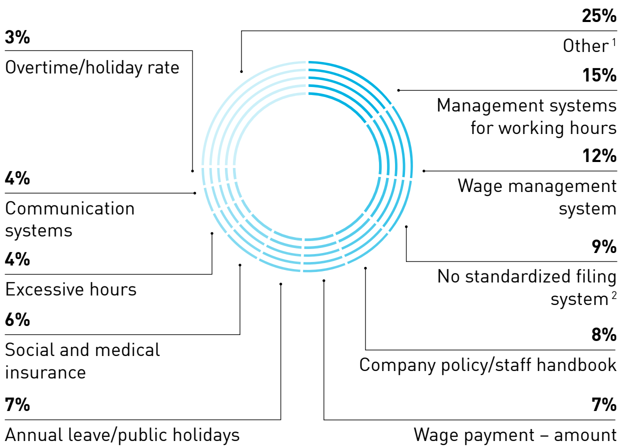
5 High-risk locations in Asia include China, Hong Kong, Macao, Vietnam, Bangladesh, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Pakistan, Philippines, Singapore, Sri Lanka and Thailand.
6 In 2018 we changed from reporting detailed C-KPI performance of direct suppliers to reporting C-KPI performance of strategic suppliers. Strategic suppliers account for around 75% of all production volume.

Supply chain: Progress toward 2020 targets 46

2020 Targets		2018	2017	2016
Strategic Tier 1 suppliers[1]	80% to reach at least 4C rating	62%	50%	17%
	10% to reach 5C rating	7%	0	0
Strategic licensees	80% to achieve 80% or above in Score Card reports	80%	55%	50%
	10% to achieve Sustainability Leadership	20%	0	0

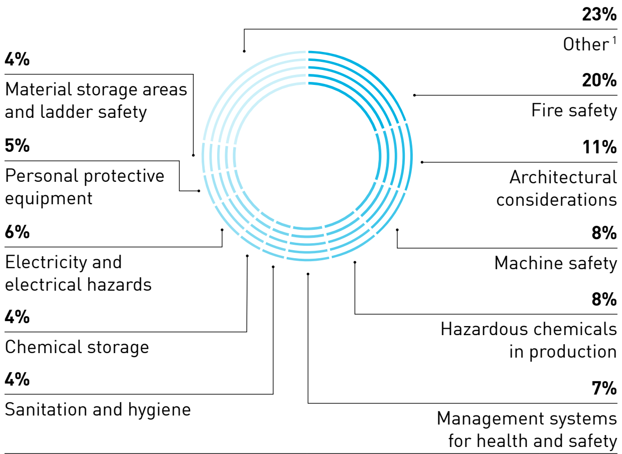
1 Strategic suppliers are responsible for around 75% of all production volume.

Top 10 labor non-compliance findings identified during audits in 2018 47



1 'Other' includes, for example, freedom of association issues, and management system for disciplinary practices.
2 'No standardized filing system' indicates a factory does not keep relevant information/documents and records which demonstrate compliance with laws and regulations.

Top 10 health and safety non-compliance findings identified during audits in 2018 48



1 'Other' includes, for example, housekeeping, occupational hazard risk assessment, and ergonomics.

life-threatening health, safety and environment conditions – immediately trigger a warning and potential disqualification of a supplier. We report these non-compliance findings that were identified through performance audits, collaboration audits and self-governance assessments in 2018. We follow up on all cases of non-compliances and seek to remediate them within a given timeframe.

- **Labor non-compliances:** Besides identifying non-compliances with our Workplace Standards, the adidas compliance team focuses on the use and effectiveness of the factories' HR management systems, and identifies any gaps in policies and procedures related to specific risk areas, such as forced labor, child labor, freedom of association or discrimination. As a result, the percentages shown indicate the systemic shortcomings of active suppliers, rather than the confirmed presence of a specific case of non-compliance. SEE DIAGRAM 47
- **Health and safety non-compliances:** Fire, electrical and machine safety are critical areas for existing suppliers and together accounted for 34% of the non-compliances identified in 2018. The way chemicals were stored and used, including the presence of banned chemicals, accounted for 12% of non-compliance findings reported. A further 7% of the findings related to management systems, policies and procedures, and specifically a lack of compliance with our Workplace Standards and expectation for effective health and safety systems, including the recruitment and retention of qualified safety staff. SEE DIAGRAM 48

Independent FLA audits

In 2018, the FLA conducted three factory assessments or remediation verification exercises (2017: 4) using the methodology from the Sustainable Compliance Initiative (SCI). The number of conventional independent monitoring visits conducted by FLA accredited monitors has declined over the years for companies' programs accredited by the FLA. This shifts companies' activities from conventional monitoring activities to engagement in value-added FLA projects that focus on reducing and eliminating chronic non-compliance issues or improving monitoring methodologies.

During 2018, adidas completed four of these redirect activities (2017: 12) on the topics of, for example, fair compensation and activities beyond our Tier 1 level, including traceability of the rubber supply chain in Vietnam, mapping and traceability of cotton in Turkey, and giving subcontracting guidance.

In 2017, the FLA accredited the adidas program for the third time. The accreditation recognized adidas' leadership to coordinate brand efforts, which address labor violations, and included commendation for the application of mobile technology to implement a platform for workers to submit grievances, for the pioneering and piloting of various methods to address fair compensation for workers as well as for the programmatic implementation of social compliance standards, assessments and risk mapping beyond the Tier 1 supply chain.

Number of warning letters by region[1] 49

Region	1st warning		2nd warning		3rd and final warning		Total warning letters	
	2018	2017	2018	2017	2018	2017	2018	2017
Asia	30	35	1	1	1	0	32	36
Americas	5	2	0	1	0	0	5	3
EMEA	2	1	0	1	0	1	2	3
Total	**37**	**38**	**1**	**3**	**1**	**1**	**39**	**42**

1 Includes warning letters issued by licensees and agents, but excluding warnings to supplier factories for the non-disclosure of subcontractors, which are either issued directly through business entities, or by the adidas Legal department where there is a breach of contract obligations under a manufacturing agreement. A third and final warning results in a recommended termination. Figures for 2018 include warning letters which were still active and being enforced at adidas suppliers in 2018.

Enforcement

Warning letters are an essential part of our enforcement efforts and are triggered when we find ongoing serious non-compliance issues that need to be addressed by our suppliers. We work closely with our suppliers to help them improve their performance. However, where we face situations of severe or repeated non-compliance, we do terminate business relationships with suppliers.

— **Warning letters**: In 2018, we had a total of 39 active warning letters (2017: 42) across 16 countries. The largest number of warning letters continues to be issued in Asia, where more than 70% of all supplier factories are located. Compared to the previous year, the overall number of active first warning letters decreased slightly as did the total number of second warnings, with one letter being issued (2017: 3). Suppliers who receive second warning letters are only one step away from being notified of possible termination of the manufacturing agreement and receive focused monitoring by the SEA team. The number of third warning letters issued to business partners (which result in factory terminations) remained stable in 2018 (2017: 1). SEE TABLE 49 It is difficult to generalize about the grounds for a warning letter as it may be issued for a single unresolved non-conformance or for multiple breaches of our standards. The range of issues that resulted in warning letters in 2018 included non-compliance in regard to fire safety practices, receipt of wages, social and medical insurance, hazardous chemicals management, overtime, deductions, transparency and safety controls in high-risk areas.

— **Terminations:** In 2018, we terminated agreements with one supplier for compliance reasons (2017: 4), as the supplier refused to grant the SEA team access to audit the factory. SEE TABLE 50 While terminations happen at our existing factories, we pre-screen all new factories and if our initial assessments uncover zero-tolerance or threshold issues suppliers are rejected.

Number of business relationship terminations due to compliance problems 50

Region	2018	2017
Asia	1	4
Americas	0	0
EMEA	0	0
Global	1	4

NON-FINANCIAL STATEMENT

In accordance with §§ 315b, 315c HGB in combination with §§ 289b to 289e HGB, adidas publishes a combined non-financial statement for adidas AG and the Group in this combined Management Report. The content of the non-financial statement can be found throughout the entire combined Management Report, with relevant parts being indicated by this symbol . These parts are not covered by the Audit of the Consolidated Financial Statements and of the Group Management Report, as they were subject to a separate limited assurance engagement of KPMG AG Wirtschaftsprüfungsgesellschaft. SEE INDEPENDENT AUDITOR'S ASSURANCE REPORT, P. 237 Links and references are not part of the non-financial statement and have therefore not been assessed.

adidas applied the Global Reporting Initiative (GRI) guidelines as an external reporting framework. The content of the non-financial statement combined with further information in this report and on our corporate website fulfills the GRI Standard 'Core' option. The GRI content index can be found online. ↗ ADIDAS-GROUP.COM/S/REPORTING-APPROACH

Description of business model

SEE SALES AND DISTRIBUTION STRATEGY, P. 72
SEE GLOBAL OPERATIONS, P. 74

Environmental approach

— Sustainable materials and processes

SEE SUSTAINABILITY, P. 88

— Water consumption (supply chain)

SEE SUSTAINABILITY, P. 88

— Carbon footprint (supply chain)

SEE SUSTAINABILITY, P. 88

— Waste volume (supply chain)

SEE SUSTAINABILITY, P. 88

Product responsibility

— Product safety and transparency

SEE SUSTAINABILITY, P. 88

People and Culture

— Wages and benefits

SEE PEOPLE AND CULTURE, P. 81

— Development and training

SEE PEOPLE AND CULTURE, P. 81

— Employee engagement

SEE PEOPLE AND CULTURE, P. 81
SEE INTERNAL MANAGEMENT SYSTEM, P. 103
SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 144

Consumer matters

— Consumer satisfaction

SEE INTERNAL MANAGEMENT SYSTEM, P. 103
SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 144

Human Rights

— Fair labor conditions

SEE SUSTAINABILITY, P. 88

— Fair labor conditions (supply chain)

SEE SUSTAINABILITY, P. 88

— Supplier relationships

SEE GLOBAL OPERATIONS, P. 74

Anti-bribery and corruption

— Ethical business practices

SEE RISK AND OPPORTUNITY REPORT, P. 131

03

GROUP MANAGEMENT REPORT

FINANCIAL REVIEW

Group Management Report: This report contains the Group Management Report of the adidas Group, comprising adidas AG and its consolidated subsidiaries, and the Management Report of adidas AG.

INTERNAL MANAGEMENT SYSTEM

We are committed to increasing shareholder value. We strive to create value by converting sales and operating profit growth into strong operating cash flow, while at the same time managing our asset base proactively. Our company's planning and controlling system is therefore designed to provide a variety of tools to assess our current performance and to align future strategic and investment decisions to best utilize commercial and organizational opportunities in the interest of our shareholders.

INTERNAL MANAGEMENT SYSTEM DESIGNED TO DRIVE SHAREHOLDER VALUE

In order to drive and steer creation of shareholder value, the company's Management focuses on a set of major financial Key Performance Indicators (KPIs). SEE DIAGRAM 51 Sales and operating profit growth, paired with a focus on management of operating working capital, are the main contributors to operating cash flow improvements. At the same time, value-enhancing capital expenditure benefits future operating profit and cash flow development. In addition, the development of the company's net income position, as well as earnings per share (EPS), is of high importance as it directly drives returns in the interest of our shareholders. SEE DIAGRAM 51 Our strong focus on shareholder value creation is reflected in the fact that our Management's variable compensation is closely linked to the company's growth in sales, profitability and net income. SEE COMPENSATION REPORT, P. 41

OPERATING MARGIN AS MAJOR KPI FOR OPERATIONAL PROGRESS

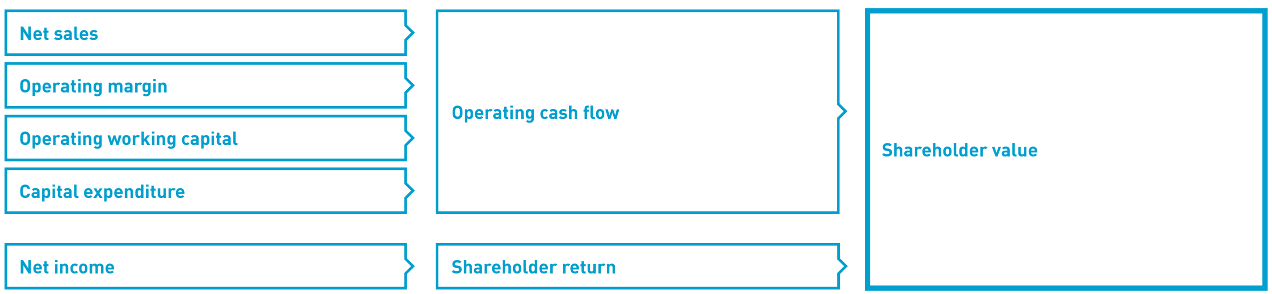
Operating margin (defined as operating profit as a percentage of net sales) is one of our company's major KPIs to drive and improve our operational performance. It highlights the quality of our top line and operational efficiency. The primary drivers to enhance operating margin are as follows:

- **Sales and gross margin development:** Management focuses on identifying and exploiting growth opportunities that not only provide for future top-line improvements, but also have potential to increase our gross margin. Major levers for enhancing our sales and gross margin include:
  - Minimizing clearance activities, while at the same time increasing the full-price share of sales.
  - Optimizing our product mix.
  - Improving the quality of distribution, with a particular focus on e-commerce and *controlled space*. SEE GLOSSARY
  - Realizing supply chain efficiency initiatives.
- **Operating expense control:** Management puts high emphasis on tightly controlling operating expenses to leverage sales growth through to the bottom line. This requires a particular focus on ensuring flexibility in the company's cost base. *Marketing expenditure* SEE GLOSSARY is one of our largest operating expenses and at the same time one of the most important mechanisms for driving brand desirability and top-line growth sustainably. Therefore, we are committed to improving the efficiency of our marketing investments. This includes concentrating our communication efforts on key global brand initiatives and focusing our promotion spend on well-selected partnerships with top events, leagues, clubs, federations, athletes and artists. We also aim to increase operational efficiency by tightly managing *operating overhead expenses*. SEE GLOSSARY In this respect, we regularly review our operational structure – harmonizing business processes, standardizing systems, eliminating redundancies and leveraging the scale of our organization.

TIGHT OPERATING WORKING CAPITAL MANAGEMENT

Due to a comparatively low level of fixed assets required in our business, the efficiency of the balance sheet depends to a large degree on our operating working capital management. In this context, our key metric is average operating working capital as a percentage of net sales. Monitoring the development of this metric facilitates the measurement of our progress in improving the efficiency of our business cycle.

Major Key Performance Indicators (KPIs) 51



We strive to proactively manage our inventory levels to meet market demand and ensure fast replenishment. Inventory aging is controlled carefully to reduce inventory obsolescence and to minimize clearance activities. As a result, Inventory Days Lasting (IDL) is monitored and assessed regularly as it measures the average number of days goods remain in inventory before being sold, highlighting the efficiency of capital locked up in products. To optimize capital tied up in accounts receivable, we strive to improve collection efforts in order to reduce the Days of Sales Outstanding (DSO) and improve the aging of accounts receivable. Likewise, we strive to optimize payment terms with our suppliers to best manage our accounts payable.

CAPITAL EXPENDITURE TARGETED TO MAXIMIZE FUTURE RETURNS

Improving the effectiveness of capital expenditure is another major lever to maximize our operating cash flow. We control capital expenditure with a top-down, bottom-up approach. In a first step, Management defines focus areas within the framework of our strategic business plan 'Creating the New' and an overall investment budget based on investment requests from various functions within the organization. Then, in a second step, our operating segments align their initiatives within the scope of assigned priorities and available budget. We evaluate potential return on planned investments utilizing the net present value method. Risk is accounted for, adding a risk premium to the cost of capital and thus reducing our estimated future earnings streams where appropriate. By means of scenario planning, the sensitivity of investment returns is tested against changes in initial assumptions. For large investment projects, timelines and deviations versus budget are monitored on a monthly basis throughout the course of the project. In addition to optimizing return on investments, we evaluate larger projects upon completion and document learnings for future capital expenditure decisions.

FOCUS ON NET INCOME IN THE INTEREST OF OUR SHAREHOLDERS

Beyond our ambition to maximize operating cash flow, we are committed to a continuous improvement in the company's bottom line. We are convinced that, by doing so, we place an even stronger focus on the interests of our shareholders. Consequently, Management closely monitors the development of both net income and earnings per share (EPS) and executes against these two KPIs. SEE DIAGRAM 51 Our strong focus on driving sustainable expansion to the company's bottom line is also reflected in the fact that, as part of the Long-Term Incentive Plan 2018/2020, the variable compensation for our Management is directly linked to the company's net income growth. SEE COMPENSATION REPORT, P. 41

NON-FINANCIAL KEY PERFORMANCE INDICATORS

In addition to the major financial KPIs to assess the performance and operational success of our company, as outlined above, we have identified a set of non-financial KPIs that help us track our progress in areas that are critical for our long-term success but are not directly reflected in the financial statements. These non-financial KPIs are assessed on a regular basis and managed by the respective business functions. Non-financial KPIs which we are closely monitoring include, amongst others, *Net Promoter Score (NPS)* SEE GLOSSARY, market share, backlogs and sell-through data as well as our customer delivery performance (On-Time In-Full), employee engagement and a set of KPIs in the area of our sustainability performance.

Net Promoter Score (NPS): Maintaining and enhancing brand desirability through the creation of strong brand identities is crucial for sustaining and driving profitable growth. Therefore, mainly on a market and category level, we invest in primary qualitative and quantitative research such as trend scouting and consumer surveys to determine brand loyalty and brand strength. Measures that are tracked include brand awareness, likeability and purchase intent.

Furthermore, within the framework of Creating the New, we implemented an NPS system, which strengthens our capabilities to more carefully review brand advocacy as NPS tells us how likely it is that consumers will recommend our brands. NPS is a key pillar in transforming our company into a consumer-centric organization. It represents a holistic and transparent measure of brand performance and has been successfully applied in other industries and organizations.

Our efforts around NPS (both our own NPS as well as the NPS of our major competitors) are driven by an independent agency and monitored by our internal global consumer insight teams on a regular basis. In addition, NPS is measured across many of our own-retail stores as well as our own e-commerce platform. We firmly believe that advocacy will create sustained growth for our brands, underpinned by the fact that brand advocates on average buy more than non-advocates. In addition, a large part of our consumers rely on referrals by friends or family when making purchase decisions.

Market share: To measure the operational performance of our brands relative to our major competitors, we continuously collect, on a market and category level, market share data. SEE CORPORATE STRATEGY, P. 62 The findings provide detailed insights for our senior management team regarding in which markets and categories we have been able to gain market share relative to our peers, enabling us to leverage those insights across the organization. SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 144 In addition, the results help us to define clear roles and responsibilities for each of our markets and categories within our long-term strategic aspirations, based on their overall positioning within the sporting goods industry.

Backlogs and sell-through data: To manage demand planning and better anticipate our future performance, backlogs comprising orders received up to nine months in advance of the actual sale are monitored closely. However, due to the growing share of own retail (including our own e-commerce channel) in our business mix, fluctuating order patterns among our customers as well as an increasing part of our business being realized under significantly shortened lead times, orders received from our retail partners are less indicative of anticipated revenues for adidas compared to the past. Therefore, qualitative feedback from our retail partners on the sell-through success of our products at the point of sale as well as such data received from our own-retail activities is becoming increasingly important.

On-Time In-Full (OTIF): OTIF measures the company's delivery performance towards customers and our own-retail stores. Managed by our Global Operations function, OTIF assesses to what degree customers received what they ordered and if they received it on time. SEE GLOBAL OPERATIONS, P. 74 It helps us to investigate improvement potential in the area of order book management and logistics processes. It therefore also helps us to improve our delivery performance, which is a major aspect when it comes to customer satisfaction. The OTIF assessment covers both the adidas and Reebok brands in most of our key markets.

Employee engagement: To measure the level of engagement and motivation of our employees, adidas carries out employee engagement surveys. These surveys aim to provide key insights into how well we, as an employer, are doing in engaging our employees. They thus enable us to develop the right focus and future people strategies across our organization, helping us to create a world-class employee experience and continue to attract and retain top talent. In 2018, we continued to fine-tune our approach and system platform for measuring the level of employee engagement that was implemented the year before. SEE PEOPLE AND CULTURE, P. 81

Sustainability performance: We have a strong commitment to enhance the social and environmental performance of our company. By doing so, we firmly believe we will not only improve the company's overall reputation, but also increase its economic value. We therefore follow a comprehensive roadmap with clear targets and regularly track our progress toward these targets. SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 144 A major focus lies on measuring the environmental footprint of our own sites globally as well as monitoring and rating our supplier factories with regard to social and environmental compliance with our Workplace Standards. SEE SUSTAINABILITY, P. 88 We have a strong track record in sustainability disclosure, providing regular updates about our sustainability performance in this Annual Report as well as on our corporate website.

↗ ADIDAS-GROUP.COM/S/SUSTAINABILITY-REPORTS

STRUCTURED PERFORMANCE MEASUREMENT SYSTEM

We have developed an extensive performance measurement system, which utilizes a variety of tools to measure the company's performance. Key performance indicators as well as other important financial metrics are regularly monitored and compared against initial targets as well as rolling forecasts on a monthly basis and latest estimates. When negative deviations exist between actual and target numbers, we perform a detailed analysis to identify and address the cause. If necessary, action plans are implemented to optimize the development of our operating performance. To assess current sales and profitability development, Management continuously analyzes the performance of our operating segments. We also benchmark our financial results with those of our major competitors on a regular basis.

Taking into account year-to-date performance as well as opportunities and risks, the company's expected full year financial performance is assessed on a monthly basis. In this respect, also backlogs and sell-through data as well as feedback from customers and own-retail stores are assessed as available. Finally, as a further early indicator for future performance, the results of any relevant recent market and consumer research are assessed as available.

BUSINESS PERFORMANCE

In 2018, adidas recorded strong operational and financial improvements. Revenues increased 8% on a currency-neutral basis, driven by high-single-digit growth at the adidas brand, slightly offset by a low-single-digit sales decrease at Reebok. With regard to major market segments, both North America and Asia-Pacific recorded double-digit currency-neutral sales increases, while Europe remained flat. The gross margin increased 1.4 percentage points to 51.8%, mainly reflecting positive effects from a better pricing, channel and product mix. Other operating expenses as a percentage of sales were up 0.5 percentage points to 41.9%, predominantly driven by higher marketing expenditure. The company's operating margin increased 1.1 percentage points to 10.8%, mainly reflecting the gross margin increase, which more than offset the investment-led increase in other operating expenses as a percentage of sales. Excluding the negative one-time tax impact recorded in 2017, net income from continuing operations increased 20% to € 1.709 billion. This translates into basic EPS from continuing operations of € 8.46, representing an increase of 20% versus the prior year period.

ECONOMIC AND SECTOR DEVELOPMENT

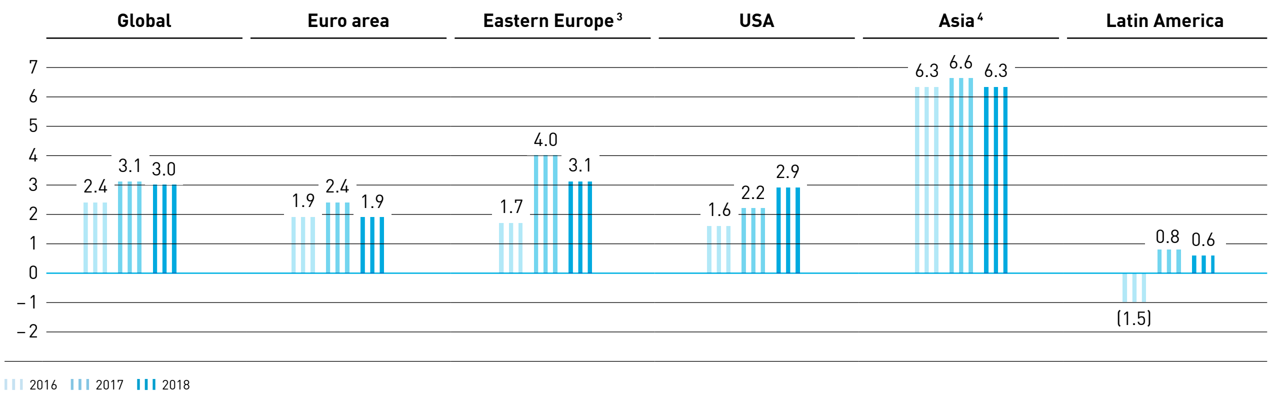
GLOBAL ECONOMIC GROWTH STEADY IN 2018[1]

The global economy kept its pace during 2018, with global gross domestic product (GDP) growing at 3.0%. However, international trade and investment have softened, not least due to increased trade protectionism and tariffs. Moreover, the ongoing withdrawal of monetary policy accommodation in developed economies has led to some tightening of global financing conditions. Developed economies grew 2.2% in 2018, supported by robust labor markets and some remaining fiscal stimuli. Nevertheless, topics around international relations such as trade disputes and the ongoing Brexit negotiations remained a political overhang and a drag on economic activity. Developing economies in aggregate grew 4.2%, even though macroeconomic conditions deteriorated in some countries, particularly in Latin America. Furthermore, the recovery among commodity exporters has lost momentum. Across the globe, risks of escalating geopolitical tensions, in particular around trade and tariffs, have increased.

ROBUST GROWTH IN THE SPORTING GOODS INDUSTRY CONTINUES

The global sporting goods industry continued to grow at robust rates in 2018. North America returned to stronger industry growth rates after the slowdown in the two preceding years. Europe remained steady at a moderate pace, while China again outgrew the global industry. Most other markets also expanded, driven by continued global trends such as increasing penetration of sportswear ('*athleisure*' SEE GLOSSARY), rising sports participation rates, and increasing health awareness. Moreover, digital developments continued to reshape the sports industry around the world. Social fitness remained a predominant theme, as community workouts and related

Regional GDP development[1,2] in % 52



1 Real change in percent versus prior year; 2016 and 2017 figures restated compared to prior year.
2 Source: World Bank.
3 Includes Emerging Europe and Central Asia.
4 Includes East Asia and Pacific.

1 Source: World Bank Global Economic Prospects.

social media activities continue to be in favor. The e-commerce channel continued to see further expansion, as retailers are leveraging technologies both online and offline in order to be able to offer a seamless consumer journey. In addition, the 2018 FIFA World Cup provided a modest tailwind to the overall industry. From a category perspective, athletic footwear continued to be a strong growth driver for the industry in 2018, supported by ongoing high demand for various casual and running styles. Underlying demand for athletic apparel remained robust, as consumers continued to reallocate wallet share away from traditional apparel. The equipment category recorded another mixed year in 2018. For the sporting goods industry, too, risks related to trade protectionism and geopolitical tensions have increased.

Exchange rate development[1] € 1 equals — 53

	Average rate 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Average rate 2018
USD	1.1266	1.2321	1.1658	1.1576	1.1450	1.1813
GBP	0.8754	0.8749	0.8861	0.8873	0.8945	0.8847
JPY	126.24	131.15	129.04	131.23	125.85	130.40
RUB	65.560	70.556	73.162	75.928	79.544	73.920
CNY	7.6116	7.7476	7.7136	7.9634	7.8584	7.8051

1 Spot rates at quarter-end.

INCOME STATEMENT

IMPLEMENTING MORE GRANULAR VIEW OF OPERATING EXPENSES IN CONTEXT OF ADOPTION OF IFRS 9

In the context of the adoption of IFRS 9 and consequential amendments to IAS 1, adidas adjusted the presentation of other operating income and other operating expenses in order to allow for a more granular view of the company's operating expenses in the annual consolidated income statement. As of 2018, other operating expenses are derived from a functional logic and reported in the following line items: marketing and point-of-sale expenses, distribution and selling expense, general and administration expenses and sundry expenses. Furthermore, as required by the amendments to IAS 1, impairments of financial assets are presented as a separate line item within other operating expenses in the company's annual consolidated income statement. Prior year figures are adjusted accordingly.
SEE CONSOLIDATED INCOME STATEMENT, P. 150, SEE NOTE 34, P. 212

ADIDAS DELIVERS STRONG FINANCIAL PERFORMANCE IN 2018

In 2018, revenues increased 8% on a currency-neutral basis. In euro terms, revenues grew 3% to € 21.915 billion from € 21.218 billion in 2017. SEE DIAGRAM 54 From a market segment perspective, currency-neutral sales grew at double-digit rates in North America and Asia-Pacific while increasing at single-digit rates in Latin America and Russia/CIS. Currency-neutral sales remained stable in Europe and declined at a low-single-digit rate in Emerging Markets. SEE BUSINESS PERFORMANCE BY SEGMENT, P. 125

Net sales
+8% C.N.
€ 21.915 bn

Net sales[1,2] € in millions — 54

2018	**21,915**
2017	21,218
2016	18,483
2015	16,915
2014	14,534

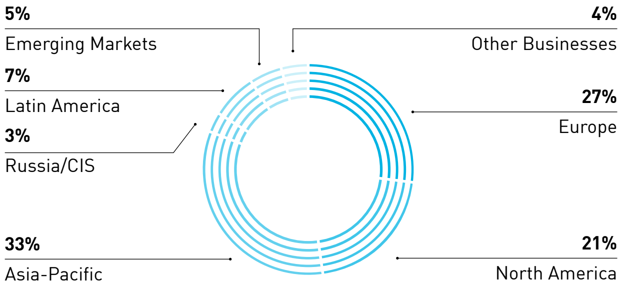
1 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 2015 and 2014 figures reflect continuing operations as a result of the divestiture of the Rockport business.

Net sales by segment[1,2] € in millions — 55

	2018	2017	Change	Change (currency-neutral)
Europe	5,885	5,932	(1%)	0%
North America	4,689	4,275	10%	15%
Asia-Pacific	7,141	6,403	12%	15%
Russia/CIS	595	660	(10%)	1%
Latin America	1,634	1,907	(14%)	6%
Emerging Markets	1,144	1,300	(12%)	(3%)
Other Businesses	829	739	12%	15%
Total	**21,915**	**21,218**	**3%**	**8%**

1 Figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 Segmental structure adjusted compared to prior year, see Note 40.

Net sales by segment[1,2] in % of net sales — 56



1 Figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 Segmental structure adjusted compared to prior year, see Note 40.

ADIDAS BRAND REVENUES GROW AT A HIGH-SINGLE-DIGIT RATE

Currency-neutral revenues for the adidas brand increased 9% with a double-digit sales increase in *Sport Inspired* SEE GLOSSARY as well as a high-single-digit gain in *Sport Performance* SEE GLOSSARY, the latter driven by double-digit sales growth in the training and running categories. In euro terms, adidas brand revenues grew 5% to € 19.851 billion compared to € 18.993 billion in 2017. Currency-neutral Reebok brand sales were down 3% versus the prior year, as double-digit sales growth in Classics was offset by a decline in Sport. In euro terms, Reebok sales decreased 8% to € 1.687 billion (2017: € 1.843 billion).

adidas brand net sales
+9% C.N.
€ 19.851 bn

Reebok brand net sales
(3%) C.N.
€ 1.687 bn

SALES GROW IN FOOTWEAR AND APPAREL

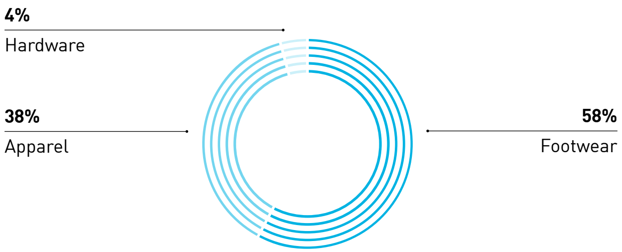
Currency-neutral footwear sales grew 8% in 2018 due to double-digit growth in Sport Inspired and a high-single-digit gain in Sport Performance, the latter driven by double-digit sales increases in the training and running categories. Apparel revenues grew 11% on a currency-neutral basis due to double-digit increases in both Sport Inspired and Sport Performance, with the latter driven by double-digit gains in the training and football categories. Currency-neutral accessory and hardware sales were down 9%. SEE DIAGRAM 57

Net sales by product category[1] € in millions — 57

	2018	2017	Change	Change (currency-neutral)
Footwear	12,783	12,427	3%	8%
Apparel	8,223	7,747	6%	11%
Hardware	910	1,044	(13%)	(9%)
Total	**21,915**	**21,218**	**3%**	**8%**

1 Figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.

Net sales by product category[1] in % of net sales — 58



1 Figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.

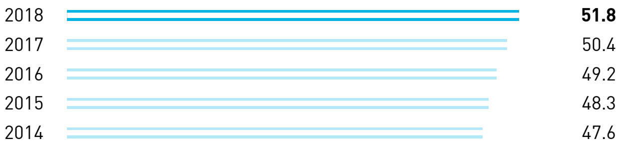
COST OF SALES REMAINS STABLE

Cost of sales is defined as the amount we pay to third parties for expenses associated with producing and delivering our products. In addition, own-production expenses are also included in the cost of sales. However, these expenses represent only a very small portion of total cost of sales. In 2018, cost of sales was € 10.552 billion, remaining relatively stable compared to the prior year level of € 10.514 billion, as the growth of our business and less favorable exchange rates were offset by lower input costs due to efficiency gains.

GROSS MARGIN IMPROVES 1.4 PERCENTAGE POINTS

In 2018, the gross profit increased 6% to € 11.363 billion from € 10.703 billion in 2017, representing a gross margin increase of 1.4 percentage points to 51.8% (2017: 50.4%). SEE DIAGRAM 59 This development was due to the positive effects from a better pricing, channel and product mix as well as lower input costs, which more than offset significant negative currency effects.

Gross margin[1,2,3] in % — 59



1 Gross margin = (gross profit / net sales) × 100.
2 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
3 2015 and 2014 figures reflect continuing operations as a result of the divestiture of the Rockport business.

ROYALTY AND COMMISSION INCOME INCREASES

Royalty and commission income increased 16% on a currency-neutral basis and 12% in euro terms to € 129 million (2017: € 115 million).

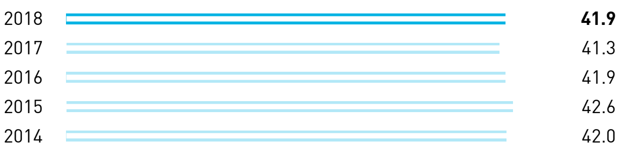
OTHER OPERATING INCOME INCREASES

In 2018, other operating income increased 188% to € 48 million from € 17 million in 2017, mainly due to higher income from reimbursements of custom duties and sub-licensing of trademarks.

OTHER OPERATING EXPENSES AS A PERCENTAGE OF SALES UP 0.5 PERCENTAGE POINTS

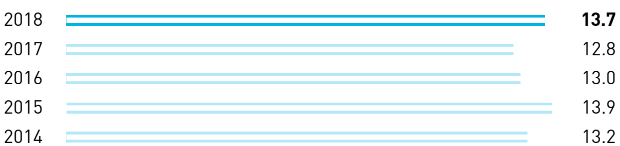
Other operating expenses, including depreciation and amortization, mainly consist of marketing and point-of-sale, distribution and selling as well as general and administration expenses. In 2018, other operating expenses were up 5% to € 9.172 billion (2017: € 8.766 billion), mainly reflecting increases in marketing investments. SEE NOTE 34, P. 212 As a percentage of sales, other operating expenses increased 0.5 percentage points to 41.9% from 41.3% in 2017. SEE DIAGRAM 60 Marketing and point-of-sale expenses amounted to € 3.001 billion in 2018 compared to € 2.724 billion in the prior year, representing an increase of 10% compared to the 2017 level. This increase mainly reflects activities related to the 2018 FIFA World Cup as well as overproportionate investments into our brands and the sell-through of our products. As a percentage of sales, marketing and point-of-sale expenses increased 0.9 percentage points to 13.7% (2017: 12.8%). SEE DIAGRAM 61 Distribution and selling expenses increased 3% to € 4.450 billion in 2018 from € 4.307 billion in the prior year, as investments into e-commerce and logistics infrastructure were partially offset by leveraging the distribution network. As a percentage of sales, distribution and selling expenses remained stable compared to the prior year. General and administration expenses remained stable at € 1.576 billion (2017: € 1.568 billion), as investments into digital systems and IT were compensated by overheads cost control. As a percentage of sales, general and administration expenses decreased 0.2 percentage points to 7.2% (2017: 7.4%).

Other operating expenses[1,2] in % of net sales — 60



1 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 2015 and 2014 figures reflect continuing operations as a result of the divestiture of the Rockport business.

Marketing and point-of-sale expenses[1,2] in % of net sales — 61

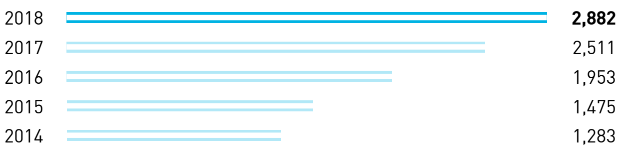


1 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 2015 and 2014 figures reflect continuing operations as a result of the divestiture of the Rockport business.

EBITDA INCREASES 15%

Earnings before interest, taxes, depreciation and amortization as well as impairment losses/reversal of impairment losses on property, plant and equipment and intangible assets (EBITDA) increased 15% to € 2.882 billion in 2018 versus € 2.511 billion in 2017. SEE DIAGRAM 62 Depreciation and amortization expense for tangible and intangible assets (excluding impairment losses/reversal of impairment losses) increased 8% to € 486 million in 2018 (2017: € 452 million). This development is mainly due to an increase in property, plant and equipment. In accordance with IFRS, intangible assets with indefinite useful lives (goodwill and trademarks) are tested annually and additionally when there are indications of potential impairment. In this connection, no impairment of intangible assets with unlimited useful lives incurred in 2018.

EBITDA[1,2,3] € in millions — 62



1 EBITDA = Income before taxes (IBT) + net interest expenses + depreciation and amortization.
2 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
3 2015 and 2014 figures reflect continuing operations as a result of the divestiture of the Rockport business.

OPERATING MARGIN INCREASES 1.1 PERCENTAGE POINTS

Operating profit grew 14% to € 2.368 billion in 2018 versus € 2.070 billion in 2017. SEE DIAGRAM 63 This represents an operating margin increase of 1.1 percentage points to 10.8% compared to the prior year level of 9.8%. SEE DIAGRAM 64 This development was mainly due to the gross margin increase, which more than offset the investment-led increase in other operating expenses as a percentage of sales.

Operating margin
+1.1 PP
10.8 %

NET FINANCIAL RESULT IMPROVES

Financial income increased 24% to € 57 million in 2018 (2017: € 46 million), while financial expenses were down 50% to € 47 million compared to € 93 million in 2017. This development was due to lower impairment losses on other financial assets, lower interest expenses and positive exchange rate effects. As a result, the company recorded net financial income of € 10 million, compared to net financial expenses of € 47 million in 2017. SEE DIAGRAM 65

Operating profit[1,2,3,4] € in millions — 63

2018	**2,368**
2017	2,070
2016	1,582
2015	1,094
2014	961

1 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 2015 and 2014 figures reflect continuing operations as a result of the divestiture of the Rockport business.
3 2015 excluding goodwill impairment of € 34 million.
4 2014 excluding goodwill impairment of € 78 million.

Operating margin[1,2,3,4,5] in % — 64

2018	**10.8**
2017	9.8
2016	8.6
2015	6.5
2014	6.6

1 Operating margin = (operating profit / net sales) × 100.
2 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
3 2015 and 2014 figures reflect continuing operations as a result of the divestiture of the Rockport business.
4 2015 excluding goodwill impairment of € 34 million.
5 2014 excluding goodwill impairment of € 78 million.

Net financial result € in millions — 65

2018	**10**
2017	(47)
2016	(46)
2015	(21)
2014	(48)

TAX RATE DECREASES 1.2 PERCENTAGE POINTS TO 28.1%

Excluding the negative one-time tax impact recorded in 2017, the company's tax rate decreased 1.2 percentage points to 28.1% in 2018 (2017: 29.3%).

Including the negative one-time tax impact in 2017, the company's tax rate decreased 4.9 percentage points to 28.1% (2017: 33.0%).

NET INCOME FROM CONTINUING OPERATIONS UP 20% TO € 1.709 BILLION

Excluding the negative one-time tax impact recorded in 2017, net income from continuing operations increased 20% to € 1.709 billion versus € 1.430 billion in the prior year. SEE DIAGRAM 66 Basic EPS from continuing operations increased 20% to € 8.46 from € 7.05 in 2017. SEE DIAGRAM 67 Diluted EPS from continuing operations was up 21% to € 8.45 in 2018 (2017: € 7.00).

Net income from continuing operations
+20%
€ 1.709 bn

Including the negative one-time tax impact in 2017, net income from continuing operations rose 26% to € 1.709 billion (2017: € 1.354 billion). Basic EPS from continuing operations increased 27% from € 6.68 in 2017 to € 8.46 in 2018. Diluted EPS from continuing operations was up 27% to € 8.45 in 2018 compared to € 6.63 in 2017.

The total number of shares outstanding decreased by 4,689,889 shares in 2018 to 199,171,345. This was a result of shares repurchased as part of the company's share buyback program, which was partly offset by the last share conversions in relation to the company's 2012 convertible bond. SEE FINANCIAL HIGHLIGHTS, P. 4 Consequently, the average number of shares used in the calculation of basic earnings per share (EPS) was 201,759,012 (2017: 202,391,673).

Net income from continuing operations[1,2,3] € in millions — 66

2018	**1,709**
2017	1,430
2016	1,082
2015	720
2014	642

1 2017 excluding negative one-time tax impact of € 76 million.
2 2015 excluding goodwill impairment of € 34 million.
3 2014 excluding goodwill impairment of € 78 million.

Basic earnings per share[1,2,3,4] in € — 67

2018	**8.46**
2017	7.05
2016	5.39
2015	3.54
2014	3.05

1 Figures reflect continuing operations.
2 2017 excluding negative one-time tax impact of € 76 million.
3 2015 excluding goodwill impairment of € 34 million.
4 2014 excluding goodwill impairment of € 78 million.

LOSSES FROM DISCONTINUED OPERATIONS AMOUNT TO € 5 MILLION

In 2018, adidas incurred losses from discontinued operations of € 5 million, net of tax, mainly related to the Rockport business (2017: losses of € 254 million).

NET INCOME ATTRIBUTABLE TO SHAREHOLDERS INCREASES 45% TO € 1.702 BILLION

The company's net income attributable to shareholders, which in addition to net income from continuing operations includes the losses from discontinued operations, grew 45% to € 1.702 billion (2017: € 1.173 billion), excluding the negative one-time tax impact recorded in 2017. As a result, basic EPS from continuing and discontinued operations increased 46% to € 8.44 versus € 5.79 in 2017, while diluted EPS from continuing and discontinued operations grew 46% to € 8.42 (2017: € 5.75).

Including the negative one-time tax impact in 2017, the company's net income attributable to shareholders increased 55% to € 1.702 billion (2017: € 1.097 billion). Basic EPS from continuing and discontinued operations increased 56% to € 8.44 (2017: € 5.42) and diluted EPS from continuing and discontinued operations grew 57% to € 8.42 (2017: € 5.38).

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

ASSETS

At the end of December 2018, total assets were up 11% to € 15.612 billion versus € 14.019 billion in the prior year, as a result of an increase in both current assets as well as non-current assets. SEE DIAGRAM 68

Total current assets increased 14% to € 9.813 billion at the end of December 2018 compared to € 8.645 billion in 2017. Cash and cash equivalents were up 64% to € 2.629 billion at the end of December 2018 from € 1.598 billion in the prior year, as net cash generated from operating activities was only partly offset by net cash used in investing and financing activities. Currency effects had a negative impact on cash and cash equivalents in an amount of € 29 million. Inventories decreased 7% to € 3.445 billion at the end of December 2018 from € 3.692 billion in 2017. SEE NOTE 10, P. 173, SEE DIAGRAM 70 On a currency-neutral basis, inventories decreased 5%, reflecting the company's focus on tight inventory management.

Structure of statement of financial position[1] 68
in % of total assets

Assets (€ in millions)	2018	2017[2]
	15,612	14,019
Cash and cash equivalents	**16.8**	11.4
Accounts receivable	**15.5**	16.5
Inventories	**22.1**	26.3
Fixed assets[3]	**30.7**	31.5
Other assets	**14.9**	14.2

2018 2017

1 For absolute figures see Consolidated Statement of Financial Position, p. 148.
2 Restated according to IAS 8, see Note 03.
3 Fixed assets = property, plant and equipment + goodwill + trademarks + other intangible assets + long-term financial assets.

Accounts receivable increased 4% to € 2.418 billion at the end of December 2018 (2017: € 2.315 billion). SEE NOTE 08, P. 171, SEE DIAGRAM 71 On a currency-neutral basis, receivables were up 5%, mainly reflecting the company's top-line development in 2018. Other current financial assets increased 38% to € 542 million at the end of December 2018 from € 393 million in 2017. SEE NOTE 09, P. 172 This development was mainly due to an increase in the fair value of financial instruments. Other current assets were up 46% to € 725 million at the end of December 2018 (2017: € 498 million), mainly due to the change in the accounting treatment regarding IFRS 15, which led to the recognition of return assets. SEE NOTE 11, P. 173

Total non-current assets increased 8% to € 5.799 billion at the end of December 2018 from € 5.374 billion in 2017. Fixed assets increased 9% to € 4.798 billion at the end of December 2018 versus € 4.417 billion in 2017. Additions of € 854 million, primarily related to own-retail activities, investments into the company's logistics and IT infrastructure, as well as the further development of the company's headquarters in Herzogenaurach and positive currency effects of € 58 million were partly offset by depreciation and amortization of € 494 million. Other

Structure of statement of financial position[1] 69
in % of total liabilities and equity

Liabilities and equity (€ in millions)	2018	2017[2]
	15,612	14,019
Short-term borrowings	**0.4**	1.0
Accounts payable	**14.7**	14.1
Long-term borrowings	**10.3**	7.0
Other liabilities	**33.8**	35.0
Total equity	**40.8**	42.9

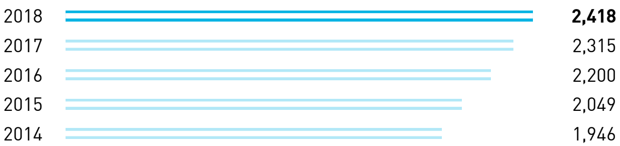
2018 2017

1 For absolute figures see Consolidated Statement of Financial Position, p. 148.
2 Restated according to IAS 8, see Note 03.

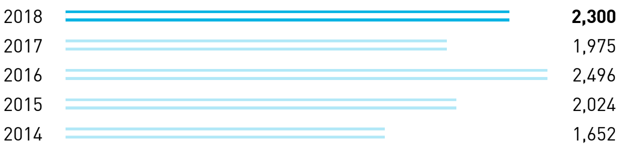
non-current financial assets increased 17% to € 256 million from € 219 million at the end of 2017. SEE NOTE 17, P. 177 This development was mainly due to an increase in derivatives used to fully hedge the economic exposure related to the equity-neutral convertible bond. Deferred tax assets increased 3% to € 651 million from € 630 million in 2017.

Inventories € in millions 70

Accounts receivable € in millions 71



Accounts payable € in millions 72



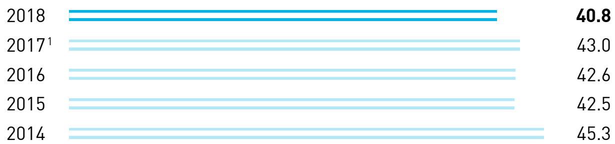
LIABILITIES AND EQUITY

Total current liabilities increased 9% to € 6.834 billion at the end of December 2018 from € 6.291 billion in 2017. Short-term borrowings declined 51% to € 66 million at the end of December 2018 (2017: € 137 million), reflecting conversions of the company's convertible bond into adidas AG shares as well as a decrease in bank loans. Accounts payable were up 16% to € 2.300 billion at the end of December 2018 versus € 1.975 billion in 2017. SEE DIAGRAM 72 On a currency-neutral basis, accounts payable increased 17%, reflecting the company's focus on efficient working capital management as well as improved terms with our suppliers. Other current financial liabilities were down 49% to € 186 million from € 362 million in 2017, mainly as a result of a decrease in the negative fair value of financial instruments. SEE NOTE 20, P. 178 Other current provisions increased 66% to € 1.232 billion at the end of December 2018 versus € 741 million in 2017, mainly due to the change in the accounting treatment regarding IFRS 15, which led to an increase in the provision for returns. Current accrued liabilities grew 6% to € 2.305 billion at the end of December 2018 from € 2.180 billion in 2017, mainly as a result of an increase in invoices not yet received as well as higher accruals for customer discounts. Other current liabilities were up 1% to € 477 million at the end of December 2018 from € 473 million in 2017. SEE NOTE 23, P. 180

Total non-current liabilities increased 41% to € 2.414 billion at the end of December 2018 from € 1.711 billion in the prior year. Long-term borrowings were up 64% to € 1.609 billion at the end of December 2018 from € 983 million in the prior year, mainly driven by the issuance of the € 500 million equity-neutral convertible bond. SEE NOTE 19, P. 177 Other non-current financial liabilities were up 358% to € 103 million at the end of December 2018 from € 22 million in the prior year. This was mainly due to an increase in finance lease obligations related to two buildings at the company's headquarters in Herzogenaurach. Other non-current provisions increased 60% to € 128 million at the end of December 2018 from € 80 million in the prior year, mainly as a result of an increase in provisions for personnel. Non-current accrued liabilities decreased 78% to € 19 million from € 85 million in 2017 due to a decrease in accruals for personnel. SEE NOTE 22, P. 179

Shareholders' equity increased to € 6.377 billion at the end of December 2018 versus € 6.032 billion in 2017, driven by the net income generated during the year, an increase in hedging reserves of € 231 million and the reissuance of treasury shares in the amount of € 53 million. These developments were partly offset by the repurchase of treasury shares in the amount of € 1.021 billion, including incidental purchasing costs, and the dividend of € 528 million paid to shareholders for the 2017 financial year. The company's equity ratio decreased to 40.8% compared to 43.0% in the prior year, as the increase in shareholders' equity was more than offset by a balance sheet extension. SEE NOTE 27, P. 184, SEE DIAGRAM 73

Equity ratio in % 73

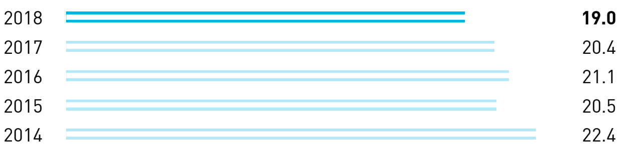


1 Restated according to IAS 8, see Note 03.

OPERATING WORKING CAPITAL

Operating working capital decreased 12% to € 3.563 billion at the end of December 2018 compared to € 4.033 billion in 2017. On a currency-neutral basis, operating working capital was down 10%. Average operating working capital as a percentage of sales from continuing operations decreased 1.4 percentage points to 19.0% (2017: 20.4%), reflecting the top-line development during the last twelve months as well as the company's continued focus on tight working capital management. SEE DIAGRAM 74

Average operating working capital [1,2,3] in % of net sales **74**

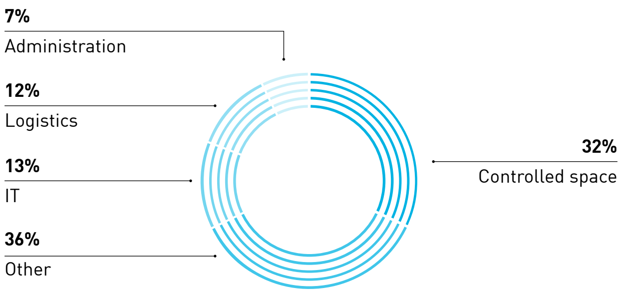


1 Average operating working capital = sum of operating working capital at quarter-end / 4. Operating working capital = accounts receivable + inventories – accounts payable.
2 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
3 2015 and 2014 figures reflect continuing operations as a result of the divestiture of the Rockport business.

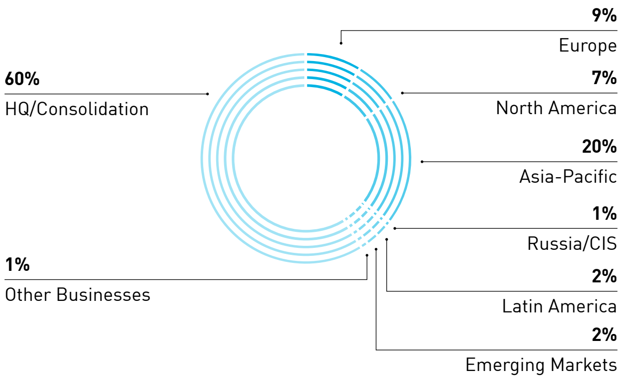
INVESTMENT ANALYSIS

Capital expenditure is defined as the total cash expenditure for the purchase of tangible and intangible assets (excluding acquisitions). Capital expenditure increased 5% to € 794 million in 2018 (2017: € 755 million). Capital expenditure from continuing operations increased 6% to € 794 million from € 752 million in 2017. Capital expenditure for property, plant and equipment was up 3% to € 699 million compared to € 681 million in the prior year. The company invested € 96 million in intangible assets, representing a 29% increase compared to the prior year (2017: € 74 million). Depreciation and amortization excluding impairment losses/reversal of impairment losses of tangible and intangible assets increased 12% to € 470 million in 2018 (2017: € 421 million).

Capital expenditure by type in % of total CAPEX **75**



Capital expenditure by segments in % of total CAPEX **76**



Controlled space initiatives, which comprise investments in new or remodeled own-retail and franchise stores as well as in shop-in-shop presentations of our brands and products in our customers' stores, accounted for 32% of total capital expenditure (2017: 48%). Expenditure for IT and logistics represented 13% and 12%, respectively (2017: 13% and 9%, respectively). In addition, expenditure for administration accounted for 7% (2017: 7%). Other initiatives, which mainly related to the expansion of the company's headquarters in Herzogenaurach, represented 36% of total capital expenditure (2017: 22%). SEE DIAGRAM 75 From a segmental perspective, the majority of the capital expenditure was recorded at the company's headquarters in Herzogenaurach, Germany, accounting for 60% (2017: 47%). In addition, capital expenditure in Asia-Pacific accounted for 20% (2017: 21%) of the total capital expenditure, followed by Europe with 9% (2017: 10%), North America with 7% (2017: 8%), Latin America and Emerging Markets with 2% each (2017: 4% and 3%, respectively) as well as Russia/CIS with 1% (2017: 5%). SEE DIAGRAM 76

LIQUIDITY ANALYSIS

In 2018, net cash generated from operating activities increased to € 2.646 billion (2017: € 1.648 billion). SEE FINANCIAL HIGHLIGHTS, P. 4 Net cash generated from continuing operating activities rose to € 2.666 billion (2017: € 1.641 billion), driven by an increase in income before taxes and lower operating working capital requirements, partly offset by an increase in income taxes paid. Net cash used in investing activities decreased to € 636 million (2017: € 680 million). Net cash used in continuing investing activities also decreased to € 636 million (2017: € 676 million). The majority of continuing investing activities in 2018 related to spending for property, plant and equipment, such as investments in the furnishing and fitting of our own-retail stores and investments in IT systems as well as the further development of the company's headquarters in Herzogenaurach. Net cash used in financing activities and net cash used in continuing financing activities grew to € 951 million each (2017: € 769 million each), mainly due to the repurchase of treasury shares as well as the dividend paid to shareholders, partly offset by proceeds from the issue of a convertible bond and from long-term borrowings. Exchange rate effects negatively impacted the company's cash position by € 29 million. As a result of all these developments, cash and cash equivalents increased by € 1.031 billion to € 2.629 billion at the end of December 2018 compared to € 1.598 billion at the end of December 2017. SEE DIAGRAM 78

Net cash at December 31, 2018 amounted to € 959 million, compared to net cash of € 484 million in 2017, representing an improvement of € 475 million compared to the prior year. This development was driven by the increase in cash generated from operating activities, partly offset by the utilization of cash for the purchase of fixed assets as well as the repurchase of adidas AG shares and the dividend paid to shareholders. In addition, the conversion of convertible bonds into adidas AG shares also contributed to this improvement. SEE TREASURY, P. 115 The company's ratio of net borrowings over EBITDA amounted to -0.3 at the end of December 2018 (2017: -0.2), which is within the company's mid-term target corridor of below two times. SEE DIAGRAM 77

Operating cash flow, as described in the Internal Management System, increased 110% to € 2.529 billion in 2018 from € 1.202 billion in 2017, mainly due to the decrease in operating working capital. SEE INTERNAL MANAGEMENT SYSTEM, P. 103

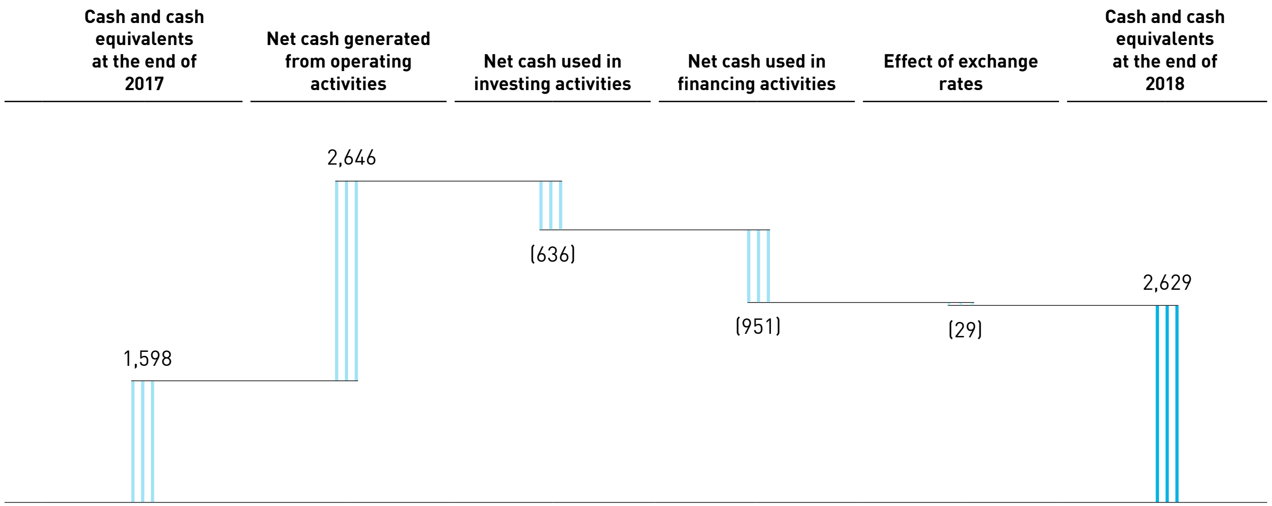
Net borrowings/EBITDA [1,2] € in millions — 77

1 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 2015 and 2014 figures reflect continuing operations as a result of the divestiture of the Rockport business.

OFF-BALANCE-SHEET ITEMS

The company's most significant off-balance-sheet items are commitments for promotion and advertising as well as operating leases, which are related to own-retail stores, offices, warehouses and equipment. The company has entered into various operating leases as opposed to property acquisitions in order to reduce exposure to property value fluctuations. Minimum future lease payments for operating leases were € 2.984 billion at December 31, 2018, compared to € 2.649 billion at the end of December 2017, representing an increase of 13%. SEE NOTE 30, P. 192 At the end of December 2018, financial commitments for promotion and advertising increased 11% to € 5.828 billion in 2018 (2017: € 5.255 billion). SEE NOTE 42, P. 221

Change in cash and cash equivalents € in millions — 78



TREASURY

CORPORATE FINANCING POLICY

In order to be able to meet the company's payment commitments at all times, the major goal of our financing policy is to ensure sufficient liquidity reserves, while at the same time minimizing our financial expenses. The operating activities of our segments and the resulting cash inflows represent the company's main source of liquidity. Liquidity is planned on a rolling monthly basis under a multi-year financial and liquidity plan. This comprises all consolidated companies. Our in-house bank concept takes advantage of any surplus funds of individual companies to cover the financial requirements of others, thus reducing external financing needs and optimizing our net interest expenses. Furthermore, by settling intercompany transactions via intercompany financial accounts, we are able to reduce external bank account transactions and thus bank charges. Effective management of our currency exposure and interest rate risks are additional goals and responsibilities of our centrally managed Treasury department.

TREASURY POLICY AND RESPONSIBILITIES

Our Treasury Policy governs all treasury-related issues, including banking policy and approval of bank relationships, financing arrangements and liquidity/asset management, currency and interest risk management as well as the management of intercompany cash flows. Responsibilities are arranged in a three-tiered approach:

- The Treasury Committee consists of members of the Executive Board and other senior executives who decide on the Treasury Policy and provide strategic guidance for managing treasury-related topics. Major changes to our Treasury Policy are subject to the prior approval of the Treasury Committee.
- The Treasury department is responsible for specific centralized treasury transactions and for the global implementation of our Treasury Policy.
- On a subsidiary level, where applicable and economically reasonable, local managing directors and finance directors are responsible for managing treasury matters in their respective subsidiaries. Controlling functions on a corporate level ensure that the transactions of the individual business units are in compliance with our Treasury Policy.

CENTRALIZED TREASURY FUNCTION

In accordance with our Treasury Policy, all worldwide credit lines are directly or indirectly managed by the Treasury department. Portions of those lines are allocated to our subsidiaries and backed by adidas AG guarantees. As a result of this centralized liquidity management, the company is well positioned to allocate resources efficiently throughout the organization. The company's debt is generally unsecured and may include standard covenants, which are reviewed on a quarterly basis. We maintain good relations with numerous partner banks, thereby avoiding a high dependency on any single financial institution. Banking partners of the company and our subsidiaries are required to have at least a BBB+ long-term investment grade rating by Standard & Poor's or an equivalent rating by another leading rating agency. SEE NOTE 02, P. 158 Only in exceptional cases are our companies authorized to work with banks with a lower rating. To ensure optimal allocation of the company's liquid financial resources, subsidiaries transfer excess cash to our headquarters in all instances where it is legally and economically feasible. In this regard, the standardization and consolidation of our global cash management and payment processes, including automated domestic and cross-border *cash pools* SEE GLOSSARY, is a key priority for our Treasury department.

STANDARD COVENANTS

In the case of our committed credit facilities, we have entered into various legal covenants. These legal covenants may include limits on the disposal of fixed assets, the amount of debt secured by liens, cross-default provisions and change of control. However, our financial arrangements do not contain any financial covenants. If we failed to meet any covenant and were unable to obtain a waiver, borrowings would become due and payable immediately. As at December 31, 2018, we were in full compliance with all of our covenants. We are fully confident we will continue to be compliant with these covenants going forward. We believe that cash generated from operating activities, together with access to internal and external sources of funds, will be sufficient to meet our future operating and capital needs.

FINANCIAL FLEXIBILITY

The company's financial flexibility is ensured by the availability of credit facilities, consisting of committed and uncommitted bilateral credit lines at different banks with a remaining time to maturity of up to nine years. In addition, we have an unused multi-currency commercial paper program in the amount of € 2.0 billion available (2017: € 2.0 billion). At the end of 2018, committed and uncommitted bilateral credit lines amounted to € 2.215 billion (2017: € 2.251 billion), of which € 2.008 billion was unutilized (2017: € 2.145 billion). Committed and uncommitted credit lines represent approximately 45% and 55% of total short-term bilateral credit lines, respectively (2017: 47% and 53%, respectively). SEE DIAGRAM 81 We monitor the ongoing need for available credit lines based on the current level of debt as well as future financing requirements.

Total credit facilities € in millions — 79

	2018	2017
Bilateral credit lines	**2,215**	2,251
Eurobonds	**984**	983
Convertible bond	**–**	31
Equity-neutral convertible bond	**484**	–
Total	**3,683**	3,265

2018 2017

Remaining time to maturity of available facilities € in millions — 80

	2018	2017
< 1 year	**1,475**	1,601
1 to 3 years	**980**	381
3 to 5 years	**771**	746
> 5 years	**457**	537
Total	**3,683**	3,265

2018 2017

Bilateral credit lines € in millions — 81

	2018	2017
Committed	**987**	1,055
Uncommitted	**1,228**	1,196
Total	**2,215**	2,251

2018 2017

OUTSTANDING BONDS

The company has two outstanding eurobonds, both issued in 2014, and one outstanding equity-neutral convertible bond, which was issued in 2018. A convertible bond issued in 2012 was fully converted during 2018. The seven-year eurobond of € 600 million matures on October 8, 2021 and has a coupon of 1.25%. The twelve-year eurobond of € 400 million matures on October 8, 2026 and has a coupon of 2.25%. The equity-neutral convertible bond of € 500 million was issued on September 5, 2018, with a coupon of 0.05% and is due on September 12, 2023. SEE OUR SHARE, P. 57, SEE NOTE 19, P. 177, SEE TABLE 82

Issued bonds at a glance € in millions — 82

	Volume	Coupon	Maturity
Eurobond	€ 600	fixed	2021
Eurobond	€ 400	fixed	2026
Equity-neutral convertible bond	€ 500	fixed	2023

GROSS BORROWINGS INCREASE

The company's gross borrowings, the vast majority of which are denominated in euro, are composed of bank borrowings as well as the outstanding eurobonds and the equity-neutral convertible bond. Gross borrowings increased 50% to € 1.676 billion at the end of 2018 from € 1.120 billion in the prior year. This development was mainly due to the issuance of the € 500 million equity-neutral convertible bond. Including the company's eurobonds, the total amount of bonds outstanding at the end of 2018 was € 1.469 billion (2017: € 1.014 billion). Bank borrowings amounted to € 207 million compared to € 106 million in the prior year. SEE TABLE 83

Financing structure € in millions — 83

	2018	2017
Cash and short-term financial assets	**2,635**	**1,604**
Bank borrowings	207	106
Eurobonds	984	983
Convertible bond	–	31
Equity-neutral convertible bond	484	–
Gross total borrowings	**1,676**	**1,120**
Net cash	**959**	**484**

STABLE DEBT MATURITY PROFILE

Over the course of 2018, the company's financing maturity profile remained stable. In 2019, assuming unchanged maturities, debt instruments of € 66 million will mature. This compares to € 137 million which matured during the course of 2018. SEE DIAGRAM 84

Remaining time to maturity of gross borrowings € in millions — 84

	2018	2017
< 1 year	**66**	137
1 to 3 years	**635**	–
3 to 5 years	**522**	596
> 5 years	**453**	387
Total	**1,676**	1,120

2018 2017

NET CASH POSITION OF € 959 MILLION

Net cash at December 31, 2018 amounted to € 959 million, compared to net cash of € 484 million in 2017, representing an improvement of € 475 million versus the prior year. SEE DIAGRAM 85 This development was driven by the increase in cash generated from operating activities, partly offset by the utilization of cash for the purchase of fixed assets as well as the dividend paid to shareholders and the repurchase of adidas AG shares.

Net cash/(net borrowings)[1] € in millions — 85

2018	**959**
2017	484
2016	(103)
2015	(460)
2014	(185)

1 Net borrowings/Net cash = short-term borrowings + long-term borrowings – cash and cash equivalents – short-term financial assets.

INTEREST RATE DECREASES

The weighted average interest rate on the company's gross borrowings decreased to 2.1% in 2018 (2017: 2.7%). SEE DIAGRAM 86 This development was mainly due to conversions of the convertible bond into adidas AG shares and a reduction of short-term borrowings. Fixed-rate financing represented 97% of total gross borrowings at the end of 2018 (2017: 91%). Variable-rate financing accounted for 3% of total gross borrowings at the end of the year (2017: 9%).

Interest rate development[1] in % — 86

2018	**2.1**
2017	2.7
2016	2.3
2015	2.4
2014	3.1

1 Weighted average interest rate of gross borrowings.

EFFECTIVE FOREIGN EXCHANGE MANAGEMENT A KEY PRIORITY

As a globally operating company, adidas is exposed to currency risks. Therefore, effective currency management is a key focus of our Treasury department, with the aim of reducing the impact of currency fluctuations on non-euro-denominated net future cash flows. In this regard, hedging US dollars is a central part of our program. This is a direct result of our Asian-dominated sourcing, which is largely denominated in US dollars. SEE GLOBAL OPERATIONS, P. 74 In 2018, our Treasury department managed a net deficit of around US $ 6.0 billion related to operational activities (2017: US $ 6.6 billion). Thereof, around US $ 3.8 billion was against the euro (2017: US $ 3.8 billion). As governed by our Treasury Policy, we have established a hedging system on a rolling basis up to 24 months in advance, under which the vast majority of the anticipated seasonal hedging volume is secured approximately six months prior to the start of a season. In rare instances, hedges are contracted beyond the 24-month horizon. We had largely covered our anticipated hedging needs for 2019 as of year-end 2018. At the same time, we have already started hedging our exposure for 2020. The use or combination of different hedging instruments, such as forward exchange contracts, currency options and swaps, protects us against unfavorable currency movements. SEE NOTE 31, P. 194

FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF ADIDAS AG

adidas AG is the parent company of the adidas Group. It includes operating business functions, primarily for the German market, as well as corporate headquarter functions such as Marketing, Treasury, Taxes, Legal and Finance. adidas AG also administers the company's shareholdings.

OPERATING ACTIVITIES AND CAPITAL STRUCTURE OF ADIDAS AG

The majority of the operating business of adidas AG consists of the sale of merchandise to wholesale partners and own-retail activities.

In addition to its own trading activities, the results of adidas AG are significantly influenced by its holding function for the company as a whole. This is reflected primarily in currency effects, transfer of costs for services provided, interest result and income from investments in related companies.

The opportunities and risks as well as the future development of adidas AG largely reflect those of the company as a whole.
SEE OUTLOOK, P. 128, SEE RISK AND OPPORTUNITY REPORT, P. 131

The asset and capital structure of adidas AG is significantly impacted by its holding and financing function for the company. For example, 46% of total assets as at December 31, 2018 related to financial assets (2017: 49%), which primarily consist of shares in affiliated companies. Intercompany accounts, through which transactions between affiliated companies are settled, represent another 26% of total assets (2017: 35%) and 45% of total liabilities and equity as at December 31, 2018 compared to 48% in the prior year.

PREPARATION OF ACCOUNTS

Unlike the consolidated financial statements, which are in conformity with the International Financial Reporting Standards (IFRS), as adopted by the European Union as at December 31, 2018, the following financial statements of adidas AG have been prepared in accordance with the rules set out in the German Commercial Code (Handelsgesetzbuch – HGB).

INCOME STATEMENT

Statement of income in accordance with HGB (Condensed) € in millions — 87

	2018	2017
Net sales	4,128	3,732
Total output	**4,128**	**3,732**
Other operating income	516	503
Cost of materials	(1,538)	(1,292)
Personnel expenses	(731)	(692)
Depreciation and amortization	(98)	(91)
Other operating expenses	(2,282)	(2,170)
Operating profit	**(5)**	**(10)**
Financial result	1,542	655
Taxes	(113)	(96)
Net income	**1,424**	**549**
Retained earnings brought forward	45	24
Allocation to other revenue reserves	(400)	0
Allocation to capital reserves	(9)	0
Utilization for the repurchase of treasury shares	(355)	0
Retained earnings	**705**	**573**

adidas AG net sales € in millions — 88

	2018	2017
Royalty and commission income	1,900	1,809
adidas Germany	1,157	1,027
Foreign subsidiaries	60	64
Central distribution	319	209
Other revenues	692	623
Total	**4,128**	**3,732**

NET SALES INCREASE 11%

Sales of adidas AG comprise external revenues generated by adidas Germany with products of the adidas and Reebok brands as well as revenues from foreign subsidiaries. Revenues of adidas AG also include royalty and commission income, mainly from affiliated companies, revenues from central distribution, and other revenues. In 2018, adidas AG net sales grew 11% to € 4.128 billion compared to € 3.732 billion in the prior year. This growth was mainly due to higher sales at adidas Germany and an increase in revenues from central distribution. SEE TABLE 88

OTHER OPERATING INCOME UP 3%

In 2018, other operating income of adidas AG increased 3% to € 516 million (2017: € 503 million). This development was primarily due to positive currency effects.

OTHER OPERATING EXPENSES INCREASE 5%

In 2018, other operating expenses for adidas AG rose 5% to € 2.282 billion (2017: € 2.170 billion). SEE TABLE 87 This was largely attributable to an increase in expenses for advertising and promotion, higher maintenance costs and higher other expenses, partly offset by a decrease in allowances for doubtful accounts.

DEPRECIATION AND AMORTIZATION UP 8%

Depreciation and amortization for adidas AG rose 8% to € 98 million in 2018 (2017: € 91 million), mainly as a result of an increase in depreciation and amortization of software.

OPERATING RESULT INCREASES

In 2018, adidas AG generated an operating loss of € 5 million, (2017: operating loss of € 10 million). SEE TABLE 87 This development was primarily due to an increase in cost of materials as well as in other operating expenses and personnel expenses, which offset higher sales.

FINANCIAL RESULT IMPROVES

The financial result of adidas AG improved 135% to € 1.542 billion in 2018 (2017: € 655 million). The increase was attributable to higher income from dividends and higher profit transfers from affiliated companies under profit and loss transfer agreements.

NET INCOME INCREASES SIGNIFICANTLY

Net income, after taxes of € 113 million (2017: € 96 million), amounted to € 1.424 billion in 2018 and was thus 159% above the prior year level (2017: € 549 million). SEE TABLE 87

BALANCE SHEET

Balance sheet in accordance with HGB (Condensed) € in millions — 89

	Dec. 31, 2018	Dec. 31, 2017
Assets		
Intangible assets	162	124
Property, plant and equipment	688	610
Financial assets	4,361	4,308
Fixed assets	**5,211**	**5,042**
Inventories	47	49
Receivables and other assets	2,655	3,262
Cash and cash equivalents, securities	1,478	337
Current assets	**4,180**	**3,648**
Prepaid expenses	100	168
Active difference from asset allocation	5	5
Total assets	**9,496**	**8,863**
Equity and liabilities		
Shareholders' equity	2,634	2,704
Provisions	699	624
Liabilities and other items	6,163	5,535
Total equity and liabilities	**9,496**	**8,863**

TOTAL ASSETS ABOVE PRIOR YEAR

At the end of December 2018, total assets grew 7% to € 9.496 billion compared to € 8.863 billion in the prior year. This development was mainly a result of increases in cash and cash equivalents, securities and fixed assets, partly offset by the decline in receivables and other assets. SEE TABLE 89

SHAREHOLDERS' EQUITY DOWN 3%

Shareholders' equity declined 3% to € 2.634 billion at the end of 2018 (2017: € 2.704 billion). SEE TABLE 89 The equity ratio decreased to 27.7% (2017: 30.5%).

PROVISIONS INCREASE 12%

Provisions were up 12% to € 699 million at the end of 2018 (2017: € 624 million). SEE TABLE 89 The increase primarily resulted from contingent losses from pending transactions as well as higher marketing provisions.

LIABILITIES AND OTHER ITEMS UP 11%

At the end of December 2018, liabilities and other items increased 11% to € 6.163 billion (2017: € 5.535 billion). SEE TABLE 89 This development was mainly a result of the increase in liabilities related to the convertible bond and higher liabilities due to banks, partly offset by the decline in payables to affiliated companies.

CASH INFLOW FROM OPERATING ACTIVITIES REFLECTS CHANGE IN CASH AND CASH EQUIVALENTS

adidas AG generated a positive cash flow from operating activities of € 1.696 billion (2017: € 1.109 billion). The change versus the prior year was mainly a result of the increase in net income as well as the increase in securities classified as current assets, partly offset by a decrease in payables to affiliated companies. Net cash outflow from investment activities was € 270 million (2017: € 330 million). This was primarily attributable to capital expenditure for tangible fixed assets in an amount of € 215 million and capital expenditure for financial assets in an amount of € 53 million. Financing activities resulted in a net cash outflow of € 889 million (2017: € 469 million). The net cash outflow from financing activities mainly relates to the dividend payment in an amount of € 528 million. As a result of all these developments, cash and cash equivalents of adidas AG increased to € 874 million at the end of December 2018 compared to € 337 million at the end of the prior year.

adidas AG has bilateral credit lines of € 1.4 billion. In addition, the company has a multi-currency commercial paper program in an amount of € 2.0 billion. SEE TREASURY, P. 115

adidas AG is able to meet its financial commitments at all times.

DISCLOSURES PURSUANT TO § 315A SECTION 1 AND § 289A SECTION 1 OF THE GERMAN COMMERCIAL CODE AND EXPLANATORY REPORT

COMPOSITION OF SUBSCRIBED CAPITAL

The nominal capital of adidas AG amounts to € 200,416,186 (as at December 31, 2018) and is divided into the same number of registered no-par-value shares with a pro rata amount in the nominal capital of € 1 each ('shares'). In the 2018 financial year, the nominal capital and the number of shares were reduced due to the cancelation of 8,800,000 treasury shares and the capital reduction with effect from October 22, 2018. The shares are fully paid in. Any claim on the part of the shareholders to the issuance of individual share certificates is generally excluded pursuant to § 4 section 10 of the Articles of Association unless such issuance is required in accordance with the regulations applicable at a stock exchange where the shares are admitted. Pursuant to § 67 section 2 German Stock Corporation Act (Aktiengesetz – AktG), in relation to adidas AG, only a person who is registered as such in the share register shall be deemed a shareholder. Each share grants one vote at the Annual General Meeting and determines the shareholders' share in the company's profit. All shares carry the same rights and obligations. The shareholders' individual rights and obligations follow from the provisions of the AktG, in particular from §§ 12, 53a et seq., 118 et seq. and 186 AktG. As at December 31, 2018, adidas AG held 1,244,841 treasury shares, which do not confer any rights to the company in accordance with § 71b AktG. SEE NOTE 27, P. 184

In the USA, adidas AG has issued American Depositary Receipts (ADRs). ADRs are deposit certificates of non-US shares that are traded instead of the original shares on US stock exchanges. Two ADRs equal one adidas AG share.
SEE OUR SHARE, P. 57

RESTRICTIONS ON VOTING RIGHTS OR TRANSFER OF SHARES

We are not aware of any contractual agreements with adidas AG or other agreements restricting voting rights or the transfer of shares. Based on the Code of Conduct and internal guidelines of adidas AG and based on Article 19 section 11 of the Regulation (EU) No 596/2014 (Market Abuse Regulation), however, particular trade prohibitions do exist for Executive Board members with regard to the purchase and sale of adidas AG shares, particularly in connection with the (time of) publication of interim financial reports or year-end reports.

In addition, restrictions of voting rights may exist pursuant to, inter alia, § 136 AktG or for treasury shares pursuant to § 71b AktG as well as due to capital market regulations, in particular pursuant to §§ 33 et seq. German Securities Trading Act (Wertpapierhandelsgesetz – WpHG).

The shares that were issued in the context of the Stock Purchase Plan to employees of adidas AG and employees of subsidiaries participating in the Stock Purchase Plan are not subject to any lock-up periods, unless such a waiting period is stipulated in locally applicable regulations. Employees who hold the shares which they purchased themselves (investment shares) for at least one year will subsequently receive one share for every six investment shares without having to pay for such share (so-called matching share) if they are still adidas employees at that point in time. If employees transfer, pledge or hypothecate investment shares in any way during the one-year vesting period, the right to receive matching shares ceases.

SHAREHOLDINGS IN SHARE CAPITAL EXCEEDING 10% OF VOTING RIGHTS

We have not been notified of, and are not aware of, any direct or indirect shareholdings in the share capital of adidas AG reaching or exceeding 10% of the voting rights.

SHARES WITH SPECIAL RIGHTS

There are no shares bearing special rights. In particular, there are no shares with rights conferring powers of control.

VOTING RIGHT CONTROL IF EMPLOYEES HAVE A SHARE IN THE CAPITAL

Like all other shareholders, employees who hold adidas AG shares exercise their control rights directly in accordance with statutory provisions and the Articles of Association. The shares which employees acquire in the context of the Stock Purchase Plan are held in trust centrally by a service provider on behalf of the participating employees. As long as the shares are held in trust, the trustee shall take reasonable measures to enable participating employees to directly or indirectly exercise their voting rights in respect of the shares held in trust.

EXECUTIVE BOARD APPOINTMENT AND DISMISSAL

Pursuant to § 6 of the Articles of Association and § 84 AktG, the Supervisory Board is responsible for determining the exact number of members of the Executive Board, for their appointment and dismissal as well as for the appointment of the Chief Executive Officer (CEO). The adidas AG Executive Board, which, as a basic principle, comprises at least two members, currently consists of the CEO and five further members. Executive Board members may be appointed for a maximum period of five years. Such appointments may be renewed and the terms of office may be extended, provided that no term exceeds five years. SEE EXECUTIVE BOARD, P. 21

The Supervisory Board may revoke the appointment of an individual as member of the Executive Board or CEO for good cause, such as gross negligence of duties or a vote of no confidence by the Annual General Meeting.

As adidas AG is subject to the regulations of the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG), the appointment of Executive Board members and also their dismissal requires a majority of at least two thirds of the Supervisory Board members (§ 31 MitbestG). If such a majority is not established in the first vote by the Supervisory Board, the Mediation Committee has to present a proposal which, however, does not exclude other proposals. The appointment or dismissal is then made in a second vote with a simple majority of the votes cast by the Supervisory Board members. Should the required majority not be established in this case either, a third vote, again requiring a simple majority, must be held in which the Chairman of the Supervisory Board has two votes.

If the Executive Board does not have the required number of members, the competent court must, in urgent cases, make the necessary appointment upon application by a party involved (§ 85 section 1 AktG).

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Pursuant to §§ 119 section 1 number 5, 179 section 1 sentence 1 AktG, the Articles of Association of adidas AG can, in principle, only be amended by a resolution passed by the Annual General Meeting. Pursuant to § 21 section 3 of the Articles of Association in conjunction with § 179 section 2 sentence 2 AktG, the Annual General Meeting of adidas AG principally resolves upon amendments to the Articles of Association with a simple majority of the votes cast and with a simple majority of the nominal capital represented when passing the resolution. If mandatory legal provisions stipulate a larger majority of voting rights or capital, this is applicable. When it comes to amendments solely relating to the wording, the Supervisory Board is authorized to make these modifications in accordance with § 179 section 1 sentence 2 AktG in conjunction with § 10 section 1 sentence 2 of the Articles of Association.

AUTHORIZATIONS OF THE EXECUTIVE BOARD

The authorizations of the Executive Board are regulated by §§ 76 et seq. AktG in conjunction with §§ 7 and 8 of the Articles of Association. The Executive Board is responsible, in particular, for managing the company and represents the company judicially and extra-judicially.

AUTHORIZATION OF THE EXECUTIVE BOARD TO ISSUE SHARES

The authorization of the Executive Board to issue shares is regulated by § 4 of the Articles of Association and by statutory provisions:

Authorized Capital

— Until June 7, 2020, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in kind once or several times by no more than € 16,000,000 altogether (Authorized Capital 2017/II). The Executive Board may, subject to Supervisory Board approval, exclude shareholders' subscription rights. The overall volume of the shares issued based on this authorization with the exclusion of subscription rights – together with shares issued against contributions in cash with a simplified exclusion of subscription rights from the Authorized Capital 2017/III – must not exceed 10% of the nominal capital existing at the date of the respective issuance. This deduction clause shall not apply if residual amounts of shares are excluded from subscription rights.

- Until June 14, 2021, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 4,000,000 altogether (Authorized Capital 2016). Any repurchased treasury shares of the company which are used by the company for employee stock purchase plans during the term of this authorization shall be attributed to the maximum number of 4,000,000 shares. Shareholders' subscription rights are excluded. The new shares may only be issued to (current or former) employees of the company and its affiliated companies as well as to (current and former) members of management bodies of the company's affiliated companies ('eligible persons').
- Until June 7, 2022, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 50,000,000 altogether (Authorized Capital 2017/I). The Executive Board may, subject to Supervisory Board approval, exclude residual amounts from shareholders' subscription rights.
- Until June 7, 2022, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 20,000,000 altogether (Authorized Capital 2017/III). The Executive Board may, subject to Supervisory Board approval, exclude residual amounts from shareholders' subscription rights. Additionally, the Executive Board may, subject to Supervisory Board approval, exclude shareholders' subscription rights when issuing the new shares at a value not significantly below the stock exchange value of the company's shares already quoted on the stock exchange at the point in time when the issue price is ultimately determined, which should be as close as possible to the placement of the shares; this exclusion of subscription rights may also be associated with the listing of the company's shares on a foreign stock exchange. The authorization to exclude subscription rights pursuant to the previous sentence, however, may only be used to the extent that the pro rata amount of the new shares in the nominal capital together with the pro rata amount in the nominal capital of other shares which have been issued by the company since May 11, 2017, subject to the exclusion of subscription rights pursuant to or in accordance with § 186 section 3 sentence 4 AktG on the basis of an authorized capital or following a repurchase or for which subscription or conversion rights or subscription or conversion obligations have been granted since May 11, 2017, through the issuance of convertible bonds and/or bonds with warrants, with subscription rights excluded pursuant to § 186 section 3 sentence 4 AktG, does not exceed 10% of the nominal capital existing on the date of the entry of this authorization with the commercial register or – if this amount is lower – at the respective date on which the resolution on utilization of the authorization is adopted. The overall volume of the shares issued based on this authorization with the exclusion of subscription rights – together with shares issued from the Authorized Capital 2017/II – must not exceed 10% of the nominal capital existing at the date of the respective issuance. This deduction clause shall not apply if residual amounts of shares are excluded from subscription rights.

The above-mentioned authorizations are, in principle, cumulative authorizations. SEE NOTE 27, P. 184

Contingent Capital

- The nominal capital of the company is conditionally increased by up to € 36,000,000 (Contingent Capital 2010). The Contingent Capital serves the purpose of granting holders or creditors of bonds that were issued up to May 5, 2015 based on the resolution of the Annual General Meeting on May 6, 2010 subscription or conversion rights relating to no more than a total of 36,000,000 shares in compliance with the corresponding conditions of the bonds.

On March 14, 2012, following the approval of the Supervisory Board, the Executive Board resolved to make partial use of the authorization granted by the Annual General Meeting on May 6, 2010 and issued a convertible bond, excluding shareholders' subscription rights, on March 21, 2012. In the 2018 financial year, the company exercised its right to redeem outstanding bonds early. The convertible bond was thus fully converted or redeemed and no more shares can be issued from the Contingent Capital 2010. The total number of shares issued to the bondholders amounted to a total of 6,139,227 shares.

Moreover, the authorization to issue bonds with warrants and/or convertible bonds granted on May 6, 2010 was canceled by resolution of the Annual General Meeting on May 8, 2014.

- Furthermore, the nominal capital of the company is conditionally increased by up to € 12,500,000 (Contingent Capital 2018). The Contingent Capital serves the purpose of granting holders or creditors of bonds that were issued based on the resolution of the Annual General Meeting on May 9, 2018 subscription or conversion rights relating to no more than a total of 12,500,000 shares in compliance with the corresponding conditions of the bonds. Based on the authorization granted by the Annual General Meeting on May 9, 2018, the Executive Board is authorized to issue bonds with warrants and/or convertible bonds in an aggregate nominal value of up to € 2,500,000,000 with or without a limited term against contributions in cash once or several times until May 8, 2023, and to guarantee bonds issued by subordinated Group companies. The Executive Board is also authorized, subject to Supervisory Board approval, to exclude shareholders' subscription rights for fractional amounts and to exclude shareholders' subscription rights insofar as this is necessary for granting subscription rights to which holders or creditors of previously issued bonds are entitled. Furthermore, the Executive Board is authorized, subject to Supervisory Board approval, to also exclude shareholders' subscription rights if the issue price of the bonds is not significantly below the hypothetical market value of these bonds and the number of shares to be issued does not exceed 10% of the nominal capital. Treasury shares which are or will be sold in accordance with § 71 section 1 number 8 in conjunction with § 186 section 3 sentence 4 AktG between the starting date of the term of this authorization and the issuance of the respective bonds are attributed to the above-mentioned limit of 10%. Shares which are or will be issued, subject to the exclusion of subscription rights, in accordance with § 186 section 3 sentence 4 AktG or § 203 section 1 in conjunction with § 186 section 3 sentence 4 AktG between the starting date of the term of this authorization and the issuance of the respective bonds in the context of a cash capital increase are also attributed to the above-mentioned limit of 10%. Finally, shares for which there are option or conversion rights or obligations or a right to delivery of shares of the company in favor of the company due to bonds with warrants or convertible bonds issued by the company or its subordinated Group companies, subject to the exclusion of subscription rights, in accordance with § 221 section 4 sentence 2 in conjunction with § 186 section 3 sentence 4 AktG during the term of this authorization based on other authorizations are attributed to the above-mentioned limit of 10%. Notwithstanding the Supervisory Board's right to determine further approval requirements, the Executive Board requires the Supervisory Board's approval for the issuance of bonds with warrants and/or convertible bonds based on this authorization of the Annual General Meeting on May 9, 2018 with the exclusion of shareholders' subscription rights.

The Executive Board has so far not utilized the authorization to issue bonds with warrants and/or convertible bonds granted by the Annual General Meeting on May 9, 2018.

AUTHORIZATION OF THE EXECUTIVE BOARD TO REPURCHASE SHARES

The authorizations of the Executive Board to repurchase adidas AG shares arise from §§ 71 et seq. AktG and, as at the balance sheet date, from the authorization granted by the Annual General Meeting on May 12, 2016.

- Until May 11, 2021, the Executive Board is authorized to repurchase adidas AG shares in an amount totaling up to 10% of the nominal capital at the date of the resolution (or, as the case may be, a lower amount of nominal capital at the date of utilization of the authorization) for any lawful purpose and within the legal framework. The authorization may be used by the company but also by its subordinated Group companies or by third parties on account of the company or its subordinated Group companies or third parties assigned by the company or one of its subordinated Group companies.

  The repurchase can be carried out via the stock exchange, through a public invitation to submit sale offers, through a public repurchase offer, or through granting tender rights to shareholders. The authorization furthermore sets out the lowest and highest nominal value that may be granted in each case.

  The purposes for which treasury shares repurchased based on this authorization may be used are set out in the resolution on Item 9 of the Agenda for the Annual General Meeting held on May 12, 2016. The shares may in particular be used as follows:

- They may be sold on the stock exchange or through a public offer to all shareholders in relation to their shareholding quota; in case of an offer to all shareholders, subscription rights for residual amounts are excluded. The shares may also be sold differently, provided the shares are sold in exchange for a cash payment and at a price that, at the time of the sale, is not significantly below the stock market price of the company's shares with the same features; the prorated amount of the nominal capital which is attributable to the aggregate number of shares sold under this authorization may not exceed 10% of the nominal capital. The prorated amount of the nominal capital attributable to the new shares issued between May 12, 2016 and the sale of the shares based on an authorized capital with the exclusion of shareholders' subscription rights pursuant to § 203 section 1 in conjunction with § 186 section 3 sentence 4 AktG is taken into account in the limit of 10%. Likewise, the prorated amount of the nominal capital that is attributable to shares which may be issued due to bonds with warrants and/or convertible bonds which are linked to subscription or conversion rights or obligations or the company's right to delivery of shares, provided these bonds are issued on the basis of authorizations pursuant to §§ 221 section 4, 186 section 3 sentence 4 AktG between May 12, 2016 and the sale of the shares, shall also be attributed to the limit of 10%.
- They may be offered and assigned as consideration for the direct or indirect acquisition of companies, parts of companies, participations in companies or other economic assets or within the scope of company mergers.
- They may be offered and sold as consideration for the acquisition of industrial property rights or intangible property rights or for the acquisition of licenses relating

to such rights, also through subordinated Group companies.

- They may be used for purposes of meeting the subscription or conversion rights or obligations or the company's right to delivery of shares arising from bonds with warrants and/or convertible bonds issued by the company or its subordinated Group companies.
- In connection with employee stock purchase plans, up to 4,000,000 shares may be issued in favor of (current or former) employees of the company and its affiliated companies as well as in favor of (current and former) management bodies of the company's affiliated companies. The number of shares the company issues to eligible persons by partially utilizing the Authorized Capital 2016 must be attributed to the maximum number of 4,000,000 shares.
- They may be canceled without such cancelation requiring an additional resolution of the Annual General Meeting.

Furthermore, the shares may be promised or assigned to members of the Executive Board as compensation by way of a stock bonus subject to the provision that resale by the Executive Board members shall only be permitted following a retention period of at least three years from the date of assignment. Responsibility in this case lies with the Supervisory Board.

In case of utilization of shares for the above-mentioned purposes, except for the cancelation of shares, shareholders' subscription rights are excluded.

The Supervisory Board may determine that transactions based on this authorization may only be carried out subject to the approval of the Supervisory Board or one of its committees.

In the 2016 and 2017 financial years, the Executive Board partly utilized the authorization to repurchase adidas AG shares in the context of the share buyback program 2014 – 2017. In the year under review, the Executive Board resolved, following the approval of the Supervisory Board, to initiate another multi-year share buyback program and thus once again utilized the authorization to repurchase adidas AG shares. In a first tranche (total period from March 22, 2018 up to and including December 4, 2018) of this share buyback program, adidas AG bought back 5,089,879 adidas AG shares via the stock exchange in the year under review. SEE NOTE 27, P. 184

- In the scope of the authorization resolved upon by the Annual General Meeting on May 12, 2016, the Executive Board is furthermore authorized to conduct the share buyback also by using equity derivatives which are arranged with a credit institution or financial services institution in close conformity with market conditions. adidas AG may acquire call options issued for physical delivery and/or sell put options or use a combination of call and put options or other equity derivatives if the option conditions ensure that the shares delivered for these equity derivatives were purchased in compliance with the principle of equal treatment. All share purchases using the aforementioned equity derivatives are limited to a maximum value of 5% of the nominal capital existing at the date on which the resolution was adopted by the Annual General Meeting (or, as the case may be, a lower amount of nominal capital at the date of utilization of the authorization). The term of the options may not exceed 18 months and must furthermore be chosen in such a way that the shares are acquired upon the exercise of the options no later than May 11, 2021. The authorization furthermore sets out the lowest and highest nominal value that may be granted in each case.

For excluding subscription rights, the use and cancelation of shares purchased using equity derivatives, the general provisions adopted by the Annual General Meeting (set out above) are applicable accordingly.

CHANGE OF CONTROL/COMPENSATION AGREEMENTS

Material agreements entered into by adidas AG containing a change-of-control clause relate to the material financing agreements. In the case of a change of control, these agreements, in accordance with common practice, entitle the creditor to termination and early calling-in of any outstanding amounts.

No compensation agreements exist between adidas AG and members of the Executive Board or employees relating to the event of a takeover bid.

BUSINESS PERFORMANCE BY SEGMENT

adidas has divided its operating activities into the following operating segments: Europe (formerly called Western Europe), North America adidas, North America Reebok, Asia-Pacific, Russia/CIS, Latin America, Emerging Markets (formerly called Middle East), adidas Golf, Runtastic and Other centrally managed businesses. The four former operating segments Greater China, Japan, South Korea and Southeast Asia/Pacific were consolidated to one operating segment Asia-Pacific effective January 1, 2018. While the operating segments Europe, Asia-Pacific, Russia/CIS, Latin America and Emerging Markets are reported separately, North America adidas and North America Reebok are combined to the reportable segment North America. Each reportable segment comprises all wholesale, retail and e-commerce business activities relating to the distribution and sale of products of the adidas and Reebok brands to retail customers and end consumers. The remaining operating segments are aggregated under Other Businesses due to their only subordinate materiality.

EUROPE

In 2018, sales in Europe remained stable on a currency-neutral basis. In euro terms, sales in Europe declined 1% to € 5.885 billion from € 5.932 billion in 2017. adidas brand revenues remained stable on a currency-neutral basis, as growth in Sport Inspired was offset by a low-single-digit decrease in Sport Performance. Reebok brand revenues in Europe decreased 3% on a currency-neutral basis, as mid-single-digit sales growth in Classics was offset by a double-digit decline in Sport. SEE TABLE 90

Net sales in Europe
0% C.N.
€ 5.885 bn

Europe at a glance € in millions — 90

	2018	2017	Change	Change (currency-neutral)
Net sales	5,885	5,932	(1%)	0%
adidas brand	5,405	5,434	(1%)	0%
Reebok brand	480	499	(4%)	(3%)
Gross margin	47.7%	45.7%	2.0pp	–
Segmental operating profit	1,176	1,192	(1%)	–
Segmental operating margin	20.0%	20.1%	(0.1pp)	–

Gross margin in Europe increased 2.0 percentage points to 47.7% from 45.7% in 2017 as positive effects from a more favorable pricing, product and channel mix as well as lower input costs more than offset the significant negative impact from unfavorable currency developments. Operating expenses were up 7% to € 1.628 billion versus € 1.519 billion in 2017. This development reflects an increase in marketing expenditure as well as higher operating overhead costs. Operating expenses as a percentage of sales were up 2.1 percentage points to 27.7% (2017: 25.6%). The operating margin decreased 0.1 percentage points to 20.0% (2017: 20.1%), as the gross margin improvement was offset by the negative effect of higher operating expenses as a percentage of sales. Operating profit in Europe decreased 1% to € 1.176 billion versus € 1.192 billion in the prior year. SEE TABLE 90

NORTH AMERICA

Revenues in North America grew 15% on a currency-neutral basis and 10% in euro terms to € 4.689 billion from € 4.275 billion in 2017. adidas brand sales increased 17% on a currency-neutral basis with double-digit sales growth in both Sport Inspired and Sport Performance, the latter driven by double-digit sales growth in the running, training and football categories. Revenues of the Reebok brand in North America remained stable on a currency-neutral basis, as double-digit sales growth in Classics was offset by a double-digit decline in Sport. SEE TABLE 91

Net sales in North America
+15% C.N.
€ 4.689 bn

North America at a glance € in millions — 91

	2018	2017	Change	Change (currency-neutral)
Net sales	4,689	4,275	10%	15%
adidas brand	4,277	3,843	11%	17%
Reebok brand	411	432	(5%)	0%
Gross margin	41.2%	39.5%	1.7pp	–
Segmental operating profit	698	468	49%	–
Segmental operating margin	14.9%	10.9%	3.9pp	–

Gross margin in North America increased 1.7 percentage points to 41.2% (2017: 39.5%), driven by an improved pricing, product and channel mix, as well as lower input costs. Operating expenses were up 2% to € 1.305 billion versus € 1.280 billion in 2017, mainly reflecting an increase in marketing expenditure. Operating expenses as a percentage of sales decreased 2.1 percentage points to 27.8% (2017: 29.9%). As a result of the gross margin increase as well as the positive effect of lower operating expenses as a percentage of sales, the operating margin improved 3.9 percentage points to 14.9% from 10.9% in 2017. Operating profit in North America increased 49% to € 698 million from € 468 million in 2017. SEE TABLE 91

ASIA-PACIFIC

Sales in Asia-Pacific grew 15% on a currency-neutral basis. In euro terms, sales in Asia-Pacific were up 12% to € 7.141 billion from € 6.403 billion in 2017. Revenues of brand adidas increased 16% on a currency-neutral basis. This development was due to double-digit sales growth in both Sport Inspired and Sport Performance, with the latter driven by double-digit gains in the training and running categories. Reebok brand sales in Asia-Pacific grew 3% on a currency-neutral basis, driven by high-single-digit sales increases in Classics, partly offset by a low-single-digit sales decline in Sport. SEE TABLE 92

Net sales in Asia-Pacific
+15% C.N.
€ 7.141 bn

Asia-Pacific at a glance € in millions — 92

	2018	2017	Change	Change (currency-neutral)
Net sales	7,141	6,403	12%	15%
adidas brand	6,805	6,067	12%	16%
Reebok brand	336	337	0%	3%
Gross margin	56.2%	55.7%	0.5pp	–
Segmental operating profit	2,339	2,115	11%	–
Segmental operating margin	32.7%	33.0%	(0.3pp)	–

Gross margin in Asia-Pacific increased 0.5 percentage points to 56.2% (2017: 55.7%), as a more favorable pricing, product, and channel mix and lower input costs more than offset the negative impact from unfavorable currency developments. Operating expenses were up 15% to € 1.688 billion versus € 1.466 billion in 2017. This development reflects an increase in both marketing expenditure as well as operating overhead costs. Operating expenses as a percentage of sales were up 0.7 percentage points to 23.6% (2017: 22.9%). As a result of higher operating expenses as a percentage of sales, which more than offset the increase in gross margin, the operating margin was down 0.3 percentage points to 32.7% versus 33.0% in 2017. Operating profit in Asia-Pacific increased 11% to € 2.339 billion from € 2.115 billion in 2017. SEE TABLE 92

RUSSIA/CIS

Sales in Russia/CIS increased 1% on a currency-neutral basis, despite a significant amount of store closures in 2018. In euro terms, sales in Russia/CIS declined 10% to € 595 million from € 660 million in 2017. adidas brand revenues were up 5% on a currency-neutral basis, as Sport Performance grew at a mid-single-digit rate while Sport Inspired remained stable. The former was due to exceptional growth in the football category, reflecting revenues generated through leveraging the 2018 FIFA World Cup. Revenues of the Reebok brand in Russia/CIS decreased 8% on a currency-neutral basis, driven by declines in Sport and, to a lesser extent, Classics. SEE TABLE 93

Net sales in Russia/CIS
+1% C.N.
€ 595 m

Russia/CIS at a glance € in millions — 93

	2018	2017	Change	Change (currency-neutral)
Net sales	595	660	(10%)	1%
adidas brand	446	478	(7%)	5%
Reebok brand	149	182	(18%)	(8%)
Gross margin	65.8%	64.9%	0.9pp	–
Segmental operating profit	146	136	7%	–
Segmental operating margin	24.6%	20.6%	4.0pp	–

Gross margin in Russia/CIS increased 0.9 percentage points to 65.8% from 64.9% in 2017, despite a less favorable pricing and channel mix as well as significant negative currency effects. Operating expenses were down 16% to € 245 million (2017: € 292 million), mainly reflecting a decline in operating overhead costs. Operating expenses as a percentage of sales decreased 3.0 percentage points to 41.2% versus 44.3% in the prior year. As a result of the gross margin increase and the positive effect of lower operating expenses as a percentage of sales, the operating margin improved 4.0 percentage points to 24.6% from 20.6% in 2017. Operating profit in Russia/CIS increased 7% to € 146 million versus € 136 million in 2017. SEE TABLE 93

LATIN AMERICA

Revenues in Latin America increased 6% on a currency-neutral basis. In euro terms, sales in Latin America declined 14% to € 1.634 billion from € 1.907 billion in 2017. The first-time application of hyper-inflation accounting according to IAS 29 in Argentina negatively impacted reported sales of the Latin America segment, whereas the impact on currency-neutral sales growth was slightly positive. Revenues of brand adidas were up 8% on a currency-neutral basis. This development was driven by a mid-single-digit sales increase at Sport Inspired while Sport Performance remained stable, despite a double-digit increase in the football category. Reebok brand sales in Latin America declined 12% on a currency-neutral basis, driven by a double-digit decline in Sport and a mid-single-digit decline in Classics. SEE TABLE 94

Net sales in Latin America
+6% C.N.
€ 1.634 bn

Latin America at a glance € in millions — 94

	2018	2017	Change	Change (currency-neutral)
Net sales	1,634	1,907	(14%)	6%
adidas brand	1,463	1,673	(13%)	8%
Reebok brand	171	235	(27%)	(12%)
Gross margin	44.9%	42.1%	2.8pp	–
Segmental operating profit	279	268	4%	–
Segmental operating margin	17.1%	14.0%	3.0pp	–

Gross margin in Latin America increased 2.8 percentage points to 44.9% (2017: 42.1%), as the very positive effect from a more favorable pricing mix and lower input costs was only partly offset by significant negative currency effects. Operating expenses decreased 15% to € 454 million from € 535 million in 2017, reflecting a decrease in operating overhead costs. Operating expenses as a percentage of sales declined 0.3 percentage points to 27.8% (2017: 28.1%). As a result of lower operating expenses as a percentage of sales and the gross margin increase, the operating margin improved 3.0 percentage points to 17.1% from 14.0% in 2017. Operating profit in Latin America increased 4% to € 279 million versus € 268 million in 2017. SEE TABLE 94

EMERGING MARKETS

Revenues in Emerging Markets were down 3% on a currency-neutral basis. In euro terms, sales in Emerging Markets declined 12% to € 1.144 billion from € 1.300 billion in 2017. Sales of the adidas brand decreased 4% on a currency-neutral basis, driven by single-digit sales decreases in Sport Inspired and, to a lesser extent, Sport Performance. Reebok brand revenues in Emerging Markets remained stable on a currency-neutral basis, as exceptional double-digit growth in Classics was offset by a high-single-digit decline in Sport. SEE TABLE 95

Net sales in Emerging Markets
(3%) C.N.
€ 1.144 bn

Emerging Markets at a glance € in millions — 95

	2018	2017	Change	Change (currency-neutral)
Net sales	1,144	1,300	(12%)	(3%)
adidas brand	1,010	1,153	(12%)	(4%)
Reebok brand	134	147	(9%)	0%
Gross margin	52.8%	49.2%	3.6pp	–
Segmental operating profit	318	325	(2%)	–
Segmental operating margin	27.8%	25.0%	2.8pp	–

Gross margin in Emerging Markets increased 3.6 percentage points to 52.8% (2017: 49.2%), driven by an improved pricing and channel mix as well as lower input costs, partly offset by significant negative currency effects. Operating expenses were down 9% to € 286 million versus € 315 million in 2017, reflecting a decrease in marketing expenditure as well as operating overhead costs. As a percentage of sales, operating expenses increased 0.7 percentage points to 25.0% from 24.2% in 2017. The operating margin was up 2.8 percentage points to 27.8% (2017: 25.0%), as a result of the higher gross margin, which more than offset the negative effect of higher operating expenses as a percentage of sales. Operating profit in Emerging Markets decreased 2% to € 318 million versus € 325 million in 2017. SEE TABLE 95

OUTLOOK

In 2019, we expect growth of the global economy and consumer spending to moderate slightly, yet still to provide a positive backdrop for robust expansion of the sporting goods industry. Through our extensive pipeline of innovative products, powerful brand-building activities and tight control of both our inventory levels and our cost base, we project significant revenue growth and strong bottom-line improvements in 2019. We forecast sales to increase at a rate between 5% and 8% on a currency-neutral basis. Gross margin is projected to increase to a level around 52.0%, while operating margin is expected to increase between 0.5 percentage points and 0.7 percentage points to a level between 11.3% and 11.5%. As a result, we project net income from continuing operations, excluding the impact from the application of the new reporting standard IFRS 16, to increase between 10% and 14% to a level between € 1.880 billion and € 1.950 billion.

FORWARD-LOOKING STATEMENTS

This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of our company. The outlook is based on estimates that we have made on the basis of all the information available to us at the time of completion of this Annual Report. In addition, such forward-looking statements are subject to uncertainties which are beyond the control of the company. SEE RISK AND OPPORTUNITY REPORT, P. 131 In case the underlying assumptions turn out to be incorrect or described risks or opportunities materialize, actual results and developments may materially deviate (negatively or positively) from those expressed by such statements. adidas does not assume any obligation to update any forward-looking statements made in this Management Report beyond statutory disclosure obligations.

GLOBAL ECONOMIC GROWTH TO SLOW IN 2019[1]

Global GDP growth is projected to moderate slightly to 2.9% in 2019, not least due to a decrease in industrial activity and trade. Furthermore, ongoing trade disputes could become more widespread, adversely affecting economies involved and leading to negative global spillovers. In addition, the global GDP growth projection conceals differences between the pace of growth in developed and developing economies. Developing economies are forecast to see a stabilization of growth at 4.2%, as commodity-exporting economies are expected to benefit from a continued stabilization of oil and other commodity prices. In contrast, growth in developed economies is projected to slow to 2.0%, as further gradual monetary tightening appears likely and capacity constraints become increasingly binding. On a global level, additional downside risks include a rise in borrowing costs and financial market turbulences. Furthermore, ongoing instances of trade protectionism or geopolitical conflicts might dampen consumer confidence, trade and growth.

SPORTING GOODS INDUSTRY EXPANSION TO CONTINUE IN 2019

In the absence of any major macroeconomic shocks, we expect the global sporting goods industry to grow at a mid-single-digit rate in 2019. North America, the biggest market by size globally, will continue to drive the industry growth in absolute terms. At the same time, most markets globally look set to continue expanding at robust rates. Progressing urbanization and a growing middle class in many developing economies are predicted to further contribute to a growing industry. In developed economies, the sporting goods industry is forecast to expand, as wage increases on the back of generally strong labor market conditions will support consumer spending on sporting goods. Around the world, rising sports participation and health awareness is projected to continue to boost demand for athletic performance products. In addition, sportswear penetration rates are forecast to edge up further as sports-inspired apparel and footwear ('*athleisure*' SEE GLOSSARY) has become a structural component of the broader fashion landscape, fueling the demand for athletic casual and activewear products. Collaborations between sportswear brands and non-athlete influencers are tending to intensify and multiply. Within the supply chain, innovation such as the application of new manufacturing techniques is projected to enhance speed-to-market capabilities of sports brands, which will favorably impact sales growth and inventory levels as consumers' demands can be met faster and more precisely. On the distribution side, the e-commerce channel, which is already a significant growth driver for the industry, is anticipated to broaden out further as investments into the digital transformation continue. For the sporting goods industry, too, risks related to trade protectionism and geopolitical tensions might intensify.

CURRENCY-NEUTRAL SALES TO INCREASE BETWEEN 5% AND 8% IN 2019

We expect sales to increase at a rate between 5% and 8% on a currency-neutral basis in 2019. SEE TABLE 96 Despite continued uncertainties regarding the global economic outlook, the company's sales development will be favorably impacted by rising consumer spending, increasing penetration of sportswear ('athleisure') and growing health awareness in most geographical areas. In addition, the further expansion and improvement of our controlled space initiatives, in particular through our own e-commerce channel, is expected to contribute to sales growth.

CURRENCY-NEUTRAL REVENUES TO INCREASE IN ALL MARKET SEGMENTS

In 2019, we expect currency-neutral revenues to increase in all market segments. While currency-neutral sales are

1 Source: World Bank Global Economic Prospects.

projected to grow at a double-digit rate in Asia-Pacific, currency-neutral revenues in North America and Emerging Markets are expected to grow at a high-single-digit rate. Sales in Latin America and Russia/CIS are forecast to improve at a low-single-digit rate in currency-neutral terms. In Europe, we expect to return to growth in the course of the year and forecast a slight increase in currency-neutral revenues in 2019. SEE TABLE 96

GROSS MARGIN EXPECTED TO INCREASE

In 2019, the gross margin is forecast to increase to a level around 52.0%. SEE TABLE 96 Gross margin will benefit from the positive effects of favorable currency movements as well as a better channel and regional mix. These improvements will be largely offset by a less favorable pricing mix due to selective price investments, the negative impact from higher labor expenditures in our sourcing countries and higher commodity prices.

OPERATING MARGIN TO EXPAND TO A LEVEL BETWEEN 11.3% AND 11.5%

In 2019, the operating margin is expected to increase between 0.5 percentage points and 0.7 percentage points to a level between 11.3% and 11.5% compared to the prior year level of 10.8%. This, together with continued top-line growth, is expected to drive a double-digit-rate improvement of the bottom line. Excluding the impact from the application of the new reporting standard IFRS 16, net income from continuing operations is projected to increase to a level between € 1.880 billion and € 1.950 billion, reflecting an increase of between 10% and 14% compared to the prior year level of € 1.709 billion.

2019 Outlook **96**

Currency-neutral sales development (in %):	
adidas	to increase at a rate between 5% and 8%
Europe[1]	slight increase
North America[1]	high-single-digit increase
Asia-Pacific[1]	double-digit increase
Russia/CIS[1]	low-single-digit increase
Latin America[1]	low-single-digit increase
Emerging Markets[1]	high-single-digit increase
Gross margin	to increase to a level of around 52.0%
Operating margin	to increase between 0.5pp and 0.7pp to a level between 11.3% and 11.5%
Net income from continuing operations[2]	to increase at a rate between 10% and 14% to a level between € 1.880 billion and € 1.950 billion
Average operating working capital in % of sales	slight increase
Capital expenditure	to increase to a level of up to € 900 million

1 Combined sales of the adidas and Reebok brands.
2 2019 excluding negative impact from accounting change according to IFRS 16 of around € 35 million (based on lease contracts as per January 1, 2019); including this impact, net income from continuing operations is currently expected to increase at a rate between 8% and 12% to a level between € 1.845 billion and € 1.915 billion.

NEW REPORTING STANDARD TO IMPACT REPORTED EARNINGS

The change in recognition of lease obligations with the first-time application of IFRS 16 as of January 1, 2019, will impact reported earnings. Based on lease contracts as of January 1, 2019, the new reporting standard is projected to have a negative impact of around € 35 million on the company's net income from continuing operations. Including this accounting effect, net income from continuing operations is currently expected to increase to a level between € 1.845 billion and € 1.915 billion. This equals a year-on-year increase of between 8% and 12% compared to the prior year level of € 1.709 billion. SEE NOTE 01, P. 155

AVERAGE OPERATING WORKING CAPITAL AS A PERCENTAGE OF SALES TO INCREASE SLIGHTLY

In 2019, average operating working capital as a percentage of sales is projected to slightly increase compared to the significantly better-than-expected prior year level of 19.0%.

CAPITAL EXPENDITURE TO INCREASE TO UP TO € 900 MILLION

In 2019, capital expenditure is expected to increase to up to € 900 million (2018: € 794 million). Investments will mainly focus on controlled space initiatives of the adidas and Reebok brands in both e-commerce and physical retail, the company's IT and logistics infrastructure as well as the further development of state-of-the-art corporate facilities in Herzogenaurach, Germany, and Portland, Oregon/USA.

MANAGEMENT TO PROPOSE DIVIDEND OF € 3.35

As a result of the strong operational and financial performance in 2018, our robust financial position as well as Management's confidence in our short- and long-term growth aspirations, the adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 3.35 per dividend-entitled share for 2018 (2017: € 2.60) to shareholders at the Annual General Meeting (AGM) on May 9, 2019. This represents a payout ratio of 39.0% based on the company's net income from continuing operations (2017: 37.0%). This is in line with our long-term policy to distribute between 30% and 50% of net income from continuing operations to shareholders.

SEE OUR SHARE, P. 57

RISK AND OPPORTUNITY REPORT

In order to remain competitive and ensure sustainable success, adidas consciously takes risks and continuously explores and develops opportunities. Our risk and opportunity management principles and system provide the framework for our company to conduct business in a well-controlled environment.

RISK AND OPPORTUNITY MANAGEMENT PRINCIPLES

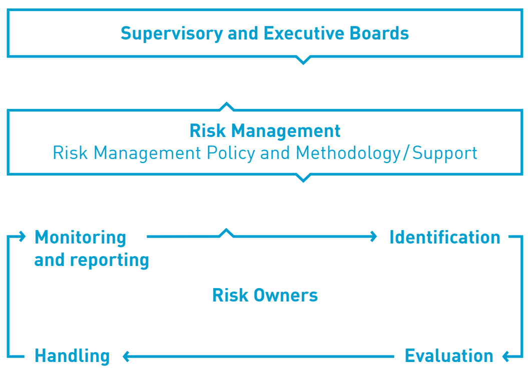
We define risk as the potential occurrence of an external or internal event (or series of events) that may negatively impact our ability to achieve the company's business objectives or financial goals. Opportunity is defined as the potential occurrence of an external or internal event (or series of events) that can positively impact the company's ability to achieve its business objectives or financial goals. We have summarized risks in four main categories: Strategic, Operational, Legal and Compliance, and Financial. Opportunities are classified in two main categories: Strategic and Operational, and Financial.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

The Executive Board has overall responsibility for establishing an effective risk and opportunity management system that ensures comprehensive and consistent management of all material risks and opportunities. SEE DIAGRAM 97 The Risk Management department governs, operates and develops the company's risk and opportunity management system and is the owner of the centrally managed risk and opportunity management process on behalf of the Executive Board. The Supervisory Board is responsible for monitoring the effectiveness of the risk management system. These duties are undertaken by the Supervisory Board's Audit Committee. Working independently of all other functions of the organizations, the Internal Audit department provides objective assurance to the Executive Board and the Audit Committee regarding the adequacy and effectiveness of the company's risk and opportunity management system on a regular basis. In addition, the Internal Audit department includes an assessment of the effectiveness of risk management processes and compliance with the company's Risk Management Policy as part of its regular auditing activities with selected adidas subsidiaries or functions each year.

Our risk and opportunity management system is based on frameworks for enterprise risk management and internal controls developed and published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Additionally, we have adapted our risk and opportunity management system to more appropriately reflect the structure as well as the corporate and management culture of the company. This system focuses on the identification, evaluation, handling, monitoring and systematic reporting of risks and opportunities. The key objective of the risk and opportunity management system is to support business success and protect the company as a going concern through an opportunity-focused but risk-aware decision-making framework. Our Risk Management Policy outlines the principles, processes, tools, risk areas, key responsibilities, reporting requirements and communication timelines within our company.

adidas risk and opportunity management system **97**



Risk and opportunity management is a company-wide activity which utilizes key insights from the members of the Executive Board as well as from global and local business units and functions.

Our risk and opportunity management process comprises the following steps:

- **Risk and opportunity identification:** adidas continuously monitors the macroeconomic environment and developments in the sporting goods industry, as well as internal processes, to identify risks and opportunities as early as possible. Our company-wide network of Risk Owners (at least all leaders reporting directly to the Executive Board, including the Managing Directors of our markets) ensures an effective bottom-up identification of risks and opportunities. The Risk Management department has defined a catalog of potential risk areas (Risk Universe) to assist Risk Owners in identifying and categorizing risks and opportunities. The Risk Owners use various instruments in the risk and opportunity identification process, such as primary qualitative and quantitative research including trend scouting and consumer surveys as well as feedback from our business partners and controlled space network. These efforts are supported by global market research and competitor analysis. Through this process, we seek to identify the markets, categories, consumer target groups and product styles which show most potential for future growth at a local and global level. Equally, our analysis focuses on those areas that are at risk of saturation or exposed to increased competition or changing consumer tastes. However, our risk and opportunity identification process is not only limited to external risk factors or opportunities; it also includes an internal perspective that considers company culture, processes, projects, human resources and compliance aspects.

- **Risk and opportunity evaluation:** We assess identified risks and opportunities individually according to a systematic evaluation methodology, which allows adequate prioritization as well as allocation of resources. Risk and opportunity evaluation is also part of the Risk Owners' responsibility. The Risk Management department supports and guides the Risk Owners in the evaluation process. According to our methodology, risks and opportunities are evaluated by looking at two dimensions: the potential impact and the likelihood that this impact materializes. Based on this evaluation, we classify risks and opportunities into three categories: minor, moderate and major (previously: marginal, minor, moderate, significant, major).

The potential impact is evaluated using five categories: marginal, low, medium, high and significant. These categories represent financial or equivalent non-financial measurements. The financial measurements are based on the potential effect on the company's net income. Non-financial measurements used are the degree of media exposure affecting the company's reputation, brand image and employer value proposition, the degree of damage to people's health and safety, and the degree of legal and judicial consequences at the corporate and personal level. Likelihood represents the possibility that a given risk or opportunity may materialize with the specific impact. The likelihood of individual risks and opportunities is evaluated on a percentage scale divided into five categories: below 15%, 15% - 30%, 30% - 50%, 50% - 85% and above 85%.

SEE DIAGRAM 98

Risk evaluation categories 98

	Marginal	Low	Medium	High	Significant
Financial equivalent[1]	€ 1 million – € 10 million	€ 10 million – € 35 million	€ 35 million – € 60 million	€ 60 million – € 100 million	> € 100 million
Qualitative equivalent	Almost no media coverage. Minor harm to employees or third parties such as consumers, customers, vendors, athletes that does not require medical treatment. Internal corrective actions required.	Limited local media coverage. Minor harm to employees or third parties such as consumers, customers, vendors, athletes that requires medical treatment. Judicial investigations leading to no direct sanctions but requiring internal corrective actions, including dismissal of employees.	Local and limited national media coverage. Harm to employees or third parties such as consumers, customers, vendors, athletes that leads to hospitalization. Judicial investigations leading to imprisonment of employees and/or business interruption.	Several weeks of national media coverage and some international media coverage. Serious, life-changing harm to employees or third parties such as consumers, customers, vendors, athletes. Judicial investigations leading to imprisonment of senior leadership and/or significant business interruption including due to ongoing investigations.	More than a month of extensive international media coverage. Fatalities of employees or third parties such as consumers, customers, vendors, athletes. Litigation (including class action), imprisonment of Board member(s), monitorship and/or cessation of business operations due to court order.

Potential impact

Risk classification: Minor Moderate Major

1 Based on net income.

When evaluating risks and opportunities, we also consider the earliest time period when the company's target achievement may be impacted, in order to provide a broad perspective and ensure early identification and mitigation. Short-term risks and opportunities may affect the achievement of the company's objectives already in the current financial year, mid-term risks and opportunities would impact the company's target achievement in the next financial year, while long-term risks and opportunities might only have an effect on the achievement of the company's objectives after the next financial year.

We consider both gross and net risks in our risk assessments. While the gross risk reflects the inherent risk before any mitigating action, the net risk reflects the residual risk after all mitigating action. On the one hand, this approach allows for a good understanding of the impact of mitigating action taken; on the other hand, it provides the basis for scenario analysis. Our assessment of risks presented in this report only reflects the net risk perspective. We measure the actual financial impact of the most relevant risks that materialized against the original assessment on a yearly basis. In this way, we ensure continuous monitoring of the accuracy of risk evaluations across the company, which enables us to continuously improve evaluation methodology based on our findings.

In assessing the potential effect from opportunities, each opportunity is appraised with respect to viability, commerciality and potential risks. This approach is applied to longer-term strategic prospects but also to shorter-term tactical and opportunistic initiatives at the corporate level as well as at the market and brand level. In contrast to the risk evaluation, only the net perspective exists for assessing opportunities.

— **Risk and opportunity handling:** Risks and opportunities are treated in accordance with the company's risk and opportunity management principles as described in the Risk Management Policy. Risk Owners are in charge of developing and implementing appropriate risk-mitigating action and exploiting opportunities within their area of responsibility. In addition, the Risk Owners need to determine a general risk-handling strategy for the identified risks, which is either risk avoidance, risk reduction with the objective to minimize impact and/or likelihood, risk transfer to a third party or risk acceptance. The decision on the implementation of the respective risk-handling strategy also takes into account the costs in relation to the effectiveness of any planned mitigating action if applicable. The Risk Management department works closely with the Risk Owners to monitor the continuous progress of planned mitigating action and assess the viability of already implemented mitigating action.
— **Risk and opportunity monitoring and reporting:** Our risk and opportunity management system aims to increase the transparency of risks and opportunities. As both risks and opportunities are subject to constant change, Risk Owners not only monitor developments but also the adequacy and effectiveness of the current risk-handling strategy on an ongoing basis.

Regular risk reporting takes place half-yearly and consists of a five-step reporting stream that is supported and facilitated by a globally used company-wide IT solution:

1. Risk Owners are required to report to Risk Management risks that have a possible gross impact of € 10 million and above or a net impact of € 1 million and above, both regardless of the likelihood of materializing. Risk Owners are also required to report all opportunities that have an impact of € 1 million and above.

2. Risk Management consolidates and aggregates the reported risks and opportunities and provides a consolidated report based on the Risk Owners' input to each member of the Executive Board concerning his or her individual area of responsibility. Each report specifically highlights substantial individual risks and opportunities. Each member of the Executive Board reviews the reported risks and opportunities of his or her individual area of responsibility, adding his or her own assessment of risks and opportunities if necessary.

3. Risk Management provides a consolidated report to all members of the Executive Board that includes both the assessment of each member of the Executive Board and the major risks and opportunities reported by Risk Owners. The Executive Board reviews the report, jointly agrees on a final company assessment of risks and opportunities and decides if Risk Owners are required to take further action.

4. Based on the Executive Board's decision, Risk Management creates the final risk and opportunity report that is also shared with a selected group of leaders across the company.

5. The Executive Board in collaboration with Risk Management presents the final risk and opportunity assessment results to the Audit Committee of the Supervisory Board.

Material changes in previously reported risks and opportunities and/or newly identified risks and opportunities that are classified as moderate or major as well as any issues identified which, due to their material nature, require immediate reporting, are also reported outside the regular half-yearly reporting stream on an ad hoc basis to the Risk Management department and the Executive Board.

COMPLIANCE MANAGEMENT SYSTEM (ADIDAS FAIR PLAY COMPLIANCE FRAMEWORK)

We consider compliance with the law as well as with external and internal regulations to be imperative. The Executive Board sets the tone right from the top – every employee is required to act ethically and in compliance with the law as well as with external and internal regulations while executing the company's business. Violations must be avoided under all circumstances. As a company with worldwide operations and around 57,000 employees, however, we realize that it will never be possible to exclude compliance violations with absolute certainty.

The adidas Fair Play Compliance Framework is overseen by the company's Chief Compliance Officer. We see compliance as all-encompassing, spanning all business functions throughout the entire value chain. Our central Compliance team works closely with Regional Compliance Managers and Local Compliance Officers to conduct a systematic assessment of key compliance risks on a yearly basis. In addition, the central Compliance team regularly conducts compliance reviews within selected entities.

The company's Compliance Management System (CMS) is based on the OECD Principles of Corporate Governance. It refers to the OECD Guidelines for Multinational Enterprises, and is designed to:

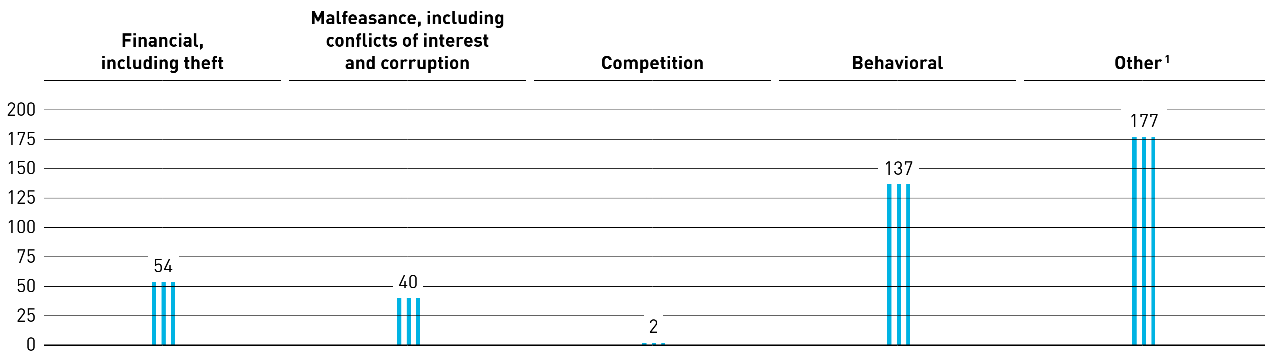
- support the achievement of qualitative and sustainable growth through good corporate governance;
- reduce and mitigate the risk of financial losses or damage caused by non-compliant conduct;
- protect and further enhance the value and reputation of the company and its brands through compliant conduct; and
- preserve diversity by fighting harassment and discrimination.

The adidas Fair Play Code of Conduct stipulates guidelines for behavior in everyday work, which all employees are obliged to comply with. It is applicable globally and for all business areas, accessible on our website and on our intranet. In 2018, we improved the usability of the Code of Conduct and refreshed its design. We also consolidated five compliance policies into one user-friendly Compliance Policy that covers topics including Anti-Bribery and Corruption, Gifts and Entertainment, Anti-Fraud and Theft, Antitrust and Competition Law, Conflict of Interests, Non-Retaliation, and Consequence Management. ↗ ADIDAS-GROUP.COM/S/CODE-OF-CONDUCT

The Code of Conduct and our CMS are organized around three pillars: prevent, detect and respond.

- **Prevention:** The foundation of our CMS is the adoption and implementation of our Fair Play Code of Conduct, the Compliance Policy, and the Privacy Policy. adidas issues targeted compliance-related communication by management and the Compliance department and provides mandatory training to all employees globally during onboarding as well as in regular, repeated cycles. In 2018, we updated the online Code of Conduct training, which more than 18,000 employees completed. Additionally, nearly 18,000 employees completed our web-based Preventing Fraud and Theft training. Furthermore, we conducted in-person compliance training seminars with members of the Executive Board, senior management and newly promoted or hired senior executives across the globe in order to further enhance the compliance 'tone from the top', as well as the 'tone from the middle'. We closely monitor the completion rates for these training measures and continuously update our web-based training.
- **Detection:** We implemented whistleblowing procedures to ensure timely detection of potential infringements of statutory regulations or internal guidelines. Employees can report compliance concerns internally to their supervisor, the Chief Compliance Officer, Regional Compliance Managers or Local Compliance Officers, the relevant HR manager or the Works Council. Employees can also report externally via an independent, confidential reporting hotline, website, or email service, and can choose to do so anonymously through the Fair Play hotline. The hotline is available at all times worldwide.
- **Response:** Appropriate and timely response to compliance violations is essential. The Chief Compliance Officer leads all investigations in cooperation with an established team of Regional Compliance Managers and a global network of Local Compliance Officers. We track, monitor, and report

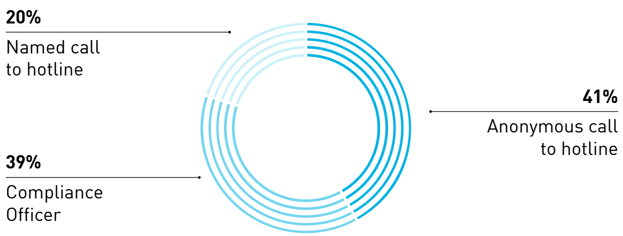
Potential compliance violations 99



1 Includes payroll issues, intellectual property and leaks of confidential information, inter alia.

potential incidents of non-compliance worldwide. In 2018, we recorded 410 potential compliance violations (2017: 419). SEE DIAGRAM 99, SEE DIAGRAM 100 Most importantly, insights gained from the investigation of past violations are used to continuously improve the CMS. Where necessary, we react promptly to confirmed compliance violations, through appropriate and effective sanctions ranging from warnings to termination of employment contracts.

Reporting of potential compliance violations in % **100**



In 2018, we reinforced the adidas compliance organization and activities, and enhanced cooperation with other governance functions, e.g. Internal Audit, Internal Controls, and Risk Management.

The company's General Counsel and the Chief Compliance Officer regularly report to the Executive Board on the further development of the compliance program and on major compliance cases. In addition, the Chief Compliance Officer reports to the Audit Committee on a regular basis. In 2018, the Chief Compliance Officer attended five meetings of the Audit Committee of the Supervisory Board to report on the further development of the compliance program, major compliance cases and other relevant compliance topics.

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELATING TO THE CONSOLIDATED FINANCIAL REPORTING PROCESS PURSUANT TO § 315 SECTION 4 GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH – HGB)

The internal control and risk management system relating to the consolidated financial reporting process of the company represents a process embedded within the company-wide corporate governance system. It aims to provide reasonable assurance regarding the reliability of the company's external financial reporting by ensuring company-wide compliance with statutory accounting regulations, in particular the International Financial Reporting Standards (IFRS) and internal consolidated financial reporting policies (Finance Manual). We regard the internal control and risk management system as a process based on the principle of segregation of duties, encompassing various sub-processes in the areas of Accounting, Controlling, Taxes, Treasury, Planning, Reporting and Legal, focusing on the identification, assessment, treatment, monitoring and reporting of financial reporting risks. Clearly defined responsibilities are assigned to each distinct sub-process. In a first step, the internal control and risk management system serves to identify, assess, limit and control risks identified in the consolidated financial reporting process which might result in the consolidated financial statements not being compliant with internal and external regulations.

Internal Control over Financial Reporting (ICoFR) serves to provide reasonable assurance regarding the reliability of financial reporting and compliance with applicable laws and regulations. To monitor the effectiveness of ICoFR, the Policies and Internal Controls department and the Internal Audit department regularly review accounting-related processes. Additionally, as part of the year-end audit, the external auditor assesses the effectiveness of selected internal controls, including IT controls. The Audit Committee of the Supervisory Board also monitors the effectiveness of ICoFR. However, due to the limitations of ICoFR, even with appropriate and functional systems absolute certainty about the effectiveness of ICoFR cannot be guaranteed.

All adidas companies are required to comply with the consolidated financial reporting policies (Finance Manual), which are available to all employees involved in the financial reporting process through the company-wide intranet. We update the Finance Manual on a regular basis, dependent on regulatory changes and internal developments. Changes to the Finance Manual are promptly communicated to all adidas companies. Clear policies serve to limit employees' scope of discretion with regard to recognition and valuation of assets and liabilities, thus reducing the risk of inconsistent accounting practices within the company. We aim to ensure compliance with the Finance Manual through continuous adherence to the four-eyes principle in accounting-related processes. In addition, each quarter, the local manager responsible for the accounting process within the respective company and the respective local Managing Director confirm adherence to the Finance Manual and to IFRS in a signed representation letter to the Accounting department.

The accounting for adidas companies is conducted either locally or by an adidas Shared Service Center. The majority of the IT Enterprise Resource Planning (ERP) systems used are based on a company-wide standardized SAP system. Following approval by the Finance Director of the respective adidas company, the local financial statements are transferred to a central consolidation system based on SAP SEM-BCS. At the corporate level, the regularity and reliability of the financial statements prepared by adidas companies are reviewed by the Accounting and Controlling departments. These reviews include automated validations in the system as well as the creation of reports and analyses to ensure data integrity and adherence to the reporting logic. In addition, differences between current-year and prior-year financial data as well as budget figures are analyzed on a market level. If necessary, adidas seeks the opinion of independent experts to review business transactions that occur infrequently and on a non-routine basis. After ensuring data plausibility, the centrally coordinated and monitored consolidation process begins, running automatically on SAP SEM-BCS. Controls within the individual consolidation steps, such as those relating to the consolidation of debt or of income and expenses, are conducted both manually and system-based, using automatically created consolidation logs. Any inadequacies are remedied manually by systematically processing the individual errors as well as differences and are reported back to the adidas companies. After finalization of all consolidation steps, all items in the consolidated income statement and in the consolidated statement of financial position are analyzed with respect to trends and variances. Unless already otherwise clarified, the adidas companies are asked to explain any identified material deviations.

Corporate risks overview 101

	Potential impact	Change (2017 rating)	Likelihood	Change (2017 rating)
Strategic risks				
Consumer demand risks	High	↓ (Significant)	15% – 30%	
Risks related to distribution strategy	Medium	↓ (Significant)	30% – 50%	
Macroeconomic, sociopolitical and regulatory risks	Significant		< 15%	
Competition risks	Medium		15% – 30%	↓ (30% – 50%)
Risks related to technology change	Medium	↓ (High)	15% – 30%	
Operational risks				
Business partner risks	High	↓ (Significant)	15% – 30%	
IT and cyber security risks	Significant	↑ (High)	< 15%	↓ (15% – 30%)
Hazard risks	Significant		< 15%	
Project risks	Significant		< 15%	
Inventory risks	Medium	↓ (High)	15% – 30%	↑ (< 15%)
Personnel risks	Medium	↓ (High)	< 15%	
Legal and compliance risks				
Risks related to customs and tax regulations	High		15% – 30%	↓ (30% – 50%)
Risks related to product counterfeiting and imitation	Significant		< 15%	↓ (15% – 30%)
Fraud and corruption risks	Significant		< 15%	
Data privacy risks	High	↓ (Significant)	< 15%	↓ (15% – 30%)
Financial risks				
Currency risks	Significant		< 15%	↓ (15% – 30%)
Credit risks	Significant		< 15%	

All financial systems used are protected against malpractice by means of appropriate authorization concepts, approval concepts and access restrictions. Access authorizations are reviewed on a regular basis and updated if required. The risk of data loss or outage of accounting-related IT systems is minimized through central control and monitoring of virtually all IT systems, centralized management of change processes and regular data backups.

ILLUSTRATION OF RISKS

This report includes an explanation of risks that we deem to be relevant to the achievement of the company's objectives in the time period from 2019 to 2021. According to our risk assessment methodology, only consumer demand risks, business partner risks and risks related to customs and tax regulations are considered material. Our presentation of risks in this year's Annual Report differs slightly from the 2017 Annual Report as we have adjusted financial and non-financial measurements to assess the potential impact. The risks overview table shows the assessment of all risks described below. SEE TABLE 101

STRATEGIC RISKS

Consumer demand risks

Success in the sporting goods industry largely depends on the ability to continuously create new, innovative footwear and apparel products. In that respect, anticipating and quickly responding to changes in consumer demand or consumer trends is essential. Consumer demand changes can be sudden and unexpected, particularly when it comes to the more fashion-related part of our business. Therefore, failure to anticipate consumer demand, as well as creating and offering products that do not resonate with consumers, is a critical risk to the success of our brands, especially considering our strategy to focus on key product franchises. SEE ADIDAS BRAND STRATEGY, P. 67 Because of average lead times of 12 to 18 months, we face a risk of short-term revenue loss in cases where we are unable to respond quickly to changes in consumer demand. Even more critical, however, is the risk of continuously overlooking new consumer trends or failing to acknowledge their potential magnitude over a sustained period of time.

To mitigate these risks, identifying and responding to shifts in consumer demand as early as possible is a key responsibility of our brand organizations and, in particular, of the respective Risk Owners. Therefore, we utilize extensive primary and secondary research tools as outlined in our risk and opportunity identification process. By putting the consumer at the center of our decision-making we intend to create higher brand advocacy. As part of our adidas brand advocacy program, we continuously monitor the *Net Promoter Score (NPS)* SEE GLOSSARY and strive to understand consumers' perception. SEE ADIDAS BRAND STRATEGY, P. 67 We continuously expand our consumer analytics efforts to read and quickly react to changes in demand or trend shifts. In addition, direct communication with consumers on social media platforms or direct touchpoints with consumers via our own e-commerce channel help us strengthen our understanding of consumer preferences and behavior and, as a result, help us to reduce our vulnerability to changes in demand. Through continuous monitoring of sell-through data and disciplined product lifecycle management, in particular for our major product franchises, we are able to better detect demand patterns and prevent overexposure. Our Speed programs also help us mitigate the risk as they enable us to be faster in case of demand shifts. SEE CORPORATE STRATEGY, P. 62 By leveraging our promotion partnerships for launches of key product franchises and by carefully orchestrating launch events across markets and channels, we intend to maintain brand desire and consumer demand at a constantly high level. Our collaboration-based innovation model Open Source also helps us to utilize external insights to drive consumer demand, brand desire, market share and profitability.

Risks related to distribution strategy

The retail industry has seen continuous change over the last few years, with consumers demanding a seamless shopping experience across various distribution channels. The inability to adjust our distribution strategy in a timely manner to this changing retail industry, which is experiencing increasing substitution of physical retail stores by digital commerce platforms as well as an increasing connection of physical and digital retail, could result in sales and profit shortfalls. A decline in the attractiveness of particular shopping locations such as shopping malls could lead to sales shortfalls in our customers' and our own stores, higher inventory in the marketplace, increased clearance activity and margin pressure. Failure to recognize and respond to consolidation in the retail industry could lead to increased dependency on particular retail partners, reduced bargaining power and, consequently, margin erosion. Changes to segmentation, store formats and channel strategies could lead to inadequate utilization of our multiple distribution channels as well as strong retaliation from our customers and franchise partners. An unbalanced portfolio of own-retail stores (e.g. overexposure to certain markets or store formats) or inappropriate store locations may result in worse-than-expected sales development and lower profitability.

To mitigate these risks, adidas has developed and implemented clearly defined distribution policies and procedures to avoid overdistribution of products in a particular channel. We continuously and closely monitor numerous indicators (e.g. order placement, sell-through rates at point of sale, average selling prices, discounts, store traffic) that help us identify changes in the retail environment and quickly take appropriate action such as closing or remodeling own stores. New store openings are managed according to a standardized company-wide business plan model, taking into account best practices from around the world. We constantly adjust our segmentation strategies to ensure that the right product is sold at the right point of sale to the right consumer at an appropriate price. Our omni-channel initiatives help us leverage learnings across our distribution channels and prevent cannibalization. SEE SALES AND DISTRIBUTION STRATEGY, P. 72

Macroeconomic, sociopolitical and regulatory risks

Growth in the sporting goods industry is highly dependent on consumer spending and consumer confidence. Economic downturns, financial market turbulence and sociopolitical factors such as military conflicts, changes of government, civil unrest, nationalization or expropriation, in particular in regions where adidas is strongly represented, therefore could negatively impact the company's business activities and top- and bottom-line performance. In addition, substantial changes in the regulatory environment (e.g. trade restrictions, economic and political sanctions, regulations concerning product safety) could lead to potential sales shortfalls or cost increases. For example, the UK's withdrawal from the European Union ('Brexit') could cause business and consumer uncertainty and create an additional administrative burden to adhere to changes in regulatory frameworks concerning critical areas such as the movement of goods or the movement of people. The ongoing trade dispute between the US and China could result in the imposition of additional trade tariffs also affecting athletic footwear and apparel and could have substantial effects on economic growth not only in two of the company's key markets but also globally.

To mitigate these macroeconomic, sociopolitical and regulatory risks, adidas strives to balance sales across key regions and also between developed and emerging markets. We also continuously monitor the macroeconomic, political and regulatory landscape in all our key markets to anticipate potential problem areas, so that we are able to quickly adjust our business activities accordingly upon any change in conditions. Potential adjustments may be a reallocation of manufacturing of our products to alternative countries, a reallocation of investments to alternative, more attractive markets, changes in product prices, closure of own-retail stores, more conservative product purchasing, tight working capital management and an increased focus on cost control. For example, to best serve the UK market after 'Brexit' and minimize business disruption resulting from potentially more burdensome customs procedures, we have pro-actively adjusted our supply chain and logistics set-up by increasing our distribution capacity in the UK and reducing the portion of cross-border shipments from the EU. In addition, by building on our leading position within the sporting goods industry, we actively engage in supporting policymakers and regulators in their efforts to liberalize global trade and curtail trade barriers and also in order to proactively adapt to significant changes in the regulatory environment.

Competition risks

Strategic alliances amongst competitors and/or retailers, the increase in retailers' own private label businesses and intense competition for consumers, production capacity and promotion partnerships between well-established industry peers and new market entrants pose a substantial risk to adidas. This could lead to harmful competitive behavior, such as price wars in the marketplace or bidding wars for promotion partnerships. Sustained pricing pressure in key markets could threaten the company's financial performance and the competitiveness of our brands. Aggressive competitive practices could also drive increases in marketing costs and market share losses, thus hurting the company's profitability and market position.

To mitigate competition risks, we continuously monitor and analyze information on our competitors and markets in order to be able to anticipate unfavorable changes in the competitive environment rather than reacting to such changes. This enables us to proactively adjust our marketing and sales activities (e.g. product launches, selective pricing adjustments) when needed. Continuous investment in research and development ensures that we remain innovative and distinct from competitors. SEE INNOVATION, P. 78 We also pursue a strategy of entering into long-term agreements with key promotion partners such as the German Football Association (DFB) or James Harden, as well as adding new partners to refresh and diversify our portfolio, e.g. Paulo Dybala or Cardi B. In addition, our product and communication initiatives are designed to increase brand desire, drive market share growth and strengthen our brands' market position.

Risks related to technology change

Technological advancement is happening at an unprecedented pace and has profound implications for our company's operations. Technologies such as 3D printing, augmented reality, and artificial intelligence are changing the way products and services are made, offered, experienced and exchanged. Failure to anticipate, recognize and respond to changes in technology in a timely manner could disrupt the company's business model, lead to a deterioration of our competitive position in the marketplace and substantially affect our ability to achieve our strategic and financial goals.

In order to mitigate this risk, we established a cross-functional digital leadership group that identifies and assesses technology trends and coordinates adoption of new technologies. We have established processes for technology scouting and technology lifecycle management which ensure a continuous assessment of the technology landscape and timely replacement of outdated technology. Furthermore, we build partnerships with technology and business leaders around the world such as BASF, Carbon or Oechsler to stay connected to the latest advancements. SEE INNOVATION, P. 78

OPERATIONAL RISKS

Business partner risks

adidas interacts and enters into partnerships with various third parties, such as athletes, creative partners, innovation partners, retail partners or suppliers of goods or services. As a result, the company is exposed to a multitude of business partner risks.

Injuries to individual athletes or poor on-field performance on the part of sponsored teams or athletes could reduce their consumer appeal and eventually result in lower sales and diminished attractiveness of our brands. Failure to cement and maintain strong relationships with retailers could have substantial negative effects on our wholesale activities and thus the company's business performance. Losing important customers in key markets due to sub-par relationship management would result in significant sales shortfalls. We work with strategic partners in various areas of our business (e.g. product creation, manufacturing, research and development) or distributors in a few selected markets whose approach might differ from our own business practices and standards, which could also negatively impact the company's business performance and reputation. Similarly, failure to maintain strong relationships with suppliers or service providers could negatively impact the company's sales and profitability. Risks may also arise from a dependence on particular suppliers, customers or service providers. Overreliance on a supplier for a substantial portion of the company's product volume, or overdependence on a particular customer, increases the company's vulnerability to delivery and sales shortfalls and could lead to significant margin pressure. Business partner default (including insolvency) or other disruptive events such as strikes may negatively affect the company's business activities and result in additional costs and liabilities as well as lower sales for the company. Unethical business practices on the part of business partners or improper behavior of individual athletes, influencers or partners in the entertainment industry could have a negative spill-over effect on the company's reputation, lead to higher costs or liabilities or even disrupt business activities.

To mitigate business partner risks, adidas has implemented various measures. For example, we generally include clauses in contractual agreements with athletes, clubs and federations or other partners that allow us to suspend or even terminate our partnership in case of improper or unethical conduct. In addition, we work with a broad portfolio of promotion partners, including individual athletes, club teams and federations or associations in numerous sports as well as entertainers and influencers to reduce the dependence on the success and popularity of a few individual partners. To ensure strong relationships with retailers, adidas is committed to delivering outstanding customer service and providing our retail partners with the support and tools required to establish and maintain a mutually successful business relationship. Customer relationship management is not only a key activity for our sales force but also of utmost importance to our company's top executives and second-line management. We also utilize a broad distribution strategy which includes further expansion of our direct-to-consumer business to reduce the risk of overreliance on particular key customers. Specifically, no single customer accounted for more than 5% of the company's sales in 2018. To reduce risk in the supply chain, we work with suppliers who demonstrate reliability, quality and innovation. Furthermore, in order to minimize any potential negative consequences such as a violation of our Workplace Standards by our suppliers, we enforce strict control and inspection procedures at our suppliers and also demand adherence to social and environmental standards throughout our supply chain. SEE SUSTAINABILITY, P. 88 In addition, we have selectively bought insurance coverage for the risk of business interruptions caused by physical damage to suppliers' premises. To reduce dependency on any particular supplier, the company follows a strategy of diversification. In this context, adidas works with a broad network of suppliers in different countries and, for the vast majority of its products, does not have a *single-sourcing model*.
SEE GLOSSARY

IT and cyber security risks

Theft, leakage, corruption or unavailability of critical information (e.g. consumer data, employee data, product data) could lead to reputational damage, regulatory penalties or the inability to perform key business processes. Key business processes, including product marketing, order management, warehouse management, invoice processing, customer support and financial reporting, are all dependent on IT systems. Significant outages, application failures or cyber security threats to our infrastructure, or that of our business partners, could therefore result in considerable business disruption or impact to business-critical data.

To mitigate these risks, our IT organization proactively engages in system preventive maintenance, service continuity planning, adherence to applicable IT policies and maintenance of a comprehensive information security program. Information security governance, data security, security architecture design, continuity management and employee awareness programs are aligned with industry-best practices in order to protect the company adequately.

Hazard risks

adidas is exposed to external risks such as natural disasters, unfavorable or extreme weather conditions, epidemics, fire, accidents and malicious acts. Those events may cause physical damage to our own or our suppliers' premises, production units, warehouses and stock in transit and result in business interruption. In addition, any such event could threaten the safety or security of our employees.

To minimize potential negative effects, we have secured insurance coverage for property damage and business interruption and implement loss prevention (e.g. sprinklers in facilities) and contingency plans to quickly recover business activities. We also work with reliable suppliers and logistics providers who guarantee high safety standards in their facilities. In addition, we are strengthening our own safety and security measures worldwide by establishing global and local policies as well as standardized processes and common systems for safety and security management.

Project risks

To effectively support further business growth and improve efficiency, adidas continuously invests in new projects such as the creation, implementation, expansion or harmonization of IT systems and distribution centers or the construction of office buildings. Ineffective project management could delay the execution of critical projects and lead to higher expenditures. Inadequate project planning and controlling as well as executional mistakes could cause inefficiencies, delays or business disruption, resulting in higher costs and sales shortfalls. Inappropriate project governance, prioritization and oversight of the project portfolio may lead to suboptimal resource allocation and undesired project results.

We manage projects utilizing reviews by project teams as well as project steering committees to evaluate the progress, quality and costs of those projects on a regular basis. This approach allows early detection of project risks and quick implementation of corrective action or timely cancelation of projects with a low chance of success. To ensure true end-to-end management of key projects we have established a network of program and project management departments across all main functions (i.e. Sales, Marketing, Operations, Finance, IT and Human Resources). We also work with external partners for project management support in areas where we do not have the required expertise or experience in-house.

Inventory risks

As we place initial production orders up to nine months in advance of delivery, adidas is exposed to inventory risks relating to misjudging consumer demand at the time of production planning. Overestimating demand could result in inappropriate capacity utilization at our suppliers' factories, lead to overproduction and cause excess inventory for the company as well as in the marketplace. This can have negative implications for our financial performance, including product returns, inventory obsolescence and higher levels of clearance activity as well as reduced liquidity due to higher operating working capital requirements. Similarly, underestimating demand can lead to product shortfalls at the point of sale. In this situation, adidas faces the risk of missed sales opportunities and/or customer and consumer disappointment, which could lead to a reduction in brand loyalty and hurt our reputation. In addition, the company faces potential profitability impacts from additional costs such as airfreight in efforts to speed up replenishment.

In order to mitigate these risks, we actively manage inventory levels, for example by continuous monitoring of stock levels as well as centralizing stock holding and clearance activities. SEE INTERNAL MANAGEMENT SYSTEM, P. 103 In addition, our Global Operations function is continuously improving the agility and flexibility of our planning environment in order to shorten lead times and ensure availability of products while trying to avoid excess inventories. SEE GLOBAL OPERATIONS, P. 74 In this context, the company's strategic choice 'Speed' is an important driver, enabling us to respond quickly to consumer demand and to deliver concepts that are fresh and desirable and made available when and where they are wanted by the consumer. SEE CORPORATE STRATEGY, P. 62

Personnel risks

Achieving the company's strategic and financial objectives is highly dependent on our employees and their talents. In this respect, strong leadership and a performance-enhancing culture are critical to the company's success. Therefore, ineffective leadership as well as the failure to install and maintain a performance-oriented culture that fosters diversity and inclusion and strong employee engagement amongst our workforce could also substantially impede our ability to achieve our goals. An ineffective, unbalanced allocation of resources to business activities could cause operational inefficiencies and result in lower employee engagement. In addition, global competition for highly qualified personnel remains fierce. As a result, the loss of key personnel in strategic positions and the inability to identify, recruit and retain highly qualified and skilled talents who best meet the specific needs of our company pose risks to our business performance. Unattractive or non-competitive management and employee remuneration may exacerbate these risks. In addition, a lack of sufficient training measures and inadequate documentation of critical know-how might dilute or lead to a loss of key capabilities.

Our People Strategy is an essential part of our strategic business plan 'Creating the New' and is designed to reduce these risks. To optimize staffing levels and resource allocation (i.e. having the right people with the right skillsets in the right roles at the right time), we have established a strategic workforce management process. We continuously invest in improving employer branding activities to be the 'employer of choice' in our industry and as a result attract and retain the right talent. We established a global recruiting organization to enhance our internal and external recruiting services and capabilities. To ensure effective leadership across the company, we defined and activated our global *Leadership Framework* SEE GLOSSARY that articulates the behaviors expected of our leaders. Our global succession management helps create strong internal talent pipelines for critical leadership positions and reduce succession risk. We also strengthen employee retention by providing attractive leadership development and learning programs as well as global career opportunities. Numerous initiatives such as our global 'BIG Deal' gender intelligence training foster diversity and inclusion. We also have attractive reward and incentive schemes in place, designed to further support long-term employee commitment. SEE PEOPLE AND CULTURE, P. 81

LEGAL AND COMPLIANCE RISKS

Risks related to customs and tax regulations

Numerous laws and regulations regarding customs and taxes as well as changes in such laws and regulations affect the company's business practices worldwide. Non-compliance with regulations concerning product imports (including calculation of customs values), intercompany transactions or income taxes could lead to substantial financial penalties and additional costs as well as negative media coverage and therefore reputational damage, for example in case of understatements or underpayments of corporate income taxes or customs duties. Changes in regulations regarding customs and taxes may also have a substantial impact on the company's sourcing costs or income taxes. Therefore, we also create provisions in accordance with the relevant accounting regulations to account for potential disputes with customs or tax authorities.

To proactively manage such risks, we constantly seek expert advice from specialized law and tax advisory firms. We closely monitor changes in legislation in order to properly adopt regulatory requirements regarding customs and taxes. In addition, our internal legal, customs or tax departments advise our operational management teams to ensure appropriate and compliant business practices. Furthermore, we work closely with customs authorities and governments worldwide to make sure we adhere to customs and import regulations and obtain the required clearance of products to fulfill sales demand.

Risks related to product counterfeiting and imitation

As popular consumer brands which largely rely on technological and design innovation, our brands are frequent targets for counterfeiting and imitation.

To reduce the loss of sales and the potential damage to brand reputation resulting from counterfeit products, the company makes use of extensive legal protection (generally through registration of trademarks) and works closely with law enforcement authorities, investigators and external legal counsel. We have also stepped up product security labeling with our authorized suppliers.

Fraud and corruption risks

We face the risk that members of top management as well as our employees breach rules and standards that guide appropriate and responsible business behavior. This includes the risks of fraud, financial misstatements or manipulation, bribery and corruption.

Our Fair Play Compliance Framework helps us manage these risks in a proactive way and enables us to prevent, detect and adequately respond in case of fraudulent or corrupt behavior. Our Global Policy Manual provides a framework for basic work procedures and processes and our Fair Play Code of Conduct stipulates that every employee and our business partners shall act ethically in compliance with the laws and regulations of the legal systems where they conduct company business. In addition, our regional compliance managers and local compliance officers guide and advise our operating managers regarding fraud and corruption topics. Furthermore, we utilize controls such as segregation of duties in IT systems and data analytics technology to prevent or detect fraudulent activities.

Data privacy risks

As a globally operating company, adidas is subject to various laws and regulations concerning data protection and privacy. Non-compliance with such laws and regulations could lead to substantial penalties and fines. For example, non-compliance with the EU General Data Protection Regulation may result in fines of up to 4% of annual net sales. In addition, publication of failure to comply with data protection and privacy regulations could cause significant reputational damage and result in a loss of consumer trust in our brands.

To mitigate these risks, we have established a global privacy management policy that outlines the company's privacy principles and provides the framework for the use of personal information. In addition, we have implemented a global deletion policy that governs the deletion of personal information at adidas. These policies apply to all adidas businesses worldwide and set our expectations of third-party business partners for managing personal information for or on behalf of adidas. Our global privacy officer and the global privacy department are establishing a monitoring framework to track and report adherence to data protection and privacy standards. They are continuously providing further implementation guidance and training. We are also working with external partners and law firms to ensure we are informed about legal requirements across the globe, and we take appropriate action to ensure compliance.

FINANCIAL RISKS

Currency risks

Currency risks for adidas are a direct result of multi-currency cash flows within the company, in particular the mismatch of the currencies required for sourcing our products versus the denominations of our sales. Furthermore, translation impacts from the conversion of non-euro-denominated results into the company's functional currency, the euro, might lead to a material negative impact on our company's financial performance. SEE NOTE 31, P. 194

Utilizing a centralized currency risk management system, we hedge currency needs for projected sourcing requirements on a rolling basis up to 24 months in advance. In rare instances, hedges are contracted beyond the 24-months horizon.
SEE TREASURY, P. 115

Credit risks

A credit risk arises if a customer or other counterparty to a financial instrument fails to meet its contractual obligations. SEE NOTE 31, P. 194 adidas is exposed to credit risks from its operating activities and from certain financing activities. Credit risks arise principally from accounts receivable and from other third-party contractual financial obligations.

We analyze the creditworthiness of our customers and establish tolerance limits for accounts receivable. Both creditworthiness and accounts receivable limits are monitored on an ongoing basis. Customers that fail to meet the company's minimum creditworthiness are, in general, allowed to purchase products only on a prepayment basis. Other activities to mitigate credit risks include retention of title clauses as well as, on a selective basis, credit insurance, the sale of accounts receivable without recourse, and bank guarantees.

adidas subsidiaries are typically only authorized to work with banks rated BBB+ or higher. SEE TREASURY, P. 115 We monitor credit default swap premiums of our partner banks on a monthly basis and shift credit balances to banks compliant with our limits if a defined threshold is exceeded.

ILLUSTRATION OF OPPORTUNITIES

In this report, we illustrate opportunities considered material in the time period from 2019 to 2021. Our presentation of opportunities in this year's Annual Report differs slightly from the 2017 Annual Report as we have adjusted financial and non-financial measurements to assess the potential impact. The assessment is shown in the opportunities overview table. SEE TABLE 102

STRATEGIC AND OPERATIONAL OPPORTUNITIES

Organic growth opportunities

Distribution strategy: The sporting goods retail environment is changing constantly. We therefore continue to adapt our distribution strategy to this constantly changing environment and have made controlled space initiatives a strategic priority. This includes the further expansion of our own e-commerce activities, the optimization of our network of wholesale partners with a clear focus on partners that provide consumers with the best shopping experience and customer service, retail space management with key accounts (online and brick & mortar), as well as the introduction and roll-out of new own-retail store formats. Successful results from these initiatives could enable us to accelerate top- and bottom-line growth. SEE SALES AND DISTRIBUTION STRATEGY, P. 72

Product portfolio: We believe that a continued focus on product franchises combined with disciplined product lifecycle management and well-executed distribution offers further upside potential both in terms of sales and profit. In addition, further optimizing pricing and range architecture could result in better-than-expected top-line growth and bottom-line improvements. We continue to see untapped sales potential at more commercial price points. The further expansion of our women's business could result in additional market share and net sales growth and lead to further profitability improvements.

Corporate opportunities overview — 102

	Potential impact	Change (2017 rating)	Likelihood	Change (2017 rating)
Strategic and operational opportunities				
Organic growth opportunities	High	↓ (Significant)	15% – 30%	
Opportunities related to organizational and process improvements	High		15% – 30%	↓ (30% – 50%)
Macroeconomic, sociopolitical and regulatory opportunities	High		> 85%	
Financial opportunities				
Favorable financial market changes	Significant		15% – 30%	

Major sports events: Major sports events such as the upcoming Olympic Summer Games in Tokyo provide adidas with an ideal platform to showcase its strength as a sports brand and demonstrate its role as a leader in innovation to a worldwide audience. In addition, a major sports event also always represents a commercial opportunity in the host country which typically benefits from the influx of foreign tourists and increased consumer spending. As a result, we see potential for additional sales growth and consequently stronger bottom-line performance in connection with major sports events.

Opportunities related to organizational and process improvements

Data analytics: Data and analytics play a crucial role in enabling fact-based decision-making. Therefore, we have established a dedicated Data & Analytics team to drive business decision-making by leveraging the power of data. The continuous enhancement of our existing capabilities to build and scale insights-driven use cases and the use of the latest technology could bring value to our business operations across the entire company. As a result, we see the opportunity to become faster and more efficient in our operations. We may increase visibility and understanding of consumer preferences, increase full-price sales, reduce discounts and optimize order book management, inventory management and purchasing. This could result in improved top- and bottom-line performance.

Process optimization: Continued optimization of key business processes and strict cost control are vital to achieving high profitability and return on invested capital. We are confident that there is still significant opportunity to improve process efficiency and effectiveness and further streamline cost structures throughout our company. Consequently, we will continue to focus on driving the standardization and harmonization of processes, as reflected by the company's 'ONE adidas' initiative. SEE CORPORATE STRATEGY, P. 62

Macroeconomic, sociopolitical and regulatory opportunities

Legislative and regulatory changes such as the elimination of trade barriers due to free trade agreements (e.g. between the European Union and Vietnam) can create cost savings or potentially open up new channels of distribution and, as a result, positively impact profitability. Changes in local tax or customs regulations (e.g. reduction of tax rates on private incomes, reduction of import duties) could lead to increased consumer spending and consequently positively affect our sales or result in additional cost savings.

FINANCIAL OPPORTUNITIES

Favorable financial market changes

Favorable exchange and interest rate developments can potentially have a positive impact on the company's financial results. Our Treasury department closely monitors the financial markets to identify and exploit opportunities. Translation effects from the conversion of non-euro-denominated results into our company's functional currency, the euro, might positively impact our company's financial performance. SEE TREASURY, P. 115

MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK

ASSESSMENT OF PERFORMANCE VERSUS TARGETS

We communicate our financial targets on an annual basis. We also provide updates throughout the year as appropriate. In 2018, the company delivered a strong operational and financial performance. Sales development was favorably impacted by rising consumer spending on sporting goods, supported by global trends such as increasing penetration of sportswear ('athleisure'), increasing health awareness and rising sports participation rates. SEE ECONOMIC AND SECTOR DEVELOPMENT, P. 106 The continued brand momentum, supported by innovative product launches and inspiring marketing campaigns, as well as the successful execution of the company's strategic business plan 'Creating the New' drove significant sales growth and strong profitability improvements throughout the year. While some company-specific weaknesses in our home market Europe led to a slight downward revision of our top-line guidance in November 2018, we were able to increase our bottom-line guidance at the same time. The better-than-expected profitability increase was largely driven by the strong gross margin improvement, which reflects the high quality of our revenue growth. SEE TABLE 103

In 2018, revenues increased 8% on a currency-neutral basis, driven by double-digit growth in North America and Asia-Pacific. Revenues in Europe and Emerging Markets grew at a lower rate than initially expected, which led to a revenue increase at the lower end of our initial guidance range of around 10% currency-neutral sales growth. Gross margin increased 1.4 percentage points to 51.8%, significantly exceeding our initial forecast of an increase of up to 0.3 percentage points. This development was due to the larger-than-expected positive effects from a better pricing, channel and product mix as well as lower input costs, which more than offset strong headwinds from unfavorable currency movements. The operating margin increased 1.1 percentage points to a level of 10.8%, which was above our initial guidance of an increase of between 0.5 and 0.7 percentage points. This development was mainly due to the gross margin increase, which more than offset an increase in other operating expenses as a percentage of sales. The increase in other operating expenses as a percentage of sales, compared to our initial expectation of a slight decline, was driven by additional investments into marketing and scalability initiatives that were funded by the better-than-expected gross margin development. As a result, net income from continuing operations was up 20% to € 1.709 billion, excluding the negative one-time tax impact in 2017, and thus exceeded our initial guidance of an improvement at a rate between 13% and 17%. SEE INCOME STATEMENT, P. 107

In 2018, average operating working capital as a percentage of sales ended the year at a level of 19.0%. This development represents a significant decrease compared to the prior year level of 20.4%, while our initial guidance was for a largely stable year-over-year development. The better-than-expected development mainly reflects the company's successful efforts on tightening working capital management. Capital expenditure amounted to € 794 million in 2018, below our initial guidance of around € 900 million, mainly reflecting fewer-than-expected store openings throughout the year. Investments were mainly focused on controlled space initiatives of the adidas and Reebok brands, aimed at further strengthening our own-retail activities both in own e-commerce and our stores, franchise store presence and shop-in-shop presentations. Other areas of investment included logistics infrastructure and IT systems as well as the further development of our corporate headquarters in Herzogenaurach, Germany. SEE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS, P. 111

Beyond our financial performance, we also actively monitor non-financial KPIs. SEE INTERNAL MANAGEMENT SYSTEM, P. 103 In 2018, our Net Promoter Score (NPS) saw further improvements, reflecting the strength of our brands. Also from a market share perspective, we continue to be very encouraged by our strong performance in key categories and key markets, as defined in the company's strategic business plan. North America and Greater China, two of our focus markets, were once again notable standouts, as we were able to further improve our market share in these regions. Our diligence and discipline in sustainability matters continues to yield strong recognition for our company. In 2018, adidas AG was again represented in a variety of high-profile sustainability indices. For the 19th consecutive time, adidas AG was selected to join the Dow Jones Sustainability Indices (DJSI), the world's first global sustainability index family tracking the performance of the leading sustainability-driven companies worldwide. adidas received 'Gold Class' distinction for its excellent sustainability performance and was rated as overall leader in the 'Textiles, Apparel & Luxury Goods' industry, receiving industry-best scores in criteria including Human Rights, Supply Chain Management, Innovation Management, and Operational Eco-Efficiency. SEE SUSTAINABILITY, P. 88 As we are convinced that our employees' feedback plays a crucial role in our pursuit of creating a desirable work environment, in 2018 we fully embedded 'People Pulse', our approach and system platform for a quarterly measurement of the level of employee satisfaction, within the organization globally. We saw People Pulse gain significant traction, with participation rates toward year-end exceeding our minimum participation rate target. SEE PEOPLE AND CULTURE, P. 81

Finally, despite some challenges in the North American market, we continue to enjoy an overall strong level of on-time in-full (OTIF) deliveries to our customers and own-retail stores. In 2018, OTIF remained stable compared to the prior year level. SEE GLOBAL OPERATIONS, P. 74

ASSESSMENT OF OVERALL RISKS AND OPPORTUNITIES

Our Risk Management team aggregates all risks and opportunities reported by Risk Owners and Executive Board members through the half-yearly risk and opportunity assessment process. Results from this process are analyzed and reported to the Executive Board accordingly. In addition, the Executive Board discusses and assesses risks and opportunities on a regular basis. SEE RISK AND OPPORTUNITY REPORT, P. 131 Taking into account the potential financial impact as well as the likelihood of materializing of the risks explained within this report, and considering the strong balance sheet as well as the current business outlook, we do not foresee any material jeopardy to the viability of the company as a going concern. This assessment is also supported by the historical response to our financing demands. adidas therefore has not sought an official rating by any of the leading rating agencies. We remain confident that our earnings strength forms a solid basis for our future business development and provides the resources necessary to pursue the opportunities available to the company. Compared to the prior year, our assessment of certain risks has changed in terms of likelihood of occurrence and/or potential financial impact. As a result of these changes, we believe the overall adidas risk profile has improved slightly compared to the prior year.

Company targets versus actual key metrics 103

	2017 Results[1]	2018 Initial targets[1,2]	2018 Updated targets[1,3]	2018 Results[1]	2019 Outlook
Sales (year-over-year change, currency-neutral)	16%	to increase at a rate of around 10%	to increase at a rate between 8% and 9%	8%	to increase at a rate between 5% and 8%
Gross margin	50.4%	to increase up to 0.3pp	to increase up to 1.0pp	51.8% *1.4pp*	to increase to a level of around 52.0%
Other operating expenses[4] (in % of net sales)	41.3%	below prior year level	below prior year level	41.9% *0.5pp*	–
Operating profit (€ in millions)	2,070	to increase at a rate between 9% and 13%	to increase at a rate between 12% and 16%	2,368 *14%*	–
Operating margin	9.8%	to increase between 0.5pp and 0.7pp	to increase around 1.0pp	10.8% *1.1pp*	to increase between 0.5pp and 0.7pp to a level between 11.3% and 11.5%
Net income from continuing operations[5,6] (€ in millions)	1,430	to increase at a rate between 13% and 17%	to increase at a rate between 16% and 20%	1,709 *20%*	to increase at a rate between 10% and 14% to a level between € 1.880 billion and € 1.950 billion
Basic earnings per share from continuing operations[5] (in €)	7.05	to increase at a rate between 12% and 16%	to increase at a rate between 15% and 19%	8.46 *20%*	–
Average operating working capital (in % of net sales)	20.4%	around prior year level	around prior year level	19.0% *(1.4pp)*	slight increase
Capital expenditure[7] (€ in millions)	752	around € 900 million	around € 900 million	794 *6%*	to increase to a level of up to € 900 million

1 Figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 As published on March 14, 2018.
3 As published on November 7, 2018.
4 Figures reflect the adjusted consolidated income statement structure introduced in 2018.
5 2017 excluding negative one-time tax impact of € 76 million.
6 2019 excluding negative impact from accounting change according to IFRS 16 of around € 35 million (based on lease contracts as per January 1, 2019); including this impact, net income from continuing operations is currently expected to increase at a rate between 8% and 12% to a level between € 1.845 billion and € 1.915 billion.
7 Excluding acquisitions and finance leases.

ASSESSMENT OF FINANCIAL OUTLOOK

In March 2015, adidas unveiled Creating the New, its 2020 strategic business plan, which defines strategic priorities and objectives for the period up to 2020. The strategy is designed to drive brand desirability which, in turn, is expected to spur top- and bottom-line growth for the company in the years to come. Our successes since 2016, as measured by financial as well as non-financial KPIs, are a direct consequence of relentlessly executing Creating the New. Therefore, we will continue to focus on further executing against our strategic business plan, while at the same time fine-tuning it wherever needed and whenever necessary.

In March 2017, Creating the New was updated with complementary initiatives in order to grow the top and bottom line even faster than initially projected. This will ensure we continue our momentum in the years to come, resulting in strong sales and profitability improvements until 2020. Consequently, we increased our financial targets for 2020. We project currency-neutral revenues to increase at a rate of 10% to 12% on average per year until 2020 compared to the 2015 results. By outperforming the sporting goods industry, our brands are expected to increase market share over the period. This, in combination with the expected gross margin improvement and our ability to generate operating leverage, will significantly increase our profitability. As a result, net income from continuing operations is expected to grow at a higher rate than the top line. While in March 2017 we projected net income from continuing operations to expand by 20% to 22% on average per year during the five-year period, we once again upgraded our long-term profitability target in March 2018 following the strong operational and financial performance in 2017. As a result, we expect net income from continuing operations to grow by 22% to 24% on average per year. SEE CORPORATE STRATEGY, P. 62

Against the background of rising consumer spending, increasing penetration of sportswear ('athleisure') and growing health awareness in most geographical areas, we project further top-line improvements in 2019. The revenue increase is to be driven by our extensive pipeline of new product launches paired with brand-building activities. In addition, the further expansion and improvement of our controlled space initiatives, in particular through our own e-commerce channel, is expected to contribute to the sales growth. In combination with tight control of inventory levels and stringent cost management, we expect to once again generate profitability improvements in 2019. Supported by a further expansion in gross and operating margin, our net income is expected to improve strongly in 2019. SEE OUTLOOK, P. 128 We believe that our outlook for 2019 is realistic within the scope of the current trading and economic environment.

Assuming no significant deterioration in the global economy, we are confident that we will achieve further top- and bottom-line improvements in 2019. However, ongoing uncertainties regarding the economic outlook and consumer sentiment in both developed and emerging economies as well as persisting high levels of currency volatility represent risks to the achievement of our stated financial goals and aspirations. SEE ECONOMIC AND SECTOR DEVELOPMENT, P. 106 No other material event between the end of 2018 and the publication of this report has altered our view.

04 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

adidas AG Consolidated Statement of Financial Position (IFRS)[1] € in millions

	Note	Dec. 31, 2018	Dec. 31, 2017[2]	Change in %	Jan. 1, 2017[2]
Assets					
Cash and cash equivalents	06	2,629	1,598	64.5	1,510
Short-term financial assets	07	6	5	5.3	5
Accounts receivable	08	2,418	2,315	4.4	2,200
Other current financial assets	09	542	393	38.1	729
Inventories	10	3,445	3,692	(6.7)	3,763
Income tax receivables	38	48	71	(32.3)	98
Other current assets	11	725	498	45.6	580
Assets classified as held for sale	12	–	72	(100.0)	–
Total current assets		**9,813**	**8,645**	**13.5**	**8,886**
Property, plant and equipment	13	2,237	2,000	11.8	1,915
Goodwill	14	1,245	1,220	2.0	1,412
Trademarks	15	844	806	4.7	1,108
Other intangible assets	15	196	154	27.0	167
Long-term financial assets	16	276	236	16.9	194
Other non-current financial assets	17	256	219	16.9	96
Deferred tax assets	38	651	630	3.4	732
Other non-current assets	18	94	108	(13.5)	94
Total non-current assets		**5,799**	**5,374**	**7.9**	**5,718**
Total assets		**15,612**	**14,019**	**11.4**	**14,604**

1 IFRS 9 and IFRS 15 are initially applied at January 1, 2018. Under the transition methods chosen, comparative information is not restated except for certain hedging requirements.
2 Restated according to IAS 8, see Note 03.
The accompanying Notes are an integral part of these consolidated financial statements.

adidas AG Consolidated Statement of Financial Position (IFRS) [1] € in millions

	Note	Dec. 31, 2018	Dec. 31, 2017 [2]	Change in %	Jan. 1, 2017 [2]
Liabilities and equity					
Short-term borrowings	19	66	137	(51.5)	636
Accounts payable		2,300	1,975	16.5	2,496
Other current financial liabilities	20	186	362	(48.6)	201
Income taxes	38	268	424	(36.8)	402
Other current provisions	21	1,232	741	66.2	573
Current accrued liabilities	22	2,305	2,180	5.7	2,023
Other current liabilities	23	477	473	1.0	434
Total current liabilities		**6,834**	**6,291**	**8.6**	**6,765**
Long-term borrowings	19	1,609	983	63.7	982
Other non-current financial liabilities	24	103	22	357.7	22
Pensions and similar obligations	25	246	298	(17.3)	355
Deferred tax liabilities	38	241	190	26.8	289
Other non-current provisions	21	128	80	60.2	44
Non-current accrued liabilities	22	19	85	(77.7)	120
Other non-current liabilities	26	68	53	29.2	46
Total non-current liabilities		**2,414**	**1,711**	**41.1**	**1,859**
Share capital		199	204	(2.3)	201
Reserves		123	(29)	n.a.	743
Retained earnings		6,054	5,858	3.4	5,053
Shareholders' equity	27	**6,377**	**6,032**	**5.7**	**5,997**
Non-controlling interests	29	(13)	(15)	15.3	(17)
Total equity		**6,364**	**6,017**	**5.8**	**5,980**
Total liabilities and equity		**15,612**	**14,019**	**11.4**	**14,604**

1 IFRS 9 and IFRS 15 are initially applied at January 1, 2018. Under the transition methods chosen, comparative information is not restated except for certain hedging requirements.
2 Restated according to IAS 8, see Note 03.
The accompanying Notes are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

adidas AG Consolidated Income Statement (IFRS) € in millions

	Note	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017	Change
Net sales	40	21,915	21,218	3.3%
Cost of sales		10,552	10,514	0.4%
Gross profit		**11,363**	**10,703**	**6.2%**
(% of net sales)		51.8%	50.4%	1.4pp
Royalty and commission income		129	115	12.0%
Other operating income	33	48	17	187.9%
Other operating expenses	13, 15, 34	9,172	8,766	4.6%
(% of net sales)		41.9%	41.3%	0.5pp
Marketing and point-of-sale expenses		3,001	2,724	10.2%
(% of net sales)		13.7%	12.8%	0.9pp
Distribution and selling expenses		4,450	4,307	3.3%
(% of net sales)		20.3%	20.3%	0.0pp
General and administration expenses		1,576	1,568	0.5%
(% of net sales)		7.2%	7.4%	(0.2pp)
Sundry expenses		105	130	(19.7%)
(% of net sales)		0.5%	0.6%	(0.1pp)
Impairment losses (net) on accounts receivable and contract assets		41	37	12.0%
Operating profit		**2,368**	**2,070**	**14.4%**
(% of net sales)		10.8%	9.8%	1.1pp
Financial income	36	57	46	24.1%
Financial expenses	36	47	93	(49.6%)
Income before taxes		**2,378**	**2,023**	**17.6%**
(% of net sales)		10.9%	9.5%	1.3pp
Income taxes	38	669	668	0.1%
(% of income before taxes)		28.1%	33.0%	(4.9pp)
Net income from continuing operations		**1,709**	**1,354**	**26.2%**
(% of net sales)		7.8%	6.4%	1.4pp
Losses from discontinued operations, net of tax	04	5	254	(98.2%)
Net income		**1,704**	**1,100**	**55.0%**
(% of net sales)		7.8%	5.2%	2.6pp
Net income attributable to shareholders		**1,702**	**1,097**	**55.1%**
(% of net sales)		7.8%	5.2%	2.6pp
Net income attributable to non-controlling interests		**3**	**3**	**(6.1%)**
Basic earnings per share from continuing operations (in €)	39	**8.46**	6.68	26.7%
Diluted earnings per share from continuing operations (in €)	39	**8.45**	6.63	27.4%
Basic earnings per share from continuing and discontinued operations (in €)	39	**8.44**	5.42	55.6%
Diluted earnings per share from continuing and discontinued operations (in €)	39	**8.42**	5.38	56.5%

The accompanying Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

adidas AG Consolidated Statement of Comprehensive Income (IFRS) [1] € in millions

	Note	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Net income after taxes		**1,704**	**1,100**
Items of other comprehensive income that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit plans (IAS 19), net of tax [2]	25	(13)	23
Net loss on other equity investments (IFRS 9), net of tax	31	(8)	–
Subtotal of items of other comprehensive income that will not be reclassified subsequently to profit or loss		**(21)**	**23**
Items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met			
Net gain/(loss) on cash flow hedges and net foreign investment hedges, net of tax	31	232	(375)
Net gain on cost of hedging reserve, net of tax – options	31	3	1
Net loss on cost of hedging reserve, net of tax – forward contracts	31	(10)	–
Reclassification of foreign currency differences on loss of significant influence		(4)	15
Currency translation differences		(49)	(481) [3]
Subtotal of items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met		**171**	**(840)**
Other comprehensive income		**150**	**(818)**
Total comprehensive income		**1,855**	**282**
Attributable to shareholders of adidas AG		1,851	278
Attributable to non-controlling interests		4	4

1 IFRS 9 and IFRS 15 are initially applied at January 1, 2018. Under the transition methods chosen, comparative information is not restated except for certain hedging requirements.
2 Includes actuarial gains or losses relating to defined benefit obligations, return on plan assets (excluding interest income) and the asset ceiling effect.
3 Restated according to IAS 8, see Note 03.
The accompanying Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

adidas AG Consolidated Statement of Changes in Equity (IFRS)[1] € in millions

	Note	Share capital	Capital reserve	Cumulative currency translation differences	Hedging reserve	Cost of hedging reserve – options	Cost of hedging reserve – forward contracts	Other reserves[2]	Retained earnings	Shareholders' equity	Non-controlling interests	Total equity
Balance at December 31, 2016		**201**	**838**	**(52)**	**146**	**–**	**–**	**(182)**	**5,521**	**6,472**	**(17)**	**6,455**
IFRS 9 transition effect, net of tax	31					(6)			6	–		–
Adjustment according to IAS 8, net of tax	03								(475)	(475)		(475)
Balance at January 1, 2017		**201**	**838**	**(52)**	**146**	**(6)**	**–**	**(182)**	**5,053**	**5,997**	**(17)**	**5,980**
Other comprehensive income				(468)[3]	(375)	1		23	(1)	(819)	1	(818)
Net income									1,097	1,097	3	1,100
Total comprehensive income				**(468)**	**(375)**	**1**	**–**	**23**	**1,096**	**278**	**4**	**282**
Reissuance of treasury shares due to the conversion of convertible bonds	27	3	46						180	229		229
Repurchase of treasury shares	27	(0)							(73)	(73)		(73)
Repurchase of treasury shares due to equity-settled share-based payment	27	(0)							(15)	(15)		(15)
Reissuance of treasury shares due to equity-settled share-based payment	27	0							19	20		20
Dividend payment									(405)	(405)	(1)	(406)
Equity-settled share-based payment	28								2	2		2
Balance at December 31, 2017		**204**	**884**	**(520)**	**(229)**	**(5)**	**–**	**(159)**	**5,858**	**6,032**	**(15)**	**6,017**
IFRS 9 transition effect, net of tax	31				(6)		6		3	3	(0)	3
IFRS 15 transition effect, net of tax	32								(25)	(25)	(0)	(25)
Balance at January 1, 2018		**204**	**884**	**(520)**	**(234)**	**(5)**	**6**	**(159)**	**5,836**	**6,011**	**(15)**	**5,996**
Other comprehensive income				(54)	231	3	(10)	(21)		149	1	150
Net income									1,702	1,702	3	1,704
Total comprehensive income				**(54)**	**231**	**3**	**(10)**	**(21)**	**1,702**	**1,851**	**4**	**1,855**
Reissuance of treasury shares due to the conversion of convertible bonds	27	0	3						27	30		30
Repurchase of treasury shares	27	(5)							(996)	(1,001)		(1,001)
Repurchase of treasury shares due to equity-settled share-based payment	27	(0)							(19)	(19)		(19)
Reissuance of treasury shares due to equity-settled share-based payment	27	0							22	23		23
Dividend payment									(528)	(528)	(1)	(530)
Equity-settled share-based payment	28								11	11		11
Balance at December 31, 2018		**199**	**887**	**(574)**	**(3)**	**(3)**	**(5)**	**(180)**	**6,054**	**6,377**	**(13)**	**6,364**

1 IFRS 9 and IFRS 15 are initially applied at January 1, 2018. Under the transition methods chosen, comparative information is not restated except for certain hedging requirements.
2 Reserves for remeasurements of defined benefit plans (IAS 19), option plans and acquisition of shares from non-controlling interest shareholders.
3 Adjusted according to IAS 8 with an amount of € 57 million, see Note 03.
The accompanying Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

adidas AG Consolidated Statement of Cash Flows (IFRS) € in millions

	Note	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Operating activities:			
Income before taxes		2,378	2,023
Adjustments for:			
Depreciation, amortization and impairment losses	13, 14, 15, 34, 36	490	484
Reversals of impairment losses	33	(3)	(1)
Unrealized foreign exchange gains, net		(10)	(75)
Interest income	36	(24)	(25)
Interest expense	36	42	62
Losses on sale of property, plant and equipment and intangible assets, net		9	17
Other non-cash expenses	33, 34	17	3
Payment for external funding of pension obligations (CTA)		(90)	(30)
Proceeds from early termination of promotion and advertising contracts	05, 33	–	76
Operating profit before working capital changes		**2,808**	**2,534**
Increase in receivables and other assets		(209)	(477)
Decrease/(increase) in inventories		180	(216)
Increase in accounts payable and other liabilities		741	422
Cash generated from operations before interest and taxes		**3,520**	**2,263**
Interest paid		(40)	(65)
Income taxes paid		(815)	(556)
Net cash generated from operating activities – continuing operations		**2,666**	**1,641**
Net cash (used in)/generated from operating activities – discontinued operations		(20)	6
Net cash generated from operating activities		**2,646**	**1,648**

The accompanying Notes are an integral part of these consolidated financial statements.

adidas AG Consolidated Statement of Cash Flows (IFRS) € in millions

	Note	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Investing activities:			
Purchase of trademarks and other intangible assets		(96)	(74)
Proceeds from sale of trademarks and other intangible assets		2	0
Purchase of property, plant and equipment		(611)	(678)
Proceeds from sale of property, plant and equipment		13	2
Proceeds from sale of assets held for sale	12	71	–
Proceeds from sale of a disposal group	12	18	6
Proceeds from disposal of discontinued operations net of cash disposed		–	174
Purchase of sale of short-term financial assets		(0)	(0)
Purchase of investments and other long-term assets		(56)	(132)
Interest received		24	25
Net cash used in investing activities – continuing operations		**(636)**	**(676)**
Net cash used in investing activities – discontinued operations		–	(4)
Net cash used in investing activities		**(636)**	**(680)**
Financing activities:			
Proceeds from long-term borrowings		141	–
Proceeds from issuance of a convertible bond	19	518	–
Payments for options related to a convertible bond	19	(35)	–
Repayments of finance lease obligations		(2)	(2)
Dividend paid to shareholders of adidas AG	27	(528)	(405)
Dividend paid to non-controlling interest shareholders		(1)	(1)
Repurchase of treasury shares	27	(1,000)	(85)
Repurchase of treasury shares due to share-based payments		(22)	(15)
Proceeds from reissuance of treasury shares due to share-based payments		19	13
Proceeds from short-term borrowings	19	9	–
Repayments of short-term borrowings	19	(49)	(273)
Net cash used in financing activities – continuing operations		**(951)**	**(769)**
Net cash used in financing activities – discontinued operations		–	(0)
Net cash used in financing activities		**(951)**	**(769)**
Effect of exchange rates on cash		**(29)**	**(111)**
Increase of cash and cash equivalents		1,031	88
Cash and cash equivalents at beginning of year	06	1,598	1,510
Cash and cash equivalents at end of period	06	**2,629**	**1,598**

The accompanying Notes are an integral part of these consolidated financial statements.

NOTES

adidas AG is a listed German stock corporation and parent of the adidas Group located at Adi-Dassler-Str. 1, 91074 Herzogenaurach, Germany, and is entered into the commercial register at the Local Court of Fürth (HRB 3868). adidas AG and its subsidiaries (collectively 'adidas', 'the Group' or 'the company') design, develop, produce and market a broad range of athletic and sports lifestyle products.

01 » GENERAL

The consolidated financial statements of adidas AG as at December 31, 2018 comprise adidas AG and its subsidiaries and are prepared in compliance with International Financial Reporting Standards (IFRS), as to be applied in the European Union (EU) as at December 31, 2018, and the additional requirements pursuant to § 315e section 1 German Commercial Code (Handelsgesetzbuch – HGB).

The following new standards and interpretations and amendments to existing standards and interpretations are effective for financial years beginning on January 1, 2018 and have been applied for the first time to these consolidated financial statements:

- **IFRS 2 Amendment – Classification and Measurement of Share-Based Payment Transactions (EU effective date: January 1, 2018):** The amendment clarifies the accounting treatment for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the treatment of share-based payment classification due to modifications of the terms and conditions. The company previously accounted for cash-settled share-based payment transactions with performance conditions in line with the clarified guidance. Additionally, adidas does not currently have share-based payment transactions with net settlement features, nor does the company regularly modify terms and conditions of share-based payment transactions. Thus, this amendment did not have any impact on the company's consolidated financial statements.
- **IFRS 4 Amendment – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (EU effective date: January 1, 2018):** The amendment addresses the temporary accounting consequences of the different effective dates of IFRS 9 'Financial Instruments' and IFRS 4 'Insurance Contracts'. adidas does not have any insurance contracts accounted for under IFRS 4. Therefore, the amendment did not have any impact on the company's consolidated financial statements.
- **IFRS 9 Financial Instruments (EU effective date: January 1, 2018):** The new standard prescribes rules for the accounting of financial instruments, replacing the former guidelines in IAS 39 'Financial Instruments: Recognition and Measurement'. In particular, IFRS 9 prescribes new classification methods for financial assets, which has an effect on the company's classification and subsequent presentation of certain financial assets. The standard eliminates the previous IAS 39 categories for financial assets, which include held to maturity, loans and receivables and available for sale. Instead, upon initial recognition under IFRS 9, a financial asset is classified and measured as follows: amortized cost, fair value through other comprehensive income (equity), fair value through other comprehensive income (debt instrument) or fair value through profit or loss. In contrast, IFRS 9 largely retains the existing requirements in IAS 39 for classification and measurement of financial liabilities.
The respective classification is generally based on the business model for managing financial assets or a group of financial assets and its contractual cash flow characteristics. On initial recognition of an equity investment that is not held for trading, it is possible to irrevocably elect to present subsequent changes of the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. When these equity investments are sold or written off, any unrealized gains and losses are reclassified to retained earnings and not presented under profit or loss.
The standard introduces new requirements for the impairment of financial instruments, contract assets, lease receivables, loan commitments and financial guarantees as well as revised requirements for hedging instruments. The standard requires that not only historical data, but also future expectations and projections are taken into consideration when accounting for impairment losses ('expected credit loss' model).
For transition purposes, adidas applied the modified retrospective method and thus did not restate prior periods regarding the classification and measurement (including impairment). Comparative information was only restated for the retrospective application of certain hedging requirements. Changes to hedge accounting policies have been applied prospectively except for the cost of hedging (time value) of options. All hedging relationships designated under IAS 39 at December 31, 2017 met the criteria for hedge accounting under IFRS 9 at January 1, 2018 and are therefore regarded as continuing hedging relationships.
The determination of the business model within which a financial asset is held and the designation of certain investments in equity instruments not held for trading as at fair value through other comprehensive income have been made on the basis of the facts and circumstances that existed at the date of initial application.
Further details on the company's categories, the treatment of financial liabilities and hedges, and the impairment methods according to IFRS 9 are presented in these Notes. SEE NOTE 02 Further information about the changes and effects from the first-time application of IFRS 9 on January 1, 2018 is contained in the respective Notes. SEE NOTES 02, 06, 07, 08, 09, 16, 17, 19, 20, 24, 31 AND 36

— **IFRS 15 Revenue from Contracts with Customers including Amendments to IFRS 15: Effective Date of IFRS 15 (EU effective date: January 1, 2018):** This new standard replaces the previous guidance on recognizing revenue in accordance with IFRS, in particular IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. The new standard provides a holistic framework for all aspects of revenue recognition. IFRS 15 creates a single five-step model for recognizing revenue arising from contracts with customers.
Under IFRS 15, revenue is recognized at the transfer of control of the goods to the customer whereas under IAS 18 revenue recognition was dependent on the transfer of risks and rewards. adidas determined that the accounting for revenue recognition at the transfer of control is comparable to previous practice in accordance with IAS 18. It was also determined that customer incentives and options such as volume rebates, cooperative advertising allowances and slotting fees as well as any obligation of adidas to pay for the delivery of goods to the customer do not create performance obligations under IFRS 15. Under IAS 18, customer incentives which were contractually agreed upon were accounted for as sales discounts and were accrued over the financial year. Customer incentives which were not contractually agreed upon as well as promises that were implied by adidas' customary business practice and did not bear the characteristics of a discount were accounted for as marketing and point-of-sale expenses. According to IFRS 15, customer incentives are now principally treated as a reduction of sales, except in cases where adidas receives from its customer a distinct service as consideration for the payment to the customer.
In accordance with IAS 18, adidas accrued revenue related to estimated returns based on past experience. adidas previously recognized the return provision on a net basis in the amount of the gross margin (i.e. the difference between gross sales and cost of sales) for the products sold which are expected to be returned. Under IFRS 15, a gross presentation of the return provision is required. Therefore, an asset for the right to recover products from customers upon settling the refund liability is recognized.
The timing and measurement of sales-based licensing-out of trademarks and royalties is similar to the previous practice in accordance with IAS 18. Under IFRS 15, adidas recognizes contract assets and liabilities in relation to licensing-out contracts with fixed consideration. Except for the separate presentation of contract assets and contract liabilities in the consolidated statement of financial position, IFRS 15 does not change the presentation in the consolidated statement of financial position or in the consolidated income statement.
adidas applied the modified retrospective method (also called 'cumulative effect method') for transition to IFRS 15, whereby the cumulative effect of the initial application of IFRS 15 is presented in the opening balance as at January 1, 2018. Accordingly, the comparative information presented for 2017 was not restated. Instead, it was accounted for according to the standards for revenue recognition effective during the 2017 financial year.
Additionally, adidas applied the practical expedient for transition with respect to contract modifications offered in the IFRS 15 Amendment 'Clarifications to IFRS 15', effective January 1, 2018. This expedient is only applicable for the modified retrospective method. By applying this practical expedient, on January 1, 2018, the company reflected the effect of all contract modifications which occurred before the date of initial application of IFRS 15 on an aggregate basis. More information about the quantitative impact from the application of IFRS 15 is provided in these Notes. SEE NOTE 32

— **IAS 40 Amendment – Transfers of Investment Property (EU effective date: January 1, 2018):** This amendment clarifies guidance for transfers of property to – or from – investment property. adidas does not have investment property and therefore this amendment did not have an effect on the company's financial statements.

— **IFRIC 22 – Foreign Currency Transactions and Advance Consideration (EU effective date: January 1, 2018):** This new interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the transaction date, for the purpose of determining the exchange rate for received or performed prepayments, is the date of the initial recognition of the non-monetary prepayment asset or deferred income liability. adidas already translates non-monetary items, such as prepayments, at the exchange rate as at the initial recognition date. Therefore, this interpretation did not have an impact on the consolidated financial statements.

— **Improvements to IFRSs (2014–2016) – Amendments to IFRS 1 and IAS 28 (EU effective date: January 1, 2018):** These improvements include amendments to IFRS 1 and IAS 28. The amendments to IFRS 1 eliminated the short-term transition exemptions and the amendments to IAS 28 made a clarification about the option for qualifying entities (such as venture capital organizations) to apply either the equity method or fair value through profit or loss to the measurement of associates or joint ventures at initial recognition. These improvements did not have any material impact on the consolidated financial statements.

New standards and interpretations as well as amendments to existing standards and interpretations are usually not applied by adidas before the EU effective date.

New standards and interpretations and amendments to existing standards and interpretations issued by the International Accounting Standards Board (IASB) and endorsed by the EU which are effective for financial years beginning after January 1, 2018, and which have not been applied in preparing these consolidated financial statements are:

— **IFRS 16 Leases (EU effective date: January 1, 2019):** The new standard replaces the guidance in IAS 17 'Leases' and the respective interpretations IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC-15 'Operating Leases – Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. For lessees, IFRS 16 eliminates the required classification of leases into operating and finance leases in accordance with IAS 17, replacing it with a single accounting model requiring lessees to recognize a right-of-use asset and a corresponding lease liability for leases with a lease term of more than twelve months. In contrast, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

adidas will apply IFRS 16 as of January 1, 2019 and transition to IFRS 16 in accordance with the modified retrospective approach with no adjustments to comparative financial information and using practical expedients as described below.

adidas has identified the main classes of leases where adidas acts as a lessee, which include the following: land and buildings, technical equipment and machinery, furniture and fixtures, motor vehicles, computer hardware, advertising spaces and other equipment. The company has collected real estate lease contracts in its global real estate lease management system, which captures the relevant information from real estate lease contracts. Additionally, adidas successfully implemented a technical system to ensure the storage of data from non-real estate lease contracts and a lease engine to guarantee IFRS 16-compliant accounting valuations and measurements.

The company will make use of the recognition exemption for leases of low value assets (i.e. value of the underlying asset, when new, is € 5,000 or less) and short-term leases (shorter than twelve months) resulting in an accounting method which is similar to that previously used for operating leases under IAS 17 for those leases.

According to the option offered in IFRS 16.4, adidas decided to exclude leases for software from the scope of the new standard. Instead, software leases are accounted for in accordance with IAS 38.

IFRS 16 offers the lessee the option to combine lease payments with payments for non-lease components in the calculation of the lease liability and right-of-use asset per class of asset. adidas will apply the option for all asset classes except for real estate leases. For leases that have been classified to date as operating leases in accordance with IAS 17, the lease liability will be recognized at the present value of the remaining lease payments, discounted using incremental borrowing rates (in case the interest rate implicit in the lease is not available) at the time the standard is first adopted. The right-of-use assets will be initially measured at the amount of the lease liabilities at January 1, 2019 by making use of the exemption to exclude initial direct costs from the measurement of the right-of-use assets at the date of initial application.

The new standard will have a significant impact on the company's consolidated statement of financial position upon initial application. adidas has a significant number of operating leases worldwide – mainly pertaining to more than 2,300 rented own-retail stores as well as rented offices and warehouses. SEE NOTE 30

As part of the group-wide implementation project, adidas conducted an impact analysis indicating, at the date of transition, an initial recognition of right-of-use assets and lease liabilities in the statement of financial position in an amount of around € 2.5 billion as a result of the transition to IFRS 16 and the application of the practical expedient described above.

The lease expenses will be presented by straight-line depreciation charges on the right-of-use assets and interest expenses due to the compounding of the lease liabilities in accordance with the effective interest method. Fixed payments on operating leases that were expensed under IAS 17 will be eliminated under IFRS 16. These changes will result in an expected decrease in net income from continuing operations of around € 35 million in 2019 based on lease contracts as of January 1, 2019.

Due to the future presentation of lease payments as financing activities under IFRS 16, the cash flows from operating activities will increase and the cash flows from financing activities will decline accordingly.

— **IFRS 9 Amendment – Prepayment Features with Negative Compensation (EU effective date: January 1, 2019):** The amendment offers additional guidance on how to classify prepayable financial assets according to IFRS 9 and it clarifies the accounting for financial liabilities following a modification. According to the IFRS 9 evaluation, adidas does not have any financial assets with prepayment features. Additionally, the company does not currently expect modifications to financial liabilities. Therefore, this amendment is not expected to have any material impact on the company's consolidated financial statements.

— **IFRIC 23 – Uncertainty over Income Tax Treatments (EU effective date: January 1, 2019):** This new interpretation applies to income taxes within the scope of IAS 12 'Income Taxes' and clarifies the accounting for uncertainties in income taxes. In the case of uncertainty regarding the determination of taxable profit/tax loss, tax bases, unused tax losses, unused tax credits and tax rates under IAS 12, this interpretation must be applied. This interpretation is not expected to have an impact on the consolidated financial statements.

The following new standards and interpretations as well as amendments to existing standards and interpretations were issued by the IASB. These are not yet effective in the EU and hence have not been applied in preparing these consolidated financial statements.

- **IFRS 3 Amendment – Definition of a Business (IASB effective date: January 1, 2020):** The amendment adds additional guidance in order to help entities determine whether they have acquired a business or a group of assets. This amendment is not expected to have any material impact on the consolidated financial statements.
- **IFRS 10 and IAS 28 Amendment – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (IASB effective date: indefinitely postponed):** The amendment addresses an inconsistency between IFRS 10 and IAS 28 regarding the sale or contribution of assets between an investor and its associate or joint venture. This amendment is not expected to have any material impact on the consolidated financial statements.
- **IFRS 17 – Insurance Contracts (IASB effective date: January 1, 2021):** The new standard regulates the recognition, measurement, presentation, and disclosure of certain insurance contracts that influence the entity's financial position, financial performance and cash flows. Insurance contracts which the entity issues, reinsurance contracts the entity holds, and investment contracts with discretionary participation features issued by the entity are all within the scope of the standard. IFRS 17 replaces IFRS 4 Insurance contracts, which is currently not applied by the company. Therefore, the standard is not expected to have any impact on the consolidated financial statements.
- **IAS 1 and IAS 8 Amendments – Definition of Material (IASB effective date: January 1, 2020):** The amendment clarifies the definition of 'material' and aligns the definition used in the Conceptual Framework with the accounting standards themselves. This amendment is not expected to have any material impact on the consolidated financial statements.
- **IAS 19 Amendment – Plan Amendment, Curtailment or Settlement (IASB effective date: January 1, 2019):** The amendment makes it mandatory to determine the current service cost and net interest for the period using the assumptions used for remeasurement when a plan amendment, curtailment or settlement occurs. This amendment is not expected to have any material impact on the consolidated financial statements.
- **IAS 28 Amendment – Long-term Interests in Associates and Joint Ventures (IASB effective date: January 1, 2019):** The amendment clarifies that IFRS 9 Financial Instruments – including the impairment requirements – should be applied to long-term interests in an associate or joint venture forming part of a net investment but for which the equity method is not applied. adidas does not have long-term interests in an associate or joint venture forming part of a net investment but for which the equity method is not applied, and which will not be accounted for according to IFRS 9 starting January 1, 2018. Therefore, the amendment is not expected to have any impact on the consolidated financial statements.
- **Improvements to IFRSs (2015–2017) – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (IASB effective date: January 1, 2019):** These improvements include amendments to IFRS 3 which clarify that when an entity obtains control of a business that was previously a joint operation the entity must remeasure its previously held interests in that business. The amendments to IFRS 11 clarify that an entity does not remeasure previously held interests in a business when it assumes joint control of a joint operation. The amendments to IFRS 3 and IFRS 11 would only have a potential impact in the case that the aforementioned transactions take place in the year of initial application. The amendments to IAS 12 clarify that the income tax effects resulting from dividend payments should be presented in the same manner as the income from which the dividends are derived. In other words, the income tax consequences from dividends should be shown in profit or loss unless the dividend relates to income which is recorded in equity or other comprehensive income. adidas does not expect any effects from this amendment. The amendments to IAS 23 specify that when a qualifying asset has become ready for its intended sale or use, any outstanding borrowed amount is no longer used in the calculation of the capitalization rate for the specific qualifying asset, but instead used in the general capitalization rate for borrowings. adidas currently capitalizes the borrowing costs for one qualifying asset. The amendments to IAS 23 are not expected to have a material impact on the consolidated financial statements.

The consolidated financial statements have in principle been prepared on the historical cost basis with the exception of certain items in the statement of financial position such as: financial instruments, derivative financial instruments and plan assets which are measured at fair value.

The consolidated financial statements are presented in euro (€) and, unless otherwise stated, all values are presented in millions of euro (€ in millions). Due to rounding principles, numbers presented may not exactly sum up to totals provided.

02 » 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 financial statements of adidas AG and all its direct and indirect subsidiaries, which are prepared in accordance with uniform accounting principles. An entity is considered a subsidiary if it is controlled by adidas AG. Control exists when adidas is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The number of consolidated subsidiaries developed as follows for the years ending December 31, 2018 and December 31, 2017, respectively:

Number of consolidated subsidiaries

	2018	2017
January 1	**129**	**143**
First-time consolidated subsidiaries	–	3
Thereof: newly founded	–	3
Thereof: purchased	–	–
Deconsolidated/divested subsidiaries	(1)	(17)
Intercompany mergers	–	–
December 31	**128**	**129**

The subsidiaries are held either directly by adidas AG or indirectly via the two holding companies adidas Beteiligungsgesellschaft mbH in Germany or adidas International B.V. in the Netherlands.

A schedule of the shareholdings of adidas AG is shown in Attachment II to the consolidated financial statements. SEE SHAREHOLDINGS, P. 226 This schedule comprises information about the name, domicile, currency and equity of all consolidated subsidiaries as well as the respective share held in the capital of these subsidiaries. Furthermore, the schedule of the shareholdings of adidas AG will be published on the electronic platform of the German Federal Gazette.

Within the scope of the first-time consolidation, all acquired assets and liabilities are recognized in the statement of financial position at fair value at the acquisition date. A debit difference between the acquisition cost and the proportionate fair value of assets, liabilities and contingent liabilities is recognized as goodwill. A credit difference is recorded in the income statement after a reassessment of the fair value of the assets, liabilities and contingent liabilities has been performed.

Acquisitions of additional investments in subsidiaries which are already controlled are recorded as equity transactions. Therefore, neither fair value adjustments of assets and liabilities nor gains or losses are recognized. Any difference between the cost for such an additional investment and the carrying amount of the net assets at the acquisition date is recorded directly in shareholders' equity.

Overview of selected subsequent measurement principles

Item	Subsequent measurement principle	Subsequent measurement principle IAS 39
Assets		
Cash and cash equivalents	Nominal amount	Nominal amount
Cash and cash equivalents (investments in money market funds)	Fair value through profit or loss	Nominal amount
Short-term financial assets	Fair value through profit or loss	Fair value through profit or loss
Accounts receivable	Amortized cost	Amortized cost
Contract assets	Impairment-only approach	
Inventories	Lower of cost and net realizable value	
Assets classified as held for sale	Lower of carrying amount and fair value less costs to sell	
Property, plant and equipment	Amortized cost	
Goodwill	Impairment-only approach	
Intangible assets (except goodwill):		
With definite useful life	Amortized cost	
With indefinite useful life	Impairment-only approach	
Financial assets	See separate table	See separate table
Liabilities		
Borrowings	Amortized cost	Amortized cost
Accounts payable	Amortized cost	Amortized cost
Liabilities/provisions for cash-settled share-based payment arrangements	Fair value	
Contract liabilities	Expected settlement amount	
Other financial liabilities	Amortized cost	Amortized cost
Provisions:		
Pensions	Projected unit credit method	
Other provisions	Expected settlement amount	
Accrued liabilities	Amortized cost	

The financial effects of intercompany transactions as well as any unrealized gains and losses arising from intercompany business relations are eliminated in preparing the consolidated financial statements.

Principles of measurement

The following table includes an overview of selected subsequent measurement principles used in the preparation of the consolidated financial statements.

Financial assets are classified and measured according to IFRS 9. Purchase and sale of financial assets are recognized on the trade date and initially measured at fair value. Subsequently a financial asset is measured at amortized cost, fair value through other comprehensive income (debt investment), fair value through other comprehensive income (equity investment) or fair value through profit or loss.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss: financial asset which is held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt security is measured at fair value through other comprehensive income if it meets both of the following conditions and is not designated as at fair value through profit or loss: financial asset which is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, it is possible to make an irrevocable election to present subsequent changes in the investment´s fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets which are not classified as measured at amortized cost or at fair value through other comprehensive income as described above are measured at fair value through profit or loss.

Financial assets are not reclassified to their initial recognition unless the business model for managing financial assets is changed, in which case all affected financial assets are reclassified.

The subsequent measurement of financial assets is as follows:

Overview of financial asset subsequent measurement principles according to IFRS 9

IFRS 9 category	Subsequent measurement principle	Subsequent measurement
Fair value through profit or loss	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.	Fair value through profit or loss
Amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.	Amortized cost
Fair value through other comprehensive income (debt investment)	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income. On derecognition, accumulated gains and losses are reclassified to profit or loss.	Fair value through other comprehensive income
Fair value through other comprehensive income (equity investment)	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other gains and losses are recognized in other comprehensive income and are never reclassified to profit or loss.	Fair value through other comprehensive income

Overview of financial asset subsequent measurement principles according to IAS 39

IAS 39 category	Subsequent measurement principle	Subsequent measurement
At fair value through profit or loss	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.	At fair value through profit or loss
Held to maturity	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.	Amortized cost
Loans and receivables	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.	Amortized cost
Available-for-sale	These assets are subsequently measured at fair value. Net gains and losses are recognized in other comprehensive income except dividends and impairment losses which are shown in profit or loss.	At fair value in other comprehensive income
Available-for-sale	These assets are based on inputs other than quoted prices that are observable for the asset either directly or indirectly and subsequently measured at cost less impairment losses and dividend receivables.	At cost

Currency translation

Transactions in foreign currencies are initially recorded in the respective functional currency by applying the spot exchange rate valid at the transaction date to the foreign currency amount.

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

Assets and liabilities of the company's non-euro functional currency subsidiaries are translated into the presentation currency, the euro, which is also the functional currency of adidas AG, using closing exchange rates at the balance sheet date. For practical reasons, revenues and expenses are translated at average rates for the period which approximate the 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 the income statement.

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

Exchange rates

€ 1 equals	Average rates for the year ending Dec. 31,		Spot rates at Dec. 31,	
	2018	2017	2018	2017
USD	1.1813	1.1266	1.1450	1.1993
GBP	0.8847	0.8754	0.8945	0.8872
JPY	130.4030	126.2381	125.8500	135.0100
CNY	7.8051	7.6116	7.8584	7.8365
RUB	73.9202	65.5601	79.5438	69.0799

Hyperinflation

To reflect changes in purchasing power at the balance sheet date, the carrying amounts of non-monetary assets and liabilities, shareholders' equity and comprehensive income at subsidiaries in hyperinflationary economies are restated in terms of a measuring unit current at the balance sheet date. SEE NOTE 37 These are indexed using a general price index in accordance with IAS 29 'Financial Reporting in Hyper-inflationary Economies'. However, no restatement is required for monetary assets and liabilities carried at amounts current at the end of the balance sheet date, such as net realizable value or fair value as well as for monetary items, because they represent money held, to be received or to be paid.

Gains and losses from hyperinflation are included in the financial result.

Non-monetary assets that have been restated following the guidance in IAS 29 are still subject to impairment assessment in accordance with the guidance in the relevant IFRSs.

Discontinued operations

A component of the company's business is classified as a discontinued operation if the operations and cash flows of the component can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the company and if the component either has been disposed of or is classified as held for sale, and:

- represents a separate major line of business or geographic area of operations,
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as a discontinued operation, the comparative consolidated income statement and consolidated statement of cash flows are restated and presented as if the operation had been classified as such from the start of the comparative year.

Derivative financial instruments

adidas uses derivative financial instruments, such as currency options, forward exchange contracts, commodity futures as well as interest rate swaps and cross-currency interest rate swaps, to hedge its exposure to foreign exchange, commodity price and interest rate risks. In accordance with its Treasury Policy, adidas does not enter into transactions with derivative financial instruments for trading purposes.

Derivative financial instruments are initially recognized in the statement of financial position 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 hedge. On the date a derivative contract is entered into, adidas designates derivatives as either a hedge of a forecast transaction (cash flow hedge) or a hedge of a net investment in a foreign operation. Only the spot element of foreign exchange deals and the intrinsic value of currency options are designated in a hedge-relationship (spot-to-spot designation).

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges, and that are effective, as defined in IFRS 9, are recognized in equity.

adidas applies the 'cost of hedging' approach for dedicated cash flow hedges. Changes in the fair value of the time value component of options, as well as the forward element in forward contracts are recognized separately in equity. When the effectiveness is not 100%, the ineffective portion of the change in the fair value is recognized in the income statement. Accumulated gains and losses in equity are transferred to the income statement in the same periods during which the hedged forecast transaction affects the income statement.

Certain derivative transactions, while providing effective economic hedges under the company's risk management policies, may not qualify for hedge accounting under the specific rules of IFRS 9. Changes in the fair value of any derivative instruments that do not meet these rules are recognized immediately in the income statement.

Hedges of net investments in foreign entities are accounted for in a similar way to cash flow hedges. If the hedging instrument is a derivative (e.g. a forward exchange contract) or a foreign currency borrowing, effective currency gains and losses in the derivative and all gains and losses arising on the translation of the borrowing, respectively, are recognized in equity with the exception of the cross-currency basis spread.

adidas documents the relationship between hedging instruments and hedge objects at transaction inception, as well as the risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific firm commitments and forecast transactions. adidas also assesses the effectiveness and possible ineffectiveness of its derivatives by using different methods of effectiveness testing, such as the 'dollar offset method' or the 'hypothetical derivative method'.

The fair values of currency options, forward exchange contracts and commodity futures are determined on the basis of market conditions on the reporting dates. The fair value of a currency option is determined using generally accepted models to calculate option prices. The fair value of an option is influenced not only by the remaining term of the option but also by additional factors, such as the actual foreign exchange rate and the volatility of the underlying foreign currency base. Fair values are determined taking into consideration the counterparty risk.

Cash and cash equivalents

Cash and cash equivalents represent cash at banks, cash on hand and short-term deposits with maturities of three months or less from the date of acquisition such as commercial papers and investments in money market funds.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Part of cash equivalents includes investments in money market funds. Classification and measurement under IFRS 9 were performed based on the respective business model for managing these investments and the contractual cash flow characteristics. Money market funds contain cash flows other than those of principal and interest on principal. As a result, those investments are measured at fair value through profit or loss.

Accounts receivable

Accounts receivable are recognized at the transaction price, which represents the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. Subsequently, these are measured at amortized cost.

Other financial assets

Other financial assets are classified under IFRS 9 based on the business model for managing these assets and the contractual cash flow characteristics. Those other financial assets that give rise to cash flows consisting only of payments of principal and interest are classified in accordance with the respective business model for managing the financial assets. Financial assets that are held in a business model with the objective to hold them until maturity and collect the contractual cash flows are measured at amortized cost. adidas mainly has security deposits and receivables from credit cards/marketplaces which fall under this category.

Other financial assets which are not managed within a business model to collect contractual cash flows nor within a business model to collect contractual cash flows and sell financial assets are measured at fair value through profit or loss. This mainly includes secured promissory notes and earn-out components.

Long-term financial assets

The purchase and sale of long-term financial assets is recognized on the trade date and initially measured at fair value.

Long-term financial assets which were previously classified as available-for-sale and measured at fair value through comprehensive income are now distinguished between debt and equity instruments and classified according to IFRS 9 as follows:

Debt instruments are measured dependent on the business model and the contractual cash flows. Only financial assets that are held within the business model with the objective to collect the contractual cash flows which represent solely payments of principal and interest on the principal amount outstanding are measured at amortized cost. adidas classifies certain loans within this category. All other financial assets which do not fulfill both of these criteria are measured at fair value – either at fair value through profit or loss or at fair value through other comprehensive income (debt). adidas has no long-term financial assets in the category fair value through comprehensive income (debt instrument) and shows loans in the category fair value through profit or loss which do not fulfill the characteristic cash flow criteria.

Generally, all investments in equity instruments are measured at fair value through profit or loss. An irrevocable election can be made at initial recognition to capture fair value changes in other comprehensive income for instruments that are neither held for trading nor contingent considerations recognized by an acquirer.

adidas has designated certain investments as equity securities as at fair value through other comprehensive income (equity), because these investments represent investments that the company intends to hold for the long term for strategic purposes. The designation of certain equity instruments at fair value through other comprehensive income (equity) is based on a strategic Management decision.

Inventories

Merchandise and finished goods are valued at the lower of cost or net realizable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Costs are determined using a standard valuation method, the 'average cost method'. Costs of finished goods include cost of raw materials, direct labor and the components of the manufacturing overheads which can be reasonably attributed to finished goods. The allocation of overheads is based on the planned average utilization. The net realizable value allowances are computed consistently throughout the company based on the age and expected future sales of the items on hand.

Assets/liabilities and disposal groups classified as held for sale

Assets/liabilities and disposal groups classified as held for sale are primarily non-current assets and liabilities expected to be recovered principally through sale rather than through continuing use. These are measured at the lower of their carrying amount and fair value less costs to sell. Assets classified as held for sale are not depreciated on a straight-line basis.

Property, plant and equipment

Property, plant and equipment are measured at amortized cost. This comprises any costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by Management less any accumulated depreciation and accumulated impairment losses. Depreciation is recognized for those assets, with the exception of land and construction in progress, over the estimated useful life utilizing the 'straight-line method' and taking into account any potential residual value, except where the 'declining-balance method' is more appropriate in light of the actual utilization pattern. Parts of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item are depreciated separately.

Land leases are measured at the lower of the fair value or the present value of minimum lease payments and are depreciated on a straight-line basis over the contractually agreed lease term.

Estimated useful lives are as follows:

Estimated useful lives of property, plant and equipment

	Years
Land	indefinite
Land leases	50 – 99
Buildings and leasehold improvements	20 – 50[1]
Furniture and fixtures	3 – 5
Technical equipment and machinery as well as other equipment	2 – 10[1]

1 Or, if shorter, the lease term/useful life. See Note 29.

Expenditure for repairs and maintenance is expensed as incurred. Renewals and improvements are capitalized and depreciated separately, if the recognition criteria are met.

Impairment losses on non-financial assets

If facts and circumstances indicate that non-current assets (e.g. property, plant and equipment and intangible assets including goodwill) might be impaired, the recoverable amount is determined. It is measured at the higher of its fair value less costs of disposal and value in use. Non-financial items measured at the recoverable amount primarily relate to impaired property, plant and equipment being measured based on value in use or on fair value taking unobservable inputs (e.g. profit or cash flow planning) into account. The fair value is measured at Level 3 according to IFRS 13 'Fair Value Measurement'.

An impairment loss is recognized in other operating expenses or reported in goodwill impairment losses if the carrying amount exceeds the recoverable amount.

The impairment test for goodwill is performed based on groups of cash-generating units which represent the lowest level within the company at which goodwill is monitored for internal management purposes. If there is an impairment loss for a group of cash-generating units, first the carrying amount of any goodwill allocated to the group of cash-generating units is reduced. Subsequently, provided that the recoverable amount is lower than the carrying amount, the other non-current assets of the group of cash-generating units are reduced pro rata on the basis of the carrying amount of each asset in the group of cash-generating units. In allocating an impairment loss, the carrying amount of an individual asset is not reduced below its fair value. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the cash-generating unit and groups of cash-generating units, respectively.

The impairment test for trademarks with indefinite useful lives is performed on the relevant level of cash-generating units.

Irrespective of whether there is an impairment indication, intangible assets with an indefinite useful life (in particular trademarks) and goodwill acquired in business combinations are tested annually on September 30 for impairment.

An impairment loss recognized in goodwill is not reversible. With respect to all other impaired assets, an impairment loss recognized in prior periods is reversed affecting the income statement if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortization) if no impairment loss had been recognized.

Impairment losses on financial assets

Impairment losses for debt financial assets measured at amortized cost or at fair value through other comprehensive income (debt) are recognized in accordance with IFRS 9 'Financial Instruments'. The standard requires that not only historical data, but also future expectations and projections are taken into consideration when accounting for impairment losses ('expected credit loss' model).

adidas consistently applies the simplified approach and recognizes lifetime expected credit losses for all accounts receivable. In order to calculate a collective loss allowance, all accounts receivable sharing similar credit risk characteristics are allocated into several portfolios based on geographical regions and macroeconomic indicators. Historical payment and aging patterns are analyzed individually for each of the portfolios to determine the probability of default which is further adjusted by forward-looking factors derived primarily from the Credit Default Swap (CDS) spreads of the countries where adidas runs its operations. The adjusted probability of default is then applied in combination with a loss given default and exposure at default to calculate the expected credit loss for each portfolio and aging bucket. The rates are reviewed on a regular basis to ensure that they reflect latest data on credit risk. In case objective evidence of credit impairment is observed for accounts receivable from a specific customer, a detailed analysis of the credit risk is performed and an appropriate individual loss allowance is recognized for this customer. Accounts receivable are considered to be in default when it is expected that the debtor will not fulfill its credit obligations toward adidas.

Cash and cash equivalents measured at amortized cost are subject to a general impairment approach under IFRS 9. adidas applies the low credit risk exemption for a vast majority of such instruments due to the investment grade of their counterparties (defined by the company as equivalent of BBB+ or higher). A significant increase of credit risk is assumed when the instruments are more than 30 days past due. The company monitors the credit risk associated with cash and cash equivalents taking into consideration the economic environment, observing external credit ratings and/or CDS spreads of counterparty financial institutions and establishing exposure limits. Expected credit loss of cash and cash equivalents is calculated based on the probability of default and recovery rates derived from CDS spreads or external credit ratings of the counterparties. Cash and cash equivalents are considered to be in default when they are more than 90 days past due.

Other financial assets within the scope of IFRS 9 impairment include mainly security deposits as well as accounts receivable regarding credit card companies and electronic marketplaces.

Objective evidence that credit impairment of financial assets has occurred includes, for instance, significant financial difficulty of the debtor/issuer, indications of their potential bankruptcy, the deterioration of the market for their products and general macroeconomic problems. The gross carrying amount of financial assets is written off when adidas, based on a case-by-case assessment, assumes that their recovery is no longer possible.

Impairment losses on accounts receivable are presented in the line item 'Impairment loses (net) on accounts receivable and contract assets' while impairment losses on all other financial assets are shown in the line item 'Financial expenses' in the consolidated income statement.

Under previous policy based on IAS 39, which was in place before January 1, 2018, adidas applied the 'incurred credit loss' model for a calculation of impairment losses on its accounts receivable. The rates used for recognizing the loss allowances were determined based on the past due status of the accounts receivable. However, unlike the company's current approach according to IFRS 9, there was no further distinguishing between various asset portfolios according to IAS 39. They also did not reflect any forward-looking assumptions but rather focused on past experience.

Leases

Under finance lease arrangements, the substantial risks and rewards associated with an asset are transferred to the lessee. At the beginning of the lease arrangement, the respective asset and a corresponding liability are recognized at the fair value of the asset or, if lower, the net present value of the minimum lease payments. For subsequent measurement, minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic interest rate on the remaining balance of the liability. In addition, depreciation and any impairment losses for the associated assets are recognized. Depreciation is performed over the lease term or, if shorter, over the useful life of the asset.

Under operating lease agreements, rent expenses are recognized on a straight-line basis over the term of the lease.

Goodwill

Goodwill is an asset representing the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized. This results when the purchase cost exceeds the fair value of acquired identifiable assets, liabilities and contingent liabilities. Goodwill arising from the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets, liabilities and contingent liabilities of that foreign entity are treated as assets, liabilities and contingent liabilities of the respective reporting entity, and are translated at exchange rates prevailing at the date of the initial consolidation.

Goodwill is carried in the functional currency of the acquired foreign entity.

Intangible assets (except goodwill)

Intangible assets with indefinite useful lives (in particular trademarks) are recognized at purchase cost and are subject to an impairment test at least on an annual basis ('impairment-only' approach).

Intangible assets with definite useful lives are valued at amortized cost. Amortization is calculated on a straight-line basis taking into account any potential residual value.

Expenditures during the development phase of internally generated intangible assets are capitalized as incurred if they qualify for recognition under IAS 38 'Intangible Assets'.

Estimated useful lives are as follows:

Estimated useful lives of intangible assets

	Years
Trademarks	indefinite[1]
Software	5 – 7
Patents, trademarks and licenses	5 – 15
Websites	2

1 For exceptions see Note 15.

Research and development

Research costs are expensed in full as incurred. Development costs for internally generated intangible assets are also expensed as incurred if they do not meet the recognition criteria of IAS 38 'Intangible Assets', paragraph 57.

Borrowings and other liabilities

Borrowings (e.g. Eurobonds) and other liabilities are recognized at fair value using the 'effective interest method', net of transaction costs incurred. In subsequent periods, long-term borrowings are stated at amortized cost using the 'effective interest method'. Any difference between proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the term of the borrowing.

Compound financial instruments (e.g. convertible bonds) are divided into a liability component shown under borrowings and into an equity component resulting from conversion rights. The equity component is included in the capital reserve. The fair value of the liability component is determined by discounting the interest and principal payments of a comparable liability without conversion rights, applying risk-adjusted interest rates. The liability component is subsequently measured at amortized cost using the 'effective interest method'. The equity component is determined as the difference between the fair value of the total compound financial instrument and the fair value of the liability component and is reported within equity. There is no subsequent measurement of the equity component. At initial recognition, directly attributable transaction costs are assigned to the equity and liability component pro rata on the basis of the respective carrying amounts.

Provisions and accrued liabilities

Provisions are recognized where a present obligation (legal or constructive) to third parties has been incurred as a result of a past event which can be estimated reliably and is likely to lead to an outflow of resources, and where the timing or amount is uncertain. Non-current provisions are discounted if the effect of discounting is material.

Accrued liabilities are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees. Here, however, the timing and amount of an outflow of resources is not uncertain.

Pensions and similar obligations

Provisions and expenses for pensions and similar obligations relate to the company's obligations for defined benefit and defined contribution plans. The obligations under defined benefit plans are determined separately for each plan by valuing the employee benefits accrued in return for their service during the current and prior periods. These benefit accruals are discounted to calculate their present value, and the fair value of any plan assets is deducted in order to determine the net liability. The discount rate is set on the basis of yields of high-quality corporate bonds at the balance sheet date provided there is a deep market for high-quality corporate bonds in a given currency. Otherwise, government bond yields are used as a reference. Calculations are performed by qualified actuaries using the 'projected unit credit method' in accordance with IAS 19 'Employee Benefits'. Obligations for contributions to defined contribution plans are recognized as an expense in the income statement as incurred.

Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of adidas. Additionally, contingent liabilities may be present obligations that arise from past events but which are not recognized because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognized in the consolidated statement of financial position but are disclosed and explained in the Notes. SEE NOTE 42

Treasury shares

When treasury shares recognized as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. The nominal value of € 1 per treasury share is debited to share capital. Any premium or discount to the nominal value is shown as an adjustment to the capital reserve. If treasury shares are sold or re-issued, the nominal value of the shares will be credited to share capital and the amount exceeding the nominal value will be added to the capital reserve.

Contract assets and contract liabilities

Contract assets and liabilities are recognized in connection with revenues arising from the licensing-out of the right to use the adidas and Reebok brands as well as various other trademarks to third parties. Contract assets represent the company's right to consideration in exchange for rights that adidas has transferred to a third party and contract liabilities represent the company's obligation to transfer rights to a third party for which adidas has received consideration from the third party. The subsequent measurement of contract assets follows the impairment-only approach for financial assets within the scope of IFRS 9. Contract liabilities are measured at the expected settlement amount.

Revenue

Revenue derived from the sale of goods is recognized when adidas has satisfied the respective performance obligation by transferring the promised goods to the customer. The goods are transferred when the customer obtains control of the respective goods. The timing of the transfer of control depends on the individual terms of the sales agreement (terms of delivery).

Revenue is measured at the fair value of the consideration received or receivable, net of returns, early payment discounts and rebates.

Under certain conditions and in accordance with contractual agreements, customers of adidas have the right to return products and to either exchange them for similar or other products or to return the products against the issuance of a credit note. Amounts for estimated returns related to revenues are accrued based on past experience on average return rates and average actual return periods by means of a refund liability. The return assets are measured at the former carrying amount of the inventory/product, less any handling cost and any potential impairment.

Provided that the customers meet certain predefined conditions, adidas grants its customers different types of globally aligned performance-based rebates. Examples are customers' sales growth and loyalty as well as sell-out support, e.g. through retail space management/franchise stores. When it is assumed that the customer fulfills the requirements for being granted the rebate, this amount is accrued by means of an accrued liability for marketing and sales.

Customer incentives and options as well as any obligation for adidas to pay for the delivery of goods to the customer do not create separate performance obligations under IFRS 15 and are separated from revenue.

In addition, adidas generates revenue from the licensing-out of the right to use the adidas and Reebok brands as well as various other trademarks to third parties. The related sales-based royalty and commission income is recognized based on the contract terms on an accrual basis. Contracts with guaranteed minimum income result in contract assets and contract liabilities depending on the timing of yearly payments received from customers. The performance obligation related to these contract assets and liabilities is satisfied over the life of the contract, whereby payments are received as arranged in the contract with the customer.

Advertising and promotional expenditure

Advance payments for media campaigns are included in prepaid expenses (other current and non-current assets) until the services are received, and upon receipt expensed in full. Significant costs for media campaigns are expensed over the duration of the media campaign.

Promotional expenses including one-time up-front payments for promotion contracts are principally expensed on a straight-line basis over the term of the agreement.

Interest

Interest is recognized as income or expense as incurred using the 'effective interest method' with the exception of interest that is directly attributable to the acquisition, construction or production of a qualifying asset. This interest is capitalized as part of the cost of the qualifying asset.

Government grants

adidas receives government grants related to income in the form of subsidies, subventions or premiums from local, national or international government authorities such as those of the Federal Republic of Germany, the European Union and the Free State of Bavaria.

Government grants related to income are recognized if there is reasonable assurance that the grants will be received and that adidas will comply with the conditions attached.

Grants related to income are reported in the consolidated income statement as a deduction from the related expenses.

Income taxes

Current income taxes are computed in accordance with the applicable taxation rules established in the countries in which adidas operates.

adidas computes deferred taxes for all temporary differences between the carrying amount and the tax base of its assets and liabilities and tax loss carry-forwards. As it is not permitted to recognize a deferred tax liability for the initial recognition of goodwill, adidas does not compute any deferred taxes thereon.

Deferred tax assets arising from deductible temporary differences and tax loss carry-forwards which exceed taxable temporary differences are only recognized to the extent that it is probable that the entity concerned will generate sufficient taxable income to realize the associated benefit.

Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Share-based payment

The cost of equity-settled share-based payment transactions with employees is determined by the fair value at the grant date using an appropriate valuation model. SEE NOTE 28 That cost is recognized in personnel expenses, together with a corresponding increase in equity (retained earnings), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the company's best estimate of the number of equity instruments that will ultimately vest.

Service and non-market performance conditions are not taken into account when determining the fair value of awards at the grant date, but the likelihood of the conditions being met is assessed as part of the company's best estimate of the number of equity instruments that will ultimately vest. If the estimate is changed, even a credit in the income statement for the period can be possible as it reflects the movement in cumulative expenses from the beginning to the end of that period.

No expense is recognized for awards that do not ultimately vest because non-market performance and / or service conditions have not been met.

Equity-settled share-based payment transactions with parties other than employees are generally measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is remeasured at each end of the reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period.

Estimation uncertainties and judgments

The preparation of financial statements in conformity with IFRS requires the use of assumptions and estimates that affect reported amounts and related disclosures. Although such estimates are based on the best knowledge of current events and actions, actual results may ultimately differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined in the respective Notes, in particular goodwill SEE NOTE 14, trademarks SEE NOTE 15, other provisions SEE NOTE 21, pensions SEE NOTE 25, derivatives SEE NOTE 31, deferred taxes SEE NOTE 38, as well as litigation and other legal risks SEE NOTE 42.

Judgments have also been used in classifying leasing arrangements as well as in determining valuation methods for intangible assets.

03» ADJUSTMENTS ACCORDING TO IAS 8

The German Financial Reporting Enforcement Panel (FREP) performed an examination in accordance with § 342b section 2 sentence 3 No. 3 HGB (unlimited scope examination on a sampling basis) of the consolidated financial statements of adidas AG at December 31, 2016 and the related 2016 Group management report. The responsible panel concluded that the consolidated financial statements at December 31, 2016 were erroneous:

“The recoverability of the Reebok brand with a book value of € 1.47 billion could not be proven based on the documentation provided by the company as at December 31, 2016. Although losses of around € 150 million and restructurings indicate an impairment of the cash-generating units Reebok with the Reebok brand as a major asset, no impairment test was conducted on the basis of the relevant cash-generating Reebok business units. This violates IAS 36.12 in conjunction with IAS 36.22, IAS 36.66 et seq. and § 238 German Commercial Code (Handelsgesetzbuch – HGB).

The company conducted a test for impairment of the intangible asset of the brand by determining the fair value of the Reebok brand based on notional royalty savings (relief-from-royalty method). The estimate is based on the assumption of strong sales growth. Moreover, since the acquisition, an unchanged royalty rate of 4.5% has been used although the brand has sustainably failed to meet the sales targets and has regularly not met its profitability targets since the acquisition of the brand in 2006. Thus, in the present case, the use of non-market-driven input factors and the valuation method applied do not lead to the most reliable estimate of the fair value of the Reebok brand. This violates IFRS 13.2, IFRS 13.9, IFRS 13.61 et seqq. and IFRS 13.69 as well as IAS 36.105.”

After detailed examination, the Executive Board accepted the findings. The error finding resulted in a retrospective correction of the 2016 consolidated financial statements according to IAS 8.41 et seqq.

The following table provides an overview of the impact of all corrections:

Adjustment of the adidas AG opening consolidated statement of financial position (IFRS) as at January 1, 2017 € in millions

	Dec. 31, 2016 (as reported)	Adjustment IAS 8	Opening balance Jan. 1, 2017[1]
Assets			
Total current assets	**8,886**	**–**	**8,886**
Trademarks	1,680	572	1,108
Total non-current assets	**6,290**	**572**	**5,718**
Total assets	**15,176**	**572**	**14,604**
Liabilities and equity			
Total current liabilities	**6,765**	**–**	**6,765**
Deferred tax liabilities	387	97	289
Total non-current liabilities	**1,957**	**97**	**1,859**
Share capital	201	–	201
Reserves	749	–	749
Retained earnings	5,521	475	5,047
Shareholders' equity	**6,472**	**475**	**5,997**
Non-controlling interests	(17)	–	(17)
Total equity	**6,455**	**475**	**5,980**
Total liabilities and equity	**15,176**	**572**	**14,604**

1 Excluding transition effect according to IFRS 9.

Whereas the impairment test for the Reebok trademark was initially performed based on its fair value using the relief-from-royalty method, adidas re-performed the test for the 2016 financial year using the value-in-use concept for the Reebok cash-generating units. The carrying amount of the Reebok brand was therefore classified as a corporate asset and allocated to the individual Reebok markets based on the planned revenues. To fulfill the requirements set by the FREP in its error statement, the projections required for performing the impairment test on the level of the regional Reebok markets were prepared for the first time at January 1, 2017 since the management and planning logic of the company did not include such information for the regional Reebok markets until the end of 2016 and such information cannot be generated for the past.

The recoverable amount of the individual Reebok markets was determined on the basis of value in use based on the present value of the expected future cash flows. The individual Reebok markets are defined as the regional markets which are responsible for the distribution of the Reebok brand. In the financial years 2016 and 2017, the regional markets were: Western Europe, North America, Greater China, Russia/CIS, Latin America, Japan, Middle East, South Korea and Southeast Asia/Pacific. The number of cash-generating Reebok business units amounted to a total of nine at the end of 2016. The respective discount rates applied to the cash flow projections of the respective cash-generating Reebok business units range from 6.6% to 11.2%.

This calculation uses cash flow projections based on the financial planning covering a four-year period in total. The planning is based on long-term expectations of the company and reflects in total for the Reebok markets an average annual mid-single- to low-double-digit sales increase with varying forecast growth prospects for the different Reebok markets. Furthermore, adidas expects the operating margin to expand, primarily driven by an improvement in the gross margin as well as lower operating expenses as a percentage of sales. The planning of capital expenditure and working capital is primarily based on past experience. The planning for future tax payments is based on current statutory corporate tax rates of the individual Reebok markets. Cash flows beyond the detailed planning period of the respective Reebok markets are extrapolated using a steady growth rate of 1.7%. According to the company's expectations, this growth rate does not exceed the long-term average growth rate of the business sector in the individual markets in which Reebok operates.

Discount rates are based on a weighted average cost of capital calculation considering a five-year average market weighted debt/equity structure and financing costs referencing major competitors for each Reebok market. The discount rates used are after-tax rates and reflect the specific equity and country risk of the relevant Reebok markets.

In total, trademark impairment losses of € 572 million were retrospectively recognized in 2016 and the carrying amount of the Reebok trademark at December 31, 2016 (as reported) in the amount of € 1,470 million was adjusted according to IAS 8 to € 898 million at December 31, 2016. Deferred tax liabilities related to the Reebok trademark were reduced by € 97 million.

A change in the discount rate by 1.0 percentage points or a reduction of planned free cash inflows by 15% would result in an additional impairment requirement of approximately € 90 million and € 100 million, respectively.

Future changes in expected cash flows and discount rates may lead to impairments and reversals of impairment losses of the Reebok trademark.

For the 2017 financial year, an impairment test was retrospectively performed based on the respective groups of cash-generating Reebok business units. In this context, there was no need for any additional impairment or reversal of impairment losses of the Reebok trademark in 2017.

The adjustments according to IAS 8 at January 1, 2017 impacted December 31, 2017 as follows: Compared to the carrying amount as reported at December 31, 2017, the Reebok trademark decreased accordingly by € 503 million, deferred tax liabilities by € 85 million and shareholders' equity by € 417 million. Any changes in the adjustments compared to January 1, 2017, solely relate to currency translation differences.

04» DISCONTINUED OPERATIONS

The results of the Rockport, TaylorMade and CCM Hockey operations that were sold in previous periods are shown as discontinued operations in the consolidated income statement.

The net result of discontinued operations presented in the consolidated income statement for the year ending December 31, 2018 mainly relates to the loss from the operational business in an amount of € 5 million (2017: losses of € 254 million). This is entirely attributable to the shareholders of adidas AG.

05 » DISPOSAL OF SUBSIDIARIES AS WELL AS ASSETS AND LIABILITIES

In 2018, no disposal of subsidiaries took place.

The divestiture of the TaylorMade business was completed on October 2, 2017. The total purchase price amounted to US $ 425 million consisting of US $ 200 million in cash, a promissory note in an amount of US $ 100 million and earn-out components in an amount of US $ 125 million. In 2017, a preliminary cash consideration of US $ 155 million was received for which the cash component of US $ 200 million was adjusted mainly due to lower estimated net working capital compared to target net working capital and the net cash transferred. The assets and liabilities, which were reported as assets/liabilities held for sale since May 10, 2017 due to the concrete plans to sell the business, were consequently derecognized from the consolidated statement of financial position as at October 2, 2017. In 2019, the final net working capital as well as other items of the agreement were negotiated and agreed with the buyer. This had no material impact on the consolidated income statement and the consolidated statement of financial position.

The divestiture of the CCM Hockey business was completed on September 1, 2017 for a preliminary cash consideration of US $ 76 million plus a promissory note amounting to US $ 40 million. The assets and liabilities which were reported as assets/liabilities held for sale since June 30, 2017 due to the concrete plans to sell the business were consequently derecognized from the consolidated statement of financial position as at September 1, 2017. In 2018, no subsequent material effects occurred in connection with the divestiture of the CCM Hockey business.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

06 » CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash at banks, cash on hand and short-term deposits.

Short-term deposits are only shown as cash and cash equivalents if they are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

The credit risk of cash and cash equivalents measured at amortized cost is insignificant due to their short-term maturity, counterparties' investment grade credit ratings and established exposure limits. Therefore, adidas did not recognize any credit impairment losses of those financial assets.

Information about cash and cash equivalents is presented in these Notes. SEE NOTE 31

07 » SHORT-TERM FINANCIAL ASSETS

Short-term financial assets are classified 'at fair value through profit or loss'. Changes in the fair value are recognized in the consolidated income statement as they occur. The majority of short-term financial assets are marketable securities.

08 » ACCOUNTS RECEIVABLE

Accounts receivable consist mainly of the currencies US dollar, euro as well as Chinese renminbi and are as follows:

Accounts receivable € in millions

	Dec. 31, 2018						Dec. 31, 2017
	Collective loss allowance				Individual loss allowance	Total	Total
	Not yet due	Past due 31 – 90 days	Past due > 90 days				
	Not credit-impaired	Not credit-impaired	Not credit-impaired	Credit-impaired	Credit-impaired		
Accounts receivable, gross	2,069	341	32	32	138	2,612	2,484
Weighted average loss rate	0.8%	3.6%	31.2%	64.7%	96.5%	7.4%	6.8%
Loss allowance	(17)	(12)	(10)	(21)	(133)	(193)	(169)
Accounts receivable, net	**2,052**	**328**	**22**	**11**	**5**	**2,418**	**2,315**

Movement in loss allowances for accounts receivable € in millions

	2018	2017
Loss allowances at January 1 under IAS 39	**169**	**177**
Transition effect on initial application of IFRS 9	5	–
Loss allowances at January 1 under IFRS 9	**174**	**–**
Net remeasurement of loss allowance	25	7
Write-offs charged against the loss allowance accounts	(4)	(9)
Currency translation differences	(1)	(7)
Other changes	(0)	0
Loss allowances at December 31	**193**	**169**

An increase in the loss allowance mainly resulted from the increase in the gross accounts receivable balance following the net sales expansion.

In 2018, there were no material balances of accounts receivable written-off but subject to enforcement activity.

Further information about credit risks is contained in these Notes. SEE NOTE 31

09 » OTHER CURRENT FINANCIAL ASSETS

Other current financial assets consist of the following:

Other current financial assets € in millions

	Dec. 31, 2018	Dec. 31, 2017
Currency options	19	12
Forward exchange contracts	200	98
Security deposits	56	44
Sundry	268	239
Other current financial assets	**542**	**393**

The line item 'Sundry' mainly relates to a secured promissory note in the amount of € 26 million (2017: € 31 million) which is part of the divestiture of the Mitchell & Ness business as well as to credit cards and similar receivables. The secured promissory note will be due upon finalization of the sale of Mitchell & Ness in 2019.

Other current financial assets include loss allowances in the amount of € 3 million (2017: € 51 million). Loss allowances mainly reflect credit impairment of security deposits.

Further information about currency options and forward exchange contracts is contained in these Notes. SEE NOTE 31

10 » INVENTORIES

Inventories by major classification are as follows:

Inventories € in millions

	Dec. 31, 2018			Dec. 31, 2017		
	Gross value	Allowance for obsolescence	Net value	Gross value	Allowance for obsolescence	Net value
Merchandise and finished goods on hand	2,588	(117)	2,471	2,716	(132)	2,584
Goods in transit	966	–	966	1,103	–	1,103
Raw materials	7	–	7	5	–	5
Work in progress	0	–	0	0	–	0
Inventories	**3,562**	**(117)**	**3,445**	**3,824**	**(132)**	**3,692**

Goods in transit mainly relate to shipments of finished goods and merchandise from suppliers in Asia to subsidiaries in Europe, Asia, North America and Latin America.

11 » OTHER CURRENT ASSETS

Other current assets consist of the following:

Other current assets € in millions

	Dec. 31, 2018	Dec. 31, 2017
Prepaid expenses	242	261
Tax receivables other than income taxes	124	146
Return assets	258	–
Sundry	107	99
Other current assets, gross	**731**	**506**
Less: accumulated allowances	(6)	(8)
Other current assets, net	**725**	**498**

Prepaid expenses mainly relate to promotion and service contracts as well as rents. Upon the adoption of IFRS 15, return assets are recognized in relation to products sold with right of return based on expected returns.

At December 31, 2018, the line item 'Sundry' includes contract assets in an amount of € 10 million.

12 » ASSETS/LIABILITIES AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

At December 31, 2018, no assets/liabilities and disposal groups classified as held for sale were reported.

At December 31, 2017, assets/liabilities held for sale comprised a building of Reebok International Ltd. in an amount of € 72 million. The transaction was completed in March 2018.

At December 31, 2017, impairment loses (before transaction costs) of € 1 million were included in operating profit.

13 » PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

Property, plant and equipment € in millions

	Dec. 31, 2018	Dec. 31, 2017
Land, land leases, buildings and leasehold improvements	1,408	1,242
Technical equipment and machinery	357	288
Other equipment as well as furniture and fixtures	1,817	1,721
	3,582	**3,251**
Less: accumulated depreciation and impairment losses	(1,824)	(1,629)
	1,758	**1,622**
Construction in progress, net	480	378
Property, plant and equipment, net	**2,237**	**2,000**

Depreciation expenses were € 409 million and € 358 million for the years ending December 31, 2018 and 2017, respectively. SEE NOTE 34

As a general principle, it is regularly assessed whether there are any indications that furniture and fixtures might be impaired. Irrespective of the existence of such indications, furniture and fixtures in own-retail stores are tested annually for impairment whereby the recoverable amount is calculated using the discounted cash flow method as part of determining the profitability of the respective own-retail stores. Impairment losses amounted to € 19 million and € 13 million for the years ending December 31, 2018 and 2017, respectively. SEE NOTE 34 These are related to other equipment, furniture and fixtures as well as buildings and leasehold improvements, mainly in the company's own-retail activities, for which contrary to expectations there will be an insufficient flow of future economic benefits. In 2018, reversals of impairment losses were recorded in an amount of € 3 million (2017: € 1 million).

The increase in the line item 'Construction in progress, net' mainly relates to investments in the company's headquarters in Herzogenaurach and to intangible assets.

Additionally, borrowing costs in an amount of € 3 million (2017: € 1 million) related to the construction of qualifying assets at adidas AG were capitalized using a capitalization rate of 1.3% (2017 1.3%).

Details are presented in Attachment I to the consolidated financial statements. SEE STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS, P. 224

14 » GOODWILL

Goodwill primarily relates to the acquisitions of the Reebok and Runtastic businesses as well as acquisitions of subsidiaries, primarily in the USA, Australia, New Zealand, the Netherlands, Denmark and Italy.

Goodwill € in millions

	Dec. 31, 2018	Dec. 31, 2017
Goodwill, gross	1,642	1,604
Less: accumulated impairment losses	(396)	(383)
Goodwill, net	**1,245**	**1,220**

The majority of goodwill, which primarily relates to the acquisition of the Reebok business in 2006, is denominated in US dollars. A currency translation effect of positive € 25 million and negative € 78 million was recorded for the years ending December 31, 2018 and 2017, respectively.

adidas determines whether goodwill impairment is necessary at least on an annual basis. The impairment test for goodwill is performed based on groups of cash-generating units which represent the lowest level within the company at which goodwill is monitored for internal management purposes. This requires an estimation of the recoverable amount of the groups of cash-generating units to which the goodwill is allocated. The recoverable amount of a group of cash-generating units is determined based on its value in use. Estimating the value in use requires adidas to make an estimate of the expected future cash flows from the groups of cash-generating units and also to choose a suitable discount rate to calculate the present value of those cash flows.

This calculation uses cash flow projections based on the financial planning covering a four-year period in total. The planning is based on long-term expectations of the company and reflects in total for the groups of cash-generating units an average annual low-single- to low-double-digit sales increase with varying forecast growth prospects for the different groups of cash-generating units. Furthermore, adidas expects the operating margin to expand, primarily driven by an improvement in the gross margin as well as lower operating expenses as a percentage of sales. The planning for capital expenditure and working capital is primarily based on past experience. The planning for future tax payments is based on current statutory corporate tax rates of the individual groups of cash-generating units. Cash flows beyond this four-year period are extrapolated using steady growth rates of 1.7% (2017: 1.7%). According to the company's expectations, these growth rates do not exceed the long-term average growth rate of the business sector in which the respective group of cash-generating units operates.

Discount rates are based on a weighted average cost of capital calculation considering a five-year average market-weighted debt/equity structure and financing costs referencing major competitors for the respective group of cash-generating units. The discount rates used are after-tax rates and reflect the specific equity and country risk of the respective group of cash-generating units.

Following the change in the company's management reporting, effective January 1, 2018, as a result of the consolidation of the four former markets Greater China, Japan, South Korea and South East Asia & Pacific into one market Asia-Pacific, the number of cash-generating units decreased from twelve to nine in 2018.

The groups of cash-generating units are defined as the regional markets which are responsible for the joint distribution of the adidas and Reebok brands as well as the other operating segments adidas Golf and Runtastic. The regional markets are: Europe, North America adidas, North America Reebok, Asia-Pacific, Russia/CIS, Latin America, and Emerging Markets.

The carrying amounts of goodwill were reallocated to the new cash-generating unit. The re-allocation of goodwill was performed in the first quarter of 2018 by aggregating goodwill so far allocated to the former single markets into the market Asia-Pacific.

Due to a change in the composition of the company's operating segments and associated cash-generating units respectively, adidas assessed in the first quarter of 2018 whether goodwill impairment was required. In this context, there was no need for goodwill impairment.

In the course of the annual impairment test, adidas assessed whether goodwill impairment was required. In this context, there was no need for goodwill impairment for the years ending December 31, 2018 and 2017, respectively.

The carrying amounts of acquired goodwill allocated to the respective groups of cash-generating units and the respective discount rates applied to the cash flow projections are as follows:

Allocation of goodwill

	Goodwill (€ in millions)		Discount rate (after taxes)	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Europe	614	600	7.9%	8.2%
Asia-Pacific	375	365	7.9%	8.1%
adidas Golf	178	178	7.6%	7.7%
Emerging Markets	78	77	9.1%	9.5%
Total	**1,245**	**1,220**		

A change in the discount rate by up to approximately 4.2 percentage points or a reduction of planned free cash inflows by up to approximately 45% would not result in any impairment requirement.

Future changes in expected cash flows and discount rates may lead to impairments of the reported goodwill in the future.

Details are presented in Attachment I to the consolidated financial statements. SEE STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS, P. 224

The reconciliation of goodwill is as follows:

Reconciliation of goodwill, net € in millions

	Europe	Asia-Pacific	adidas Golf	Emerging Markets	Total
January 1, 2018	**600**	**365**	**178**	**77**	**1,220**
Re-allocation of goodwill	–	–	–	–	–
Currency translation differences	14	9	–	2	25
Decrease in companies consolidated	–	–	–	–	–
December 31, 2018	**614**	**375**	**178**	**78**	**1,245**

15» TRADEMARKS AND OTHER INTANGIBLE ASSETS

Trademarks and other intangible assets consist of the following:

Trademarks and other intangible assets € in millions

	Dec. 31, 2018	Dec. 31. 2017
Reebok	1,353	1,292
Runtastic	31	31
Other	10	9
Less: accumulated amortization and impairment losses	(550)	(526)
Trademarks	**844**	**806**
Software, patents and licenses	912	839
Less: accumulated amortization and impairment losses	(716)	(685)
Other intangible assets	**196**	**154**
Trademarks and other intangible assets	**1,039**	**960**

At December 31, 2018, trademarks, mainly related to the acquisition of Reebok International Ltd. (USA) in 2006 and runtastic GmbH in 2015, have indefinite useful lives, with the exception of the definite useful life of the Five Ten trademark. This is due to the expectation of permanent use of the acquired trademarks Reebok and Runtastic and of the limited use of the Five Ten trademark.

adidas tests at least on an annual basis whether trademarks are impaired based on the value-in-use concept on the basis of the relevant cash-generating units.

The impairment test for the Reebok trademark is performed based on Reebok cash-generating units in the individual markets. This requires an estimate of the recoverable amount of the Reebok groups of cash-generating units to which the Reebok brand as corporate asset is allocated based on planned revenues of the respective Reebok markets. The recoverable amount of the respective Reebok markets was determined on the basis of value in use based on the present value of the expected future cash flows. The individual Reebok markets are defined as the regional markets which are responsible for the distribution of the Reebok brand. The regional Reebok markets are: Europe, North America, Asia-Pacific, Russia/CIS, Latin America and Emerging Markets. The number of cash-generating Reebok business units amounted to a total of six at the end of 2018 (2017: nine).

This calculation uses cash flow projections based on the financial planning covering a four-year period in total. The planning is based on long-term expectations of the company and reflects in total for the Reebok markets an average annual low-single- to low-double-digit sales increase with varying forecast growth prospects for the different Reebok markets. Furthermore, adidas expects the operating margin to expand, primarily driven by an improvement in the gross margin as well as lower operating expenses as a percentage of sales. The planning of capital expenditure and working capital is primarily based on past experience. The planning for future tax payments is based on current statutory corporate tax rates of the individual Reebok markets. Cash flows beyond the detailed planning period of the respective Reebok markets are extrapolated using a steady growth rate of 1.7%. According to the company's expectations, this growth rate does not exceed the long-term average growth rate of the business sector in the individual markets in which Reebok operates.

Discount rates are based on a weighted average cost of capital calculation considering a five-year average market weighted debt/equity structure and financing costs referencing major competitors for each Reebok market. The discount rates used are after-tax rates and reflect the specific equity and country risk of the relevant Reebok markets. The respective discount rates applied to the cash flow projections of the respective cash-generating Reebok business units range from 7.2% to 10.2% (2017: 7.2% to 11.1%).

For the Reebok trademark, there was no indication of a potential impairment in 2018. A change in the discount rate by up to approximately 1.25 percentage points or a reduction of planned free cash inflows by up to approximately 22% would not result in any impairment requirement. However, future changes in expected cash flows and discount rates may lead to impairments and reversals of impairment losses of the Reebok trademark.

As part of the impairment tests, the Reebok and the Five Ten trademarks are allocated on a pro rata basis to the groups of cash-generating units. Thereof, the major shares relate to Europe (€ 382 million), Asia-Pacific (€ 234 million), Emerging Markets (€ 80 million), Russia/CIS (€ 73 million) and North America Reebok (€ 59 million). All other trademarks are part of the respective groups of cash-generating units.

The impairment test for the Runtastic trademark is likewise performed based on the value-in-use concept on the relevant cash-generating unit level. The cash-flow projections are based on financial planning covering a five-year period in total and reflect an average low- to mid-single-digit increase in revenues and improved profitability, mainly driven by expected economies of scale. The discount rate of 9.9% (2017: 9.6%) used is an after-tax rate and reflects the specific equity and country risk of Runtastic. There was no indication of a potential impairment of the Runtastic trademark. A change in the discount rate by up to approximately 0.2 percentage points or a reduction of planned free cash inflows by up to approximately 2% would not result in any impairment requirement.

Amortization expenses for intangible assets with definite useful lives were € 61 million and € 63 million for the years ending December 31, 2018 and 2017, respectively. In 2018, there were no impairment losses on other intangible assets (2017: € 10 million). SEE NOTE 34

Details are presented in Attachment I to the consolidated financial statements. SEE STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS, P. 224

16 » LONG-TERM FINANCIAL ASSETS

Long-term financial assets primarily include an 8.33% investment in FC Bayern München AG (2017: 8.33%) of € 83 million (2017: € 82 million). This investment is classified as 'fair value through profit or loss' and recorded at fair value. This equity security does not have a quoted market price in an active market. Therefore, existing contractual arrangements were used in order to calculate the fair value as at December 31, 2018.

Other equity investments include minority shareholdings. These shares are unlisted and do not have any active market price. There is currently no intention to sell these shares. Other minority shareholdings include negative fair value adjustments in an amount of € 8 million in 2018 (2017: € 31 million). The minority shareholdings in Immobilieninvest und Betriebsgesellschaft Herzo-Base GmbH & Co. KG were sold in 2018.

The line item 'Other investments' comprises investments which are mainly invested in insurance products, which are measured at fair value, and securities for long-term variable compensation components. Other investments include positive fair value adjustments in an amount of € 2 million in 2018 (2017: € 4 million).

Long-term financial assets € in millions

	Dec. 31, 2018	Dec. 31, 2017
Investment in FC Bayern München AG	83	82
Other equity investments	61	64
Other investments	131	89
Loans	1	1
Long-term financial assets	**276**	**236**

17 » OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets consist of the following:

Other non-current financial assets € in millions

	Dec. 31, 2018	Dec. 31, 2017
Currency options	8	14
Forward exchange contracts	8	1
Revaluation of total return swap	3	–
Options	20	–
Security deposits	74	67
Earn-out components	21	19
Promissory notes	122	118
Sundry	0	0
Other non-current financial assets	**256**	**219**

Options are related to the hedging of the equity-neutral convertible bond which was issued on September 5, 2018.

Further information about currency options and forward exchange contracts is contained in these Notes. SEE NOTE 31

Further information about promissory notes and earn-out components is provided in these Notes. SEE NOTE 05

18 » OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

Other non-current assets € in millions

	Dec. 31, 2018	Dec. 31, 2017
Prepaid expenses	87	108
Sundry	7	0
Other non-current assets	**94**	**108**

Prepaid expenses mainly include prepayments for long-term promotion contracts and rents. SEE NOTES 42 AND 30

19 » BORROWINGS AND CREDIT LINES

Borrowings are denominated in a variety of currencies in which adidas conducts its business. The largest portions of effective gross borrowings (before liquidity swaps for cash management purposes) as at December 31, 2018 are denominated in euro (2018: 97%; 2017: 91%).

The weighted average interest rate on the Group's gross borrowings decreased to 2.1% in 2018 (2017: 2.7%).

As at December 31, 2018, adidas had cash credit lines and other long-term financing arrangements totaling € 3.7 billion (2017: € 3.3 billion); thereof unused credit lines accounted for € 2.0 billion (2017: € 2.1 billion). In addition, as at December 31, 2018, adidas had separate lines for the issuance of letters of credit and guarantees in an amount of approximately € 0.5 billion (2017: € 0.2 billion).

The amounts disclosed as gross borrowings represent outstanding borrowings under the following arrangements with aggregated expiration dates as follows:

Gross borrowings as at December 31, 2018 € in millions

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Bank borrowings incl. commercial paper	66	38	38	66	207
Eurobond	–	597	–	387	984
Equity-neutral convertible bond	–	–	484	–	484
Total	**66**	**635**	**522**	**453**	**1,676**

The above table includes two Eurobonds amounting to € 1 billion in total issued on October 1, 2014. The seven-year Eurobond of € 600 million matures on October 8, 2021 and has a coupon of 1.25%. The twelve-year Eurobond of € 400 million matures on October 8, 2026 and has a coupon of 2.25%. The Eurobonds have denominations of € 1,000 each and were priced with a spread of 68 basis points and 100 basis points, respectively, above the corresponding euro mid-swap rate. The issue price was fixed at 99.145% and 99.357%, respectively.

The convertible bond issued on March 21, 2012 has been fully converted (aggregate notional amount in 2017: € 31 million). The bond was redeemed in 2018 prior to the maximum maturity (including prolongation options) of June 14, 2019. The bond was, at the option of the respective holder, convertible at any time from and including May 21, 2012, up to and including June 5, 2019, into new or existing adidas AG shares. In 2018, the bondholders converted an aggregate notional amount of € 30.4 million of the convertible bond into 377,630 adidas AG shares. SEE NOTE 27

adidas AG was entitled to redeem all remaining bonds as a whole if, at any time, the aggregate principal amount of bonds outstanding fell below 15% of the aggregate principal amount of the bonds that were initially issued. Furthermore, as at July 14, 2017, adidas AG was entitled to redeem all remaining bonds as a whole if, on 20 of 30 consecutive trading days, the adidas AG share price exceeded the current conversion price of € 80.48 by at least 30%. adidas AG exercised the right to redeem all bonds so that the main conversion was triggered.

The convertible bond initially had a conversion premium of 40% above the reference price of € 59.61, which resulted in an initial conversion price of € 83.46 per share. As a consequence of contractual provisions relating to dividend protection, the conversion price was adjusted from € 81.13 to € 80.48 following a similar adjustment in 2017 (2017: € 81.57 to € 81.13). This adjustment became effective on May 10, 2018.

On September 5, 2018, adidas AG issued a € 500 million equity-neutral convertible bond with a coupon of 0.05% due on September 12, 2023. The issue price was fixed at 104% of the notional amount, corresponding to an annual yield to maturity of negative 0.73%. The initial conversion price was determined to be € 291.84, a conversion premium of 40% over the reference share price of € 208.46. The economic risk exposure of share price movements was hedged by purchased call options on ordinary adidas AG shares.

Gross borrowings as at December 31, 2017 € in millions

	Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years	Total
Bank borrowings incl. commercial paper	106	–	–	–	106
Eurobond	–	–	596	387	983
Convertible bond	31	–	–	–	31
Total	**137**	**–**	**596**	**387**	**1,120**

Further details on future cash outflows are provided in the Risk and Opportunity Report. SEE RISK AND OPPORTUNITY REPORT, P. 131

20 » OTHER CURRENT FINANCIAL LIABILITIES

Other current financial liabilities consist of the following:

Other current financial liabilities € in millions

	Dec. 31, 2018	Dec. 31, 2017
Currency options	0	3
Forward exchange contracts	94	271
Finance lease obligations	10	0
Earn-out components	15	21
Sundry	68	67
Other current financial liabilities	**186**	**362**

The line item 'Sundry' mainly relates to payables due to customs duties.

Further information about currency options and forward exchange contracts is contained in these Notes. SEE NOTE 31

Further information about finance lease obligations is provided in these Notes. SEE NOTE 30

21 » OTHER PROVISIONS

Other provisions consist of the following:

Other provisions € in millions

	Jan. 1, 2018	Currency translation differences	Usage	Reversals	Additions	Transfers	Dec. 31, 2018	Thereof non-current
Marketing	27	(1)	(21)	(1)	24	–	28	–
Personnel	117	2	(56)	(10)	130	6	188	78
Returns and warranty[1]	261	4	(236)	(7)	583	4	608	–
Taxes, other than income taxes	27	0	(5)	(4)	10	(0)	28	–
Sundry	391	(6)	(102)	(28)	219	34	508	50
Other provisions	**821**	**(1)**	**(419)**	**(50)**	**965**	**44**	**1,360**	**128**

1 The additions include an IFRS 15 implementation effect in an amount of € 237 million.

Marketing provisions mainly consist of provisions for promotion contracts, which are comprised of obligations to clubs and athletes.

Provisions for personnel mainly consist of provisions for short- and long-term variable compensation components as well as of provisions for social plans relating to restructuring measures.

Provisions for returns and warranty primarily arise due to the obligation of fulfilling customer claims with regard to the return of products sold by adidas. The amount of the provision follows the historical development of returns and warranty as well as current agreements. Further information on the effects from the implementation of IFRS 15 is provided in these Notes. SEE NOTE 32

Provisions for taxes other than income taxes mainly relate to value added tax, real estate tax and motor vehicle tax.

Sundry provisions mainly include provisions for customs risks, onerous contracts as well as for dismantling and restoration costs.

Management follows past experience from similar transactions when assessing the recognition and the measurement of other provisions; in particular external legal opinions are considered for provisions for customs risks and for litigation and other legal risks. All evidence from events until the preparation of the consolidated financial statements is taken into account.

The transfers include reclassifications from 'Accrued liabilities'.

22 » ACCRUED LIABILITIES

Accrued liabilities consist of the following:

Accrued liabilities € in millions

	Dec. 31, 2018	Thereof non-current	Dec. 31, 2017	Thereof non-current
Goods and services not yet invoiced	917	1	833	1
Marketing and sales	893	3	806	3
Personnel	488	10	595	76
Sundry	25	5	30	5
Accrued liabilities	**2,324**	**19**	**2,265**	**85**

Accrued liabilities for marketing and sales mainly consist of accruals for distribution, such as discounts, rebates and sales commissions.

Accrued liabilities for personnel mainly consist of accruals for outstanding salary payments, such as bonuses and overtime, as well as outstanding vacation.

Sundry accrued liabilities mainly include accruals for interest.

23 » OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

Other current liabilities € in millions

	Dec. 31, 2018	Dec. 31, 2017
Tax liabilities other than income taxes	178	200
Liabilities due to personnel	49	65
Liabilities due to social security	23	22
Deferred income	73	53
Customers with credit balances	113	54
Sundry	41	78
Other current liabilities	**477**	**473**

Contract liabilities arising from the licensing-out of the right to use the adidas and Reebok brands as well as various other trademarks to third parties initially recognized as at January 1, 2018 amounted to € 1 million and were recognized as revenue for the year ending December 31, 2018. Contract liabilities are included in the line item 'Sundry'.

The line item 'Sundry' mainly consists of liabilities relating to advance payments from customers.

24 » OTHER NON-CURRENT FINANCIAL LIABILITIES

Other non-current financial liabilities consist of the following:

Other non-current financial liabilities € in millions

	Dec. 31, 2018	Dec. 31, 2017
Currency options	0	0
Forward exchange contracts	2	9
Revaluation of total return swap	–	4
Embedded derivatives	20	–
Finance lease obligations	81	3
Earn-out components	–	5
Sundry	0	1
Other non-current financial liabilities	**103**	**22**

Embedded derivatives relate to the equity-neutral convertible bond which was issued on September 5, 2018. Finance lease obligations are mainly related to two buildings at the adidas headquarters in Herzogenaurach.

Further information about currency options and forward exchange contracts is provided in these Notes. SEE NOTE 31

Further information about finance lease obligations is provided in these Notes. SEE NOTE 30

25 » PENSIONS AND SIMILAR OBLIGATIONS

adidas has recognized post-employment benefit obligations arising from defined benefit plans. The benefits are provided pursuant to the legal, fiscal and economic conditions in each respective country and mainly depend on the employees' years of service and remuneration.

Pensions and similar obligations € in millions

	Dec. 31, 2018	Dec. 31, 2017
Liability arising from defined benefit pension plans	244	295
Similar obligations	2	2
Pensions and similar obligations	**246**	**298**

Defined contribution pension plans

The total expense for defined contribution plans amounted to € 74 million in 2018 (2017: € 67 million).

Defined benefit pension plans

Given the company's diverse structure, different defined benefit pension plans exist, comprising a variety of post-employment benefit arrangements. The company's major defined benefit pension plans relate to adidas AG and its subsidiaries in the UK and South Korea. The defined benefit pension plans generally provide payments in case of death, disability or retirement to former employees and their survivors. The obligations arising from defined benefit pension plans are partly covered by plan assets.

In Germany, adidas AG grants its employees contribution-based and final salary defined benefit pension schemes, which provide employees with entitlements in the event of retirement, disability and death. German pension plans operate under the legal framework of the German Company Pensions Act ('Betriebsrentengesetz') and under general German labor legislation. New employees are entitled to benefits in accordance with the adidas Pension Plan or the adidas Management Pension Plan. The adidas Pension Plan is a matching contribution plan; the contributions to this pension plan are partly paid by the employee and partly paid by the employer. The contributions are transferred into benefit components. The benefits are paid out in the form of a pension, a lump sum or installments. The pension plans in Germany are financed using book reserves, a contractual trust arrangement (CTA) and a pension fund ('Pensionsfonds') in combination with a reinsured provident fund ('Unterstützungskasse') for certain former members of the Executive Board of adidas AG. Further details about the pension entitlements of members of the Executive Board of adidas AG are contained in the Compensation Report.

SEE COMPENSATION REPORT, P. 41

The final salary defined benefit pension scheme in the UK is closed to new entrants and to future accrual. The benefits are mainly paid out in the form of pensions. The scheme operates under UK trust law as well as under the jurisdiction of the UK Pensions Regulator and therefore is subject to a minimum funding requirement. The Trustee Board is responsible for setting the scheme's funding objective, agreeing the contributions with the company and determining the investment strategy of the scheme.

In South Korea, adidas grants a final pay pension plan to certain employees. This plan is closed to new entrants. The benefits are paid out in the form of a lump sum. The pension plan operates under the Employee Retirement Benefit Security Act (ERSA). This regulation requires a minimum funding amounting to 80% of the present value of the vested benefit obligation. The annual contribution includes at least the minimum amount in order to meet the funding requirements.

Breakdown of the present value of the obligation arising from defined benefit pension plans in the major countries € in millions

	Dec. 31, 2018			Dec. 31, 2017		
	Germany	UK	South Korea	Germany	UK	South Korea
Active members	231	–	22	203	–	18
Former employees with vested rights	114	45	–	106	52	–
Pensioners	78	6	–	77	7	–
Total	**424**	**51**	**22**	**386**	**59**	**18**

The Group's pension plans are subject to risks from changes in actuarial assumptions, such as the discount rate, salary and pension increase rates, and risks from changes in longevity. A lower discount rate results in a higher defined benefit obligation and/or in higher contributions to the pension funds. Lower than expected performance of the plan assets could lead to an increase in required contributions or to a decline of the funded status.

The following tables analyze the defined benefit plans, plan assets, present values of the defined benefit pension plans, expenses recognized in the consolidated income statement, actuarial assumptions and further information.

Amounts for defined benefit pension plans recognized in the consolidated statement of financial position € in millions

	Dec. 31, 2018	Dec. 31, 2017
Present value of funded obligation from defined benefit pension plans	515	482
Fair value of plan assets	(303)	(218)
Funded status	**212**	**264**
Present value of unfunded obligation from defined benefit pension plans	32	31
Asset ceiling effect	–	0
Net defined benefit liability	**244**	**295**
Thereof: liability	244	295
Thereof: adidas AG	202	248
Thereof: asset	(0)	(0)
Thereof: adidas AG	–	–

The determination of assets and liabilities for defined benefit plans is based upon statistical and actuarial valuations. In particular, the present value of the defined benefit obligation is driven by financial variables (such as the discount rates or future increases in salaries) and demographic variables (such as mortality and employee turnover). The actuarial assumptions may differ significantly from the actual circumstances and could lead to different cash flows.

Weighted average actuarial assumptions in %

	Dec. 31, 2018	Dec. 31, 2017
Discount rate	2.3	2.3
Expected rate of salary increases	3.6	3.7
Expected pension increases	1.7	1.6

The weighted average actuarial assumptions as at the balance sheet date are used to determine the defined benefit liability at that date and the pension expense for the upcoming financial year.

The actuarial assumptions for withdrawal and mortality rates are based on statistical information available in the various countries. In Germany, the Heubeck 2018 G mortality tables are used. In the UK, assumptions are based on the S2PA base table with modified improvement of the life expectancy mortality tables. In South Korea, the KIDI 2015 tables from the Korean Insurance Development Institute are used.

As in the previous year, the calculation of the pension liabilities in Germany is based on a discount rate determined using the 'Mercer Yield Curve (MYC)' approach.

Remeasurements, such as gains or losses arising from changes in the actuarial assumptions for defined benefit pension plans during the financial year or a return on the plan assets exceeding the interest income, are immediately recognized outside the income statement as a change in other reserves in the consolidated statement of comprehensive income.

Pension expenses for defined benefit pension plans € in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Current service cost	26	27
Net interest expense	6	7
Thereof: interest cost	11	11
Thereof: interest income	(5)	(4)
Past service cost	1	1
Loss/(gain) on plan settlements	0	(0)
Expenses for defined benefit pension plans (recognized in the consolidated income statement)	**33**	**34**
Actuarial losses/(gains)	10	(21)
Thereof: due to changes in financial assumptions	(18)	(22)
Thereof: due to changes in demographic assumptions	(0)	(2)
Thereof: due to experience adjustments	28	2
Loss/(return) on plan assets (not included in net interest income)	11	(7)
Asset ceiling effect	(0)	(0)
Remeasurements for defined benefit pension plans (recognized as decrease/(increase) in other reserves in the consolidated statement of comprehensive income)	**20**	**(29)**
Total	**54**	**5**

Of the total pension expenses recorded in the consolidated income statement, an amount of € 24 million (2017: € 25 million) relates to employees of adidas AG, € 1 million (2017: € 1 million) relates to employees in the UK and € 4 million (2017: € 3 million) relates to employees in South Korea. The pension expense is mainly recorded within other operating expenses. The production-related part of the pension expenses is recognized within cost of sales.

Present value of the defined benefit obligation € in millions

	2018	2017
Present value of the obligation from defined benefit pension plans as at January 1	**513**	**516**
Currency translation differences	1	(7)
Current service cost	26	27
Interest cost	11	11
Contribution by plan participants	0	0
Pensions paid	(15)	(11)
Payments for plan settlements	(0)	(0)
Actuarial losses/(gains)	10	(21)
Thereof: due to changes in financial assumptions	(18)	(22)
Thereof: due to changes in demographic assumptions	(0)	(2)
Thereof: due to experience adjustments	28	2
Past service cost	1	1
Loss/(gain) on plan settlements	0	(0)
Business combinations/transfers/divestitures	0	(2)
Present value of the obligation from defined benefit pension plans as at December 31	**547**	**513**

In the following table, the effects of reasonably conceivable changes in the actuarial assumptions on the present value of the obligation from defined benefit pension plans are analyzed for Germany, the UK and South Korea. In addition, the average duration of the obligation is shown.

Sensitivity analysis of the obligation from defined benefit pension plans € in millions

	Dec. 31, 2018			Dec. 31, 2017		
	Germany	UK	South Korea	Germany	UK	South Korea
Present value of the obligation from defined benefit pension plans	424	51	22	386	59	18
Increase in the discount rate by 0.5%	390	45	21	355	51	18
Reduction in the discount rate by 0.5%	462	59	23	422	67	19
Average duration of the obligations (in years)	17	26	7	17	28	7

Since many pension plans are closed to future accrual or are not dependent on the salary, the salary trend plays a minor role in determining pension obligations. Due to the fact that about half of the benefits of the German pension plans are paid as lump sums or installment payments, the pension increase rate and the mortality assumption have significantly less impact than the discount rate when calculating the pension obligations.

Fair value of plan assets € in millions

	2018	2017
Fair value of plan assets at January 1	**218**	**178**
Currency translation differences	(0)	(3)
Pensions paid	(6)	(4)
Contributions by the employer	97	36
Contributions paid by plan participants	0	0
Interest income from plan assets	5	4
(Loss)/return on plan assets (not included in net interest income)	(11)	7
Settlement payments	–	–
Business combinations/transfers/divestitures	–	(1)
Fair value of plan assets at December 31	**303**	**218**

Approximately 95% (2017: 93%) of the total plan assets are allocated to plan assets in the three major countries: Germany (2018: 73%, 2017: 63%), UK (2018: 16%, 2017: 23%) and South Korea (2018: 6%, 2017: 7%).

Part of the plan assets in Germany is held by a trustee under a Contractual Trust Arrangement (CTA) for the purpose of funding the pension obligations of adidas AG and insolvency insurance with regard to part of the pension obligations of adidas AG. The trustee is the registered association adidas Pension Trust e.V. The investment committee of the adidas Pension Trust determines the investment strategy with the goal to match the pension liabilities as far as possible and to generate a sustainable return. In 2018, an amount of € 90 million in cash was transferred to the trustee. The plan assets in the registered association are mainly invested in real estate, cash and cash equivalents, equity index funds and hybrid bonds. Another part of the plan assets in Germany is invested in insurance contracts via a pension fund and a provident fund. For this portion, an insurance entity is responsible for the determination and the implementation of the investment strategy.

In the UK, the plan assets are held under trust within the pension fund. The investment strategy is aligned with the structure of the pension obligations in these countries. In the rest of the world, the plan assets consist predominantly of insurance contracts.

The expected payments for the 2019 financial year amount to € 16 million. Thereof, € 10 million relates to benefits directly paid to pensioners by the subsidiaries and € 6 million to employer contributions paid into the plan assets. In 2018, the actual loss on plan assets (including interest income) was € 6 million (2017: return of € 11 million).

Composition of plan assets € in millions

	Dec. 31, 2018	Dec. 31, 2017
Cash and cash equivalents	58	19
Equity instruments	30	26
Bonds	33	26
Real estate	85	50
Pension plan reinsurance	48	46
Investment funds	50	51
Other assets	0	0
Fair value of plan assets	**303**	**218**

All equities and bonds are traded freely and have a quoted market price in an active market.

At each balance sheet date, the company analyzes the over- or underfunding and, where appropriate, adjusts the composition of plan assets.

26 » OTHER NON-CURRENT LIABILITIES

Other non-current liabilities consist of the following:

Other non-current liabilities € in millions

	Dec. 31, 2018	Dec. 31, 2017
Liabilities due to personnel	2	2
Deferred income	64	51
Sundry	2	0
Other non-current liabilities	**68**	**53**

27 » SHAREHOLDERS' EQUITY

As at December 31, 2017, the nominal capital of adidas AG amounted to € 209,216,186 divided into 209,216,186 registered no-par-value shares and was fully paid in.

With legal effect as at October 22, 2018, the nominal capital was reduced from € 209,216,186 to € 200,416,186 by cancelation of 8,800,000 treasury shares. The change in the nominal capital due to the cancelation of shares and the capital reduction was registered for declaratory entry in the commercial register. The entry was made on December 14, 2018.

There were no other changes to the nominal capital. Thus, as at the balance sheet date, and in the period beyond, the nominal capital of adidas AG amounted to a total of € 200,416,186 divided into 200,416,186 registered no-par-value shares and is fully paid in.

Each share grants one vote and is entitled to dividends starting from the beginning of the year it was issued. Treasury shares held directly or indirectly are not entitled to dividend payment in accordance with § 71b German Stock Corporation Act (Aktiengesetz – AktG). As at the balance sheet date, adidas AG held 1,244,841 treasury shares, corresponding to a notional amount of € 1,244,841 in the nominal capital and consequently to 0.62% of the nominal capital.

Authorized Capital

The Executive Board of adidas AG did not utilize the existing amount of authorized capital of up to € 90 million in the 2018 financial year or in the period beyond the balance sheet date.

The authorized capital of adidas AG, which is set out in § 4 sections 2, 3, 4, and 5 of the Articles of Association as at the balance sheet date, entitles the Executive Board, subject to Supervisory Board approval, to increase the nominal capital

based on the authorization granted by resolution of the Annual General Meeting of May 11, 2017 until June 7, 2022

— by issuing new shares against contributions in cash once or several times by no more than € 50 million and, subject to Supervisory Board approval, to exclude residual amounts from shareholders' subscription rights (Authorized Capital 2017/I);

based on the authorization granted by resolution of the Annual General Meeting of May 11, 2017 until June 7, 2020

— by issuing new shares against contributions in kind once or several times by no more than € 16 million and, subject to Supervisory Board approval, to exclude shareholders' subscription rights (Authorized Capital 2017/II);

  The overall volume of the shares issued based on this authorization with the exclusion of subscription rights – together with shares issued against contributions in cash with a simplified exclusion of subscription rights from the Authorized Capital 2017/III (§ 4 section 4 of the Articles of Association) – must not exceed 10% of the nominal capital existing at the date of the respective issuance. This deduction clause shall not apply if residual amounts of shares are excluded from subscription rights;

based on the authorization granted by resolution of the Annual General Meeting of May 11, 2017 until June 7, 2022

— by issuing new shares against contributions in cash once or several times by no more than € 20 million and, subject to Supervisory Board approval, to exclude residual amounts from shareholders' subscription rights and to exclude shareholders' subscription rights when issuing the new shares at a value not essentially below the stock market price of the adidas AG shares already listed on the stock exchange at the point in time when the issue price is ultimately determined, which should be as close as possible to the placement of the shares; this exclusion of subscription rights can also be associated with the listing of the adidas AG shares on a foreign stock exchange (Authorized Capital 2017/III). The authorization to exclude subscription rights pursuant to the previous sentence may, however, only be used to the extent that the pro rata amount of the new shares in the nominal capital together with the pro rata amount in the nominal capital of other shares which have been issued by adidas AG since May 11, 2017, subject to the exclusion of subscription rights pursuant to or in accordance with § 186 section 3 sentence 4 AktG on the basis of an authorized capital or following a repurchase, or for which subscription or conversion rights or subscription or conversion obligations have been granted since May 11, 2017, through the issuance of convertible bonds and/or bonds with warrants, with subscription rights excluded pursuant to § 186 section 3 sentence 4 AktG, does not exceed 10% of the nominal capital existing on the date of the entry of this authorization into the commercial register or – if this amount is lower – as of the respective date on which the resolution on utilization of the authorization is adopted;

The overall volume of the shares issued based on this authorization with the exclusion of subscription rights – together with shares issued against contributions in kind with the exclusion of subscription rights from the Authorized Capital 2017/II (§ 4 section 3 of the Articles of Association) – must not exceed 10% of the nominal capital existing at the date of the respective issuance. This deduction clause shall not apply if residual amounts of shares are excluded from subscription rights;

based on the authorization granted by resolution of the Annual General Meeting of May 12, 2016 until June 14, 2021

— by issuing up to 4,000,000 new shares against contributions in cash once or several times by no more than € 4 million and, subject to Supervisory Board approval, to determine the further content of the rights embodied in the shares and the terms and conditions of the share issuance (Authorized Capital 2016). Shareholders' subscription rights shall be excluded. Any repurchased treasury shares of adidas AG which are used by adidas AG for employee stock purchase plans during the term of this authorization shall be attributed to the maximum number of 4,000,000 shares. The new shares may only be issued to (current or former) employees of adidas AG and its affiliated companies as well as to (current and former) members of management bodies of adidas AG's affiliated companies.

Contingent Capital

The following description of the contingent capital is based on § 4 sections 6 and 7 of the Articles of Association of adidas AG as well as on the underlying resolutions of the Annual General Meetings held on May 6, 2010 and May 9, 2018. It does not comprise the contingent capital 2014 canceled by the Annual General Meeting on May 9, 2018, which had not been utilized up to and including May 9, 2018. Additional contingent capital does not exist.

Contingent Capital 2010 and Convertible Bond

The nominal capital of adidas AG is conditionally increased by up to € 36 million (Contingent Capital 2010). The Contingent Capital serves the purpose of granting holders or creditors of bonds that were issued up to May 5, 2015 based on the resolution of the Annual General Meeting on May 6, 2010 subscription or conversion rights relating to no more than a total of 36,000,000 shares in compliance with the corresponding conditions of the bonds. The new shares shall be issued at the respective option or conversion price to be established in accordance with the aforementioned authorization resolution. The new shares shall carry dividend rights from the commencement of the financial year in which the shares are issued.

On March 14, 2012, the Executive Board, with the approval of the Supervisory Board, made partial use of the authorization of the Annual General Meeting from May 6, 2010, and on March 21, 2012 issued a convertible bond due on June 14, 2019 (including a prolongation option) in a nominal value of € 500 million via an offer to institutional investors outside the USA with the exclusion of shareholders' subscription rights. The bonds were listed on the Open Market segment of the Frankfurt Stock Exchange. The conversion rights were exercisable at any time between May 21, 2012 and June 5, 2019, subject to lapsed conversion rights as set out under § 6 section 3 of the bond terms and conditions or to the excluded periods as defined by § 6 section 4 of the bond terms and conditions, and (subject to an adjustment of the conversion ratio resulting from the dilution adjustment regulations set out under § 10 of the bond terms and conditions or a change of control in accordance with § 13 of the bond terms and conditions) the convertible bond could be converted into 6,212,778 shares of adidas AG based on a conversion price of most recently € 80.48 per share. The convertible bond bore an interest rate of 0.25% per annum. Bondholders were entitled to demand early redemption of the bonds as at June 14, 2017. As of July 14, 2017, adidas AG had the right to conduct an early redemption of the bond, if, on 20 of 30 consecutive trading days, the share price of adidas AG exceeded the current conversion price of most recently € 80.48 by at least 30%. In the year under review, the company exercised its right to redeem outstanding bonds early. The convertible bond was thus fully converted or redeemed and no more shares can be issued from the Contingent Capital 2010. Details regarding the servicing of the convertible bond with treasury shares are provided in this Note. SEE REPURCHASE AND USE OF TREASURY SHARES, P. 186

Moreover, the authorization to issue bonds with warrants and/or convertible bonds granted on May 6, 2010 was canceled by resolution of the Annual General Meeting on May 8, 2014.

The Executive Board of adidas AG did not issue shares from the Contingent Capital 2010 until the balance sheet date and in the period beyond.

Contingent Capital 2018

The nominal capital is conditionally increased by up to € 12.5 million divided into not more than 12,500,000 no-par-value shares (Contingent Capital 2018). The contingent capital increase serves the issuance of no-par-value shares when exercising option or conversion rights or fulfilling the respective option and/or conversion duties or when exercising the company's right to choose to partially or in total deliver no-par-value shares of the company instead of paying the due amount to the holders or creditors of bonds issued by the company or a subordinated Group company up to May 8, 2023 on the basis of the authorization resolution adopted by the

Annual General Meeting on May 9, 2018. The new shares will be issued at the respective option or conversion price to be established in accordance with the aforementioned authorization resolution. The contingent capital increase will be implemented only to the extent that holders or creditors of option or conversion rights or the persons obligated to exercise the option or conversion duties based on bonds issued by the company or a subordinated Group company, pursuant to the authorization of the Executive Board granted by the resolution adopted by the Annual General Meeting on May 9, 2018 (Agenda Item 8), up to May 8, 2023 and guaranteed by the company, exercise their option or conversion rights or, if they are obligated to exercise the option or conversion duties, fulfill their obligations to exercise the warrant or convert the bond, or to the extent that the company exercises its rights to choose to deliver shares in the company for the total amount or a part amount instead of payment of the amount due and insofar as no cash settlement, treasury shares or shares of another public listed company are used to service these rights. The new shares will carry dividend rights from the commencement of the financial year in which the shares are issued. The Executive Board is authorized, subject to Supervisory Board approval, to stipulate any additional details concerning the implementation of the contingent capital increase.

The Executive Board is also authorized, subject to Supervisory Board approval, to exclude shareholders' subscription rights for fractional amounts and to exclude shareholders' subscription rights insofar as this is necessary for granting subscription rights to which holders or creditors of previously issued bonds are entitled. Finally, the Executive Board is authorized, subject to Supervisory Board approval, to also exclude shareholders' subscription rights if the issue price of the bonds is not significantly below the hypothetical market value of these bonds and the number of shares to be issued does not exceed 10% of the nominal capital. Treasury shares which are or will be sold with the exclusion of subscription rights in accordance with § 71 section 1 no. 8 in conjunction with § 186 section 3 sentence 4 AktG between the starting date of the term of this authorization and the issuance of the respective bonds are attributed to the above-mentioned limit of 10%. Shares which are or will be issued, subject to the exclusion of subscription rights, pursuant to § 186 section 3 sentence 4 AktG or pursuant to § 203 section 1 in conjunction with § 186 section 3 sentence 4 AktG between the starting date of the term of this authorization and the issuance of the respective bonds in the context of a cash capital increase are also attributed to the above-mentioned limit of 10%. Finally, shares for which there are option or conversion rights or obligations or a right to delivery of shares of the company in favor of the company due to bonds with warrants or convertible bonds issued by the company or its subordinated Group companies, subject to the exclusion of subscription rights, in accordance with § 221 section 4 sentence 2 in conjunction with § 186 section 3 sentence 4 AktG during the term of this authorization based on other authorizations are attributed to the above-mentioned limit of 10%.

In the period up until the balance sheet date and beyond, the Executive Board of adidas AG did not issue any bonds based on the authorization granted on May 9, 2018 and consequently did not issue any shares from the Contingent Capital 2018.

Repurchase and use of treasury shares

The Annual General Meeting on May 12, 2016 granted the Executive Board an authorization to repurchase adidas AG shares up to an amount totaling 10% of the nominal capital until May 11, 2021. The authorization may be used by adidas AG but also by its subordinated Group companies or by third parties on account of adidas AG or its subordinated Group companies or third parties assigned by adidas AG or one of its subordinated Group companies.

Based on the above-mentioned authorization, the Executive Board of adidas AG commenced a share buyback program on March 22, 2018. While the company may use the repurchased shares for all purposes admissible under the authorization granted on May 12, 2016 with the exception of the transfer of shares as a compensation component for the company's Executive Board members, adidas AG plans to cancel the majority of the repurchased shares.

In March 2018, 161,888 shares were purchased for a total price of € 31,570,000 (excluding incidental purchasing costs), i.e. for an average price of € 195.01 per share. This corresponded to a notional amount of € 161,888 in the nominal capital and consequently to 0.08% of the nominal capital. In April 2018, 479,177 shares were purchased for a total price of € 98,679,134 (excluding incidental purchasing costs), i.e. for an average price of € 205.93 per share. This corresponded to a notional amount of € 479,177 in the nominal capital and consequently to 0.23% of the nominal capital. In May 2018, 617,854 shares were purchased for a total price of € 120,189,124 (excluding incidental purchasing costs), i.e. for an average price of € 194.53 per share. This corresponded to a notional amount of € 617,854 in the nominal capital and consequently to 0.3% of the nominal capital.

On May 24, 2018, the company (including the shares purchased since 2014) exceeded the reportable threshold of 3% of the shares in adidas AG as defined by § 40 section 1 sentence 2 German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). The share of voting rights amounted to 3.008% (6,293,433 shares) at that time.

In June 2018, 1,539,068 shares were purchased for a total price of € 293,306,320 (excluding incidental purchasing costs), i.e. for an average price of € 190.57 per share. This corresponded to a notional amount of € 1,539,068 in the nominal capital and consequently to 0.74% of the nominal capital. In July 2018, 336,046 shares were purchased for a total price of € 62,777,49 (excluding incidental purchasing costs), i.e. for an average price of € 186.81 per share. This corresponded to a notional amount of € 336,046 in the nominal capital and consequently to 0.16% of the nominal capital. In August 2018, 345,975 shares were purchased for a total price of € 70,279,340 (excluding incidental purchasing costs), i.e. for an average price of € 203.13 per share. This corresponded to a notional amount of € 345,975 in the nominal capital and consequently to 0.17% of the nominal capital. In September 2018, 270,019 shares were purchased for a total price of € 6,546,586 (excluding incidental purchasing costs), i. e. for an average price of € 209.42 per share. This corresponded to a notional amount of € 270,019 in the nominal capital and consequently to 0.13% of the nominal capital. In October 2018, 508,407 shares were purchased for a total price of € 101,380,438 (excluding incidental purchasing costs), i.e. for an average price of € 199.41 per share. This corresponded to a notional amount of € 508,407 in the nominal capital which was reduced from € 209,216,186 to € 200,416,186 with legal effect from October 22, 2018 and consequently to 0.25% of the nominal capital.

On October 22, 2018, adidas AG fell below the reportable threshold of 3% of the shares in adidas AG as defined by § 40 section 1 sentence 2 WpHG due to the cancelation of treasury shares and the capital reduction. The share of voting rights amounted to 0.2226% (446,196 shares) at that time.

In November 2018, 640,749 shares were purchased for a total price of € 127,377,313 (excluding incidental purchasing costs), i.e. for an average price of € 198.79 per share. This corresponded to a notional amount of € 640,749 in the nominal capital and consequently to 0.32% of the nominal capital. In December 2018, 190,696 shares were purchased for a total price of € 37,779,261 (excluding incidental purchasing costs), i.e. for an average price of € 198.11 per share. This corresponded to a notional amount of € 190,696 in the nominal capital and consequently to 0.10% of the nominal capital.

Under the authorization granted, adidas AG repurchased a total of 5,089,879 shares for a total price of € 999,885,165 (excluding incidental purchasing costs), i.e. for an average price of € 196.45 per share, in a first tranche between March 2, 2018 and December 4, 2018 inclusive. This corresponded to a notional amount of € 5,089,879 in the nominal capital which was reduced from € 209,216,186 to € 200,416,186 with legal effect from October 22, 2018 and consequently to 2.54% of the nominal capital. adidas AG reserves the right to continue the share buyback program in the future in alignment with the published parameters.

SEE DISCLOSURES PURSUANT TO § 315A SECTION 1 AND § 289A SECTION 1 OF THE GERMAN COMMERCIAL CODE, P. 120

In the 2018 financial year, a total of 377,630 treasury shares were used to meet obligations arising from the convertible bond issued by adidas AG. The convertible bond was fully converted or redeemed.

Moreover, in the 2018 financial year, 22,360 treasury shares were used as consideration, inter alia for the transfer or licensing of intellectual property rights and intangible property rights due to contractual obligations.

In the 2018 financial year and beyond, adidas AG used a total of 9,199,990 treasury shares (including the treasury shares canceled).

Employee stock purchase plan

In the 2016 financial year, adidas AG introduced an employee stock purchase plan in favor of employees of adidas AG and its affiliated companies.

Outside the share buyback program initiated in March 2018, the company purchased adidas AG shares in connection with this employee stock purchase plan. On January 8, 2018, adidas AG purchased 25,672 adidas AG shares at an average price of € 173.27 in connection with the employee stock purchase plan. This corresponded to a total price of € 4,448,258 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 25,672 or 0.01%. At the same time, adidas AG also purchased a further 3,642 adidas AG shares at an average price of € 173.27, which were used as matching shares. This corresponded to a total price of € 631,059 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 3,642 or 0.002%. All shares purchased for this purpose on January 8, 2018 were issued to eligible employees on January 10, 2018.

On April 9, 2018, adidas AG purchased a further 24,104 adidas AG shares at an average price of € 201.88 in connection with the employee stock purchase plan. This corresponded to a total price of € 4,866,054 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 24,104 or 0.012%. At the same time, adidas AG also purchased a further 2,751 adidas AG shares at an average price of € 201.88, which were used as matching shares. This corresponded to a total price of € 555,365 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 2,751 or 0.0013%. All shares purchased for this purpose on April 9, 2018 were issued to eligible employees on April 11, 2018.

On July 6, 2018, adidas AG purchased a further 30,504 adidas AG shares at an average price of € 182.47 in connection with the employee stock purchase plan. This corresponded to a total price of € 5,566,187 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 30,504 or 0.015%. At the same time, adidas AG also purchased a further 3,040 adidas AG shares at an average price of € 182.47, which were used as matching shares. This corresponded to a total price of € 554,721 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 3,040 or 0.0014%. All shares purchased for this purpose on July 6, 2018 were issued to eligible employees on July 10, 2018.

On October 8, 2018, adidas AG purchased a further 25,863 adidas AG shares at an average price of € 205.91 in connection with the employee stock purchase plan. This corresponded to a total price of € 5,325,449 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 25,863 or 0.012%. At the same time, adidas AG also purchased a further 2,689 adidas AG shares at an average price of € 205.91, which were used as matching shares. This corresponded to a total price of € 553,673 (excluding incidental purchasing costs) with a pro rata amount or an amount in the nominal capital of € 2,689 or 0.0013%. All shares purchased for this purpose on October 8, 2018 were issued to eligible employees on October 12, 2018.

On January 8, 2019, adidas AG purchased a further 29,328 adidas AG shares at an average price of € 195.72 in connection with the employee stock purchase plan. This corresponded to a total price of € 5,739,980 (excluding incidental purchasing costs) with a pro rata amount or an amount of € 29,328 in the nominal capital which was reduced from € 209,216,186 to € 200,416,186 with legal effect from October 22, 2018 or 0.015%. At the same time, adidas AG also purchased a further 3,349 adidas AG shares at an average price of € 195.72, which were used as matching shares. This corresponded to a total price of € 655,455 (excluding incidental purchasing costs) with a pro rata amount or an amount of € 3,349 in the nominal capital which was reduced from € 209,216,186 to € 200,416,186 with legal effect from October 22, 2018 or 0.002%. All shares purchased for this purpose on January 8, 2019 were issued to eligible employees on January 10, 2019. SEE DISCLOSURES PURSUANT TO § 315A SECTION 1 AND § 289A SECTION 1 OF THE GERMAN COMMERCIAL CODE, P. 120, SEE NOTES 02 AND 28

Changes in the percentage of voting rights

Pursuant to § 160 section 1 no. 8 AktG, existing shareholdings which have been notified to adidas AG in accordance with § 33 section 1 or section 2 WpHG need to be disclosed.

The following table reflects reportable shareholdings in adidas AG, Herzogenaurach, as at the balance sheet date and beyond which have each been notified to adidas AG in written form. In each case, the details relate to the most recent voting rights notification received by adidas AG from the parties obligated to notify. All voting rights notifications disclosed by adidas AG in the year under review and beyond are available on the corporate website. ADIDAS-GROUP.COM/S/VOTING-RIGHTS-NOTIFICATIONS

The details on the percentage of shareholdings and voting rights may no longer be up to date.

Notified reportable shareholdings

Notifying party	Date of reaching, exceeding or falling below	Reporting threshold	Notification obligations and attributions in accordance with WpHG[1]	Shareholdings in %	Number of voting rights
BlackRock, Inc., Wilmington, DE, USA	December 28, 2018	Exceeding 5%	§§ 34, 38 sec. 1 no. 1, 38 sec. 1 no. 2	5.49	11,005,628
Ségolène Gallienne	December 3, 2018	Exceeding 5%	§ 34	7.83	15,694,711
Gérald Frère	December 3, 2018	Exceeding 5%	§ 34	7.83	15,694,711
The Desmarais Family Residuary Trust, Montreal, Canada	November 19, 2018	Exceeding 5%	§ 34	8.09	16,214,074
Elian Corporate Trustee (Cayman) Limited, Grand Cayman, Cayman Islands	December 16, 2016	Exceeding 5%	§§ 21, 25 sec. 1 no. 2	5.71	11,950,482
FMR LLC, Wilmington, DE, USA	May 12, 2016	Exceeding 5%	§ 22	5.31	11,117,704
Capital Research and Management Company, Los Angeles, CA, USA	July 22, 2015	Exceeding 3%	§ 22 sec. 1 sent. 1 no. 6	3.02	6,325,110
The Capital Group Companies, Inc., Los Angeles, CA, USA	July 22, 2015	Exceeding 3%	§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2 and 3	3.02	6,325,110

1 The provisions of the WpHG stated refer to the version applicable at the time of publication of the respective individual voting rights notification.

Capital management

The company's policy is to maintain a strong capital base so as to uphold investor, creditor and market confidence and to sustain future development of the business.

adidas seeks to maintain a balance between a higher return on equity that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The company further aims to maintain net debt below two times EBITDA over the long term.

Financial leverage amounts to negative 15.0% (2017: negative 8.0%) and is defined as the ratio between net borrowings (short- and long-term borrowings less cash and cash equivalents as well as short-term financial assets) in an amount of negative € 959 million (2017: negative € 484 million) and shareholders' equity in an amount of € 6.377 billion (2017: € 6.032 billion). EBITDA (continuing operations) amounted to € 2.882 billion for the financial year ending December 31, 2018 (2017: € 2.511 billion). The ratio between net borrowings and EBITDA (continuing operations) amounted to negative 0.3 for the financial year ending December 31, 2018 (2017: negative 0.2).

Reserves

Reserves within shareholders' equity are as follows:

- **Capital reserve:** primarily comprises the paid premium for the issuance of share capital as well as the equity component of the issued convertible bond.
- **Cumulative currency translation differences:** comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.
- **Hedging reserve:** comprises the effective portion of the cumulative net change in the fair value of cash flow hedges (intrinsic value for options and spot component for forward contracts) related to hedged transactions that have not yet occurred as well as of hedges of net investments in foreign subsidiaries.
- Cost of hedging reserve – options**:** comprises the effective portion of the cumulative net change in the fair value of cash flow hedges reflecting cost of hedging of options (time value and premium).
- **Cost of hedging reserve – forward contracts:** comprises the effective portion of the cumulative net change in the fair value of cash flow hedges reflecting cost of hedging of forward contracts (forward component).
- **Other reserves:** comprises the remeasurements of defined benefit plans consisting of the cumulative net change of actuarial gains or losses relating to the defined benefit obligations, the return on plan assets (excluding interest income) and the asset ceiling effect, the remeasurement of the fair value of the equity investments measured at fair value through other comprehensive income, expenses recognized for share option plans, effects from the acquisition of non-controlling interests, as well as reserves required by law.
- **Retained earnings:** comprises both amounts which are required by the Articles of Association and voluntary amounts that have been set aside by adidas. The reserve includes the unappropriated accumulated profits less dividends paid and consideration paid for the repurchase of treasury shares exceeding the nominal value. In addition, the item includes the effects of the employee stock purchase plan and the transition effects of the implementation of new IFRS.

The capital reserve includes restricted capital in an amount of € 4 million (2017: € 4 million). Furthermore, other reserves include additional restricted capital in an amount of € 52 million (2017: € 47 million).

Distributable profits and dividends

Profits distributable to shareholders are determined by reference to the retained earnings of adidas AG and calculated under German Commercial Law.

Based on the resolution of the 2018 Annual General Meeting, the dividend for 2017 was € 2.60 per share (total amount: € 528 million). The Executive Board of adidas AG will propose to use retained earnings of adidas AG in an amount of € 705 million as reported in the 2018 financial statements of adidas AG for a dividend payment of € 3.35 per dividend-entitled share for the year 2018 as at December 31, 2018 and to carry forward the subsequent remaining amount.

As at February 27, 2019, the preparation date of these consolidated financial statements, 198,734,783 dividend-entitled shares exist, resulting in a dividend payment of € 666 million.

28 » SHARE-BASED PAYMENT

Equity-settled share-based payment transactions with employees

In 2016, adidas announced the introduction of an open-ended employee stock purchase plan (the 'plan'). The plan is operated on a quarterly basis, with each calendar quarter referred to as an 'investment quarter'. The investment shares granted in the fifth investment quarter between October 1, 2017 and December 31, 2017 were issued to the eligible employees on January 10, 2018. The investment shares granted in the sixth investment quarter between January 1, 2018 and March 31, 2018 were issued to the eligible employees on April 11, 2018. The investment shares granted in the seventh investment quarter between April 1, 2018 and June 30, 2018 were issued to the eligible employees on July 11, 2018. The investment shares granted in the eighth investment quarter between July 1, 2018 and September 30, 2018 were issued to the eligible employees on October 12, 2018.

The plan enables employees to purchase adidas AG shares with a 15% discount ('investment shares') and to benefit from free matching shares. Currently, eligible employees of adidas AG and seventeen other subsidiaries can participate in the plan. Up to two weeks before the start of an investment quarter each eligible employee can enrol for the plan. The company accepts enrolment requests on the first day of the relevant investment quarter. This is the grant date for the investment and matching shares. The fair value at the vesting date is equivalent to the fair value of the granted equity instruments at this date. The employees invest an amount up to 10% of their gross base salary per quarter in the plan. A few days after the end of the investment quarter the shares are purchased on the market at fair market value and transferred to the employees. Thereby the amount invested during the quarter plus the top-up from adidas is used. These shares can be sold at any time by the employee. If the shares are held for a period of one year after the last day of an investment quarter, employees will receive one-time free matching shares (one matching share for every six adidas AG shares acquired). This plan currently constitutes an equity-settled share-based payment for both elements. For the component of the matching shares relating to the specific period of service an appropriate discount is taken into account. The effects are presented in the following table:

Equity-settled share-based payment transactions with employees

	As at December 31, 2017					As at December 31, 2018
	5th investment quarter	5th investment quarter	6th investment quarter	7th investment quarter	8th investment quarter	9th investment quarter
Grant date	Oct. 2, 2017	Oct. 2, 2017	Jan. 2, 2018	April 3, 2018	July 2, 2018	Oct. 1, 2018
Share price at grant date (in €)	196.10	196.10	167.15	195.30	183.55	213.80
Share price at December 31 (in €)	167.15					182.40
Number of granted investment shares based on the share price as at December 31	26,671	–	–	–	–	31,481
Number of actually purchased investment shares	–	25,672	24,104	30,505	25,863	–
Number of actually purchased matching shares	–	3,349	–	–	–	–
Outstanding granted matching shares based on the share price as at December 31 or actually purchased investment shares	4,445	–	3,431	4,527	4,082	5,247
Average remaining vesting period in months as at December 31 (in months)	12	0	3	6	9	12

The number of forfeited matching shares during the period amounted to 3,473 (2017: 1,463).

As at December 31, 2018, the total expenses recognized relating to investment shares amounted to € 3.2 million (2017: € 2.5 million).

Expenses recognized relating to vesting of matching shares amounted to € 2.5 million in 2018 (2017: € 1.4 million).

As at December 31, 2018, a total amount of € 5 million (2017: € 4 million) was invested by the participants in the stock purchase plan and was not yet transferred into shares by the end of December 2018. Therefore, this has been included in 'Other current financial liabilities'. SEE NOTE 20

Equity-settled share-based payment transactions with third parties

In 2016, adidas entered into a promotion and advertising contract, which includes a share-based payment transaction with third parties. The contract has a duration of five years and will end in 2021.

The first part of the agreement grants a one-time transfer of basic shares over five years which correspond to a value of US $ 5 million each year. Based on the contractual terms, the second transfer in 2018 equated to 22,360 shares. The shares from the third tranche of repurchased shares with an average price of € 140.96 per share were used as a consideration. SEE NOTE 27

As at January 1, 2018 (grant date), an amount of US $ 5 million was recognized as expenses for basic shares over the vesting period of twelve months.

The second part of the agreement grants bonus shares of US $ 5 million if certain conditions are fulfilled. This option can be granted twice. As at December 31, 2018, it was likely that the bonus shares will be issued. Therefore, expenses recognized for bonus shares amounting to € 5 million were accrued in 2018 (2017: € 1.4 million).

Cash-settled share-based payment transactions with employees

In 2017, adidas implemented a Long-Term Incentive (LTI) Plan, which is a share-based remuneration scheme with cash settlement. RSUs (Restricted Stock Units) are granted on the condition that the beneficiary is employed for three or four years by adidas AG or one of its subsidiaries in a position where he or she is not under notice during that period. This minimum period of employment pertains to the calendar year in which the RSUs are granted and the three subsequent calendar years.

The total value of the cash remuneration payable to senior management is recalculated on each reporting date and on the settlement date, based on the fair value of the RSUs, and recognized through an appropriate increase in the provision as personnel expenses that are spread over the period of service of the beneficiary. Furthermore, social security contributions are considered in the calculation of the fair value, if appropriate for the respective country regulations and the seniority of the participants. All changes to the subsequent measurement of this provision are reported under personnel expenses.

Once a year, one tranche with a three-year term and another with a four-year term are issued. The number of RSUs granted depends on the seniority of the beneficiaries. In addition, for the four-year plan, the number of RSUs also depends on the achievement of a target figure which is based on the growth of the diluted earnings per share from continuing operations.

The value of one RSU is the average price of the adidas AG share as quoted for the first 20 stock exchange trading days in January of the respective financial year. At December 31, 2018, the calculation of the provision is based on a fair value of € 179.22 per RSU for the three-year cycle issued in 2017 (2017: € 161.61), a fair value of € 175.89 per RSU for the three-year cycle issued in 2018 and the four-year cycle issued in 2017 (2017: € 157.91) and a fair value of € 172.08 per RSU for the four-year cycle issued in 2018. The fair value is based on the closing price of the adidas AG share on December 28, 2018, adjusted for future dividend payments.

The average risk-free interest rate is based on German government securities and is 0.83% for the three-year cycle issued in 2017 (2017: 0.71%), 0.73% for the three-year cycle issued in 2018 and the four-year cycle issued in 2017 (2017: 0.67%) and 0.70% for the four-year cycle issued in 2018.

At December 31, 2018, the RSU Plan worldwide comprised 336,099 RSUs from the three-year tranche issued in 2017 (2017: 408,236), 277,998 RSUs from the four-year tranche issued in 2017 (2017: 331,143), 160,518 RSUs from the three-year tranche issued in 2018 and 295,114 RSUs from the four-year tranche issued in 2018. The RSUs for the three-year tranche 2018 and the four-year tranche 2017 were issued in 2018. In 2018, this resulted in an expense of € 53 million (2017: € 31 million). The corresponding provision amounted to € 84 million (2017: € 31 million).

29 » NON-CONTROLLING INTERESTS

This line item within equity comprises the non-controlling interests in subsidiaries which are not directly or indirectly attributable to adidas AG.

Non-controlling interests are assigned to three subsidiaries as at December 31, 2018 and two subsidiaries as at December 31, 2017, respectively. SEE ATTACHMENT II TO THE CONSOLIDATED FINANCIAL STATEMENTS, SHAREHOLDINGS, P. 226 Due to a transfer of Reebok Israel Ltd. ownership from adidas AG to Life Sport Ltd. completed in 2018, 15% of the equity of this subsidiary is now assigned to non-controlling interests. The other subsidiaries were partly acquired in connection with the acquisition of Reebok and partly through purchases or foundations in the last years.

With respect to the consolidated financial statements of adidas AG, on a single basis, no subsidiary has a material non-controlling interest.

For the following subsidiaries with non-controlling interests the main financial information is presented combined.

Subsidiaries with non-controlling interests

Legal entity name	Principal place of business	Ownership interests held by non-controlling interests (in %)	
		Dec. 31, 2018	Dec. 31, 2017
Reebok Israel Ltd.	Israel	15%	–
Life Sport Ltd.	Israel	15%	15%
Reebok India Company	India	6.85%	6.85%

The following table presents the main financial information on subsidiaries with non-controlling interests.

Financial information on subsidiaries with non-controlling interests € in millions

	Non-controlling interests	
	Dec. 31, 2018	Dec. 31, 2017
Net sales (third parties)	200	185
Net income	**19**	20
Net income attributable to non-controlling interests	**3**	**3**
Other comprehensive income	15	17
Total comprehensive income	**33**	**38**
Total comprehensive income attributable to non-controlling interests	**4**	**4**
Current assets	114	98
Non-current assets	21	16
Current liabilities	(70)	(63)
Non-current liabilities	(2)	(1)
Net assets	**63**	**50**
Net assets attributable to non-controlling interests according to the consolidated statement of financial position	**(13)**	**(15)**
Net cash generated from operating activities	31	14
Net cash used in investing activities	(11)	(3)
Net cash used in financing activities	(20)	(6)
Net (decrease)/increase of cash and cash equivalents	**(0)**	**5**
Dividends paid to non-controlling interests during the year[1]	1	1

1 Included in net cash used in financing activities.

30 » LEASING AND SERVICE ARRANGEMENTS

Operating leases

adidas leases primarily retail stores as well as offices, warehouses and equipment. The contracts regarding these leases with expiration dates of between one and 20 years partly include renewal options and escalation clauses. Rent expenses (continuing operations), which partly depend on net sales, amounted to € 810 million and € 779 million for the years ending December 31, 2018 and 2017, respectively.

Future minimum lease payments for minimum lease durations on a nominal basis are as follows:

Minimum lease payments for operating leases
€ in millions

	Dec. 31, 2018	Dec. 31, 2017
Within 1 year	676	722
Between 1 and 5 years	1,596	1,341
After 5 years	712	586
Total	**2,984**	**2,649**

Information about the IFRS 16 implementation effect is provided in these Notes. SEE NOTE 01

Finance leases

adidas also leases various premises for administration and warehousing which are classified as finance leases.

The net carrying amount of these assets of € 82 million and € 5 million was included in property, plant and equipment as at December 31, 2018 and 2017, respectively. For the year ending December 31, 2018, interest expenses (continuing operations) were € 2 million (2017: € 0 million) and depreciation expenses (continuing operations) were € 10 million (2017: € 3 million).

Minimum lease payments for finance leases in 2018 include land leases with a remaining lease term of 94 years. The minimum lease payments under these contracts amount to € 11 million. The estimated amount representing interest is € 9 million and the present value amounts to € 2 million.

Minimum lease payments for finance leases in 2018 include building leases with a remaining lease term of 30 years. The minimum lease payments under these contracts amount to € 163 million. The estimated amount representing interest is € 84 million and the present value amounts to € 79 million.

The net present values and the minimum lease payments under these contracts over their remaining terms up to 2048 and the land leases with a remaining lease term of 94 years are as follows:

Minimum lease payments for finance leases
€ in millions

	Dec. 31, 2018	Dec. 31, 2017
Lease payments falling due:		
Within 1 year	10	0
Between 1 and 5 years	27	1
After 5 years	147	11
Total minimum lease payments	**183**	**13**
Less: estimated amount representing interest	(93)	(10)
Present value of minimum lease payments	**90**	**3**
Thereof falling due:		
Within 1 year	10	0
Between 1 and 5 years	32	0
After 5 years	49	2

Service arrangements

adidas has outsourced certain logistics and information technology functions, for which it has entered into long-term contracts. Financial commitments under these contracts mature as follows:

Financial commitments for service arrangements
€ in millions

	Dec. 31, 2018	Dec. 31, 2017
Within 1 year	204	181
Between 1 and 5 years	210	255
After 5 years	0	0
Total	**414**	**437**

31» FINANCIAL INSTRUMENTS

Additional disclosures on financial instruments

Carrying amounts of financial instruments as at December 31, 2018 and their fair values € in millions

	IAS 39		IFRS 9	IAS 39	Transition effect				IFRS 9		
					Retained earnings		Revenue reserves	Deferred tax			
	Category	Measurement	Category	Carrying amount Dec. 31, 2017	New measurement category	Change of evaluation measurement			Carrying amount Jan. 1, 2018	Carrying amount Dec. 31, 2018	Fair value Dec. 31, 2018
Financial assets											
Cash and cash equivalents											
Cash and cash equivalents	n.a.	Amortized cost	Amortized cost	1,598					1,598	2,180	
Cash equivalents	n.a.	Amortized cost	Fair value through profit or loss	–					–	449	
Short-term financial assets	FAHfT	Fair value recognized in net income	Fair value through profit or loss	5					5	6	
Accounts receivable	LaR	Amortized cost	Amortized cost	2,315		(4)		(1)	2,310	2,418	
Other current financial assets											
Derivatives used in hedge accounting	n.a.	Fair value recognized in equity	Hedge accounting	82		5	(5)		82	172	
Derivatives not used in hedge accounting	FAHfT	Fair value recognized in net income	Fair value through profit or loss	28					28	46	
Promissory notes	n.a.	Fair value recognized in net income	Fair value through profit or loss	–	0			0	32	26	
Other financial assets	LaR	Amortized cost	Amortized cost	283					252	297	
Long-term financial assets											
Other equity investments	FAHfT	Fair value recognized in net income	Fair value through profit or loss	82					82	83	
Other equity investments	AfS	At cost less impairment losses	Fair value through profit or loss	3					8	2	
Other equity investments	AfS	At cost less impairment losses	Fair value through other comprehensive income	53	7				64	58	
Other investments	AfS	Fair value recognized in equity	Fair value through profit or loss	26					26	25	
Other investments	AfS	At cost less impairment losses	Amortized cost	62					62	104	
Loans	LaR	Amortized cost	Amortized cost	9					1	1	

Carrying amounts of financial instruments as at December 31, 2018 and their fair values € in millions

	IAS 39		IFRS 9	IAS 39	Transition effect				IFRS 9		
					Retained earnings		Revenue reserves	Deferred tax			
	Category	Measurement	Category	Carrying amount Dec. 31, 2017	New measurement category	Change of evaluation measurement			Carrying amount Jan. 1, 2018	Carrying amount Dec. 31, 2018	Fair value Dec. 31, 2018
Other non-current financial assets											
Derivatives used in hedge accounting	n.a.	Fair value recognized in equity	Hedge accounting	1					1	11	
Derivatives not used in hedge accounting	FAHfT	Fair value recognized in net income	Fair value through profit or loss	14					14	28	
Promissory notes	n.a.	Fair value recognized in net income	Fair value through profit or loss	118					118	122	
Earn-out components	n.a.	Fair value recognized in net income	Fair value through profit or loss	19					19	21	
Other financial assets	LaR	Amortized cost	Amortized cost	67		(0)		(0)	67	74	
Financial liabilities											
Short-term borrowings											
Bank borrowings	FLAC	Amortized cost	Amortized cost	106					106	66	
Convertible bond	FLAC	Amortized cost	Amortized cost	31					31	–	
Accounts payable	FLAC	Amortized cost	Amortized cost	1,975					1,975	2,300	
Current accrued liabilities	FLAC	Amortized cost	Amortized cost	837					837	922	
Current accrued liabilities for customer discounts			Amortized cost	–					563	619	
Other current financial liabilities											
Derivatives used in hedge accounting	n.a.	Fair value recognized in equity	Hedge accounting	250					250	65	
Derivatives not used in hedge accounting	FLHfT	Fair value recognized in net income	Fair value through profit or loss	24					24	29	
Earn-out components	n.a.	Fair value recognized in net income	Fair value through profit or loss	21					21	15	
Other financial liabilities	FLAC	Amortized cost	Amortized cost	67					67	68	

Carrying amounts of financial instruments as at December 31, 2018 and their fair values € in millions

	IAS 39		IFRS 9	IAS 39	Transition effect				IFRS 9		
					Retained earnings		Revenue reserves	Deferred tax			
	Category	Measurement	Category	Carrying amount Dec. 31, 2017	New measurement category	Change of evaluation measurement			Carrying amount Jan. 1, 2018	Carrying amount Dec. 31, 2018	Fair value Dec. 31, 2018
Finance lease obligations[1]	n.a.	n.a.	n.a.	0					0	10	
Long-term borrowings											
Bank borrowings	FLAC	Amortized cost	Amortized cost	–					–	141	
Eurobond	FLAC	Amortized cost	Amortized cost	983					983	984	1,030
Convertible bond	FLAC	Amortized cost	Amortized cost	–					–	484	520
Non-current accrued liabilities	FLAC	Amortized cost	Amortized cost	1					1	1	
Other non-current financial liabilities											
Derivatives used in hedge accounting	n.a.	Fair value recognized in equity	Hedge accounting	9					9	2	
Derivatives not used in hedge accounting	FLHfT	Fair value recognized in net income	Fair value through profit or loss	5					5	20	
Earn-out components	n.a.	Fair value recognized in net income	Fair value through profit or loss	5					5	–	
Other financial liabilities	FLAC	Amortized cost	Amortized cost	1					1	0	
Finance lease obligations[1]	n.a.	n.a.	n.a.	3					3	81	
Thereof: aggregated by category according to IAS 39											
Financial assets at fair value through profit or loss				129							
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)				–							
Thereof: held for trading (FAHfT)				129							
Loans and receivables (LaR)				2,674							
Available-for-sale financial assets (AfS)				145							
Financial liabilities at amortized cost (FLAC)				4,001							
Financial liabilities at fair value through profit or loss held for trading (FLHfT)				29							

1 Finance lease obligations are measured according to IAS 17.

Carrying amounts of financial instruments as at December 31, 2018 and their fair values € in millions

	IAS 39		IFRS 9	IAS 39	Transition effect				IFRS 9		
					Retained earnings		Revenue reserves	Deferred tax			
	Category	Measurement	Category	Carrying amount Dec. 31, 2017	New measurement category	Change of evaluation measurement			Carrying amount Jan. 1, 2018	Carrying amount Dec. 31, 2018	Fair value Dec. 31, 2018
Thereof: aggregated by category according to IFRS 9											
Financial assets at fair value through profit or loss (FVTPL)									332	809	
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)									–	–	
Thereof: held for trading (FAHfT)									82	83	
Financial assets at fair value through other comprehensive income (FVOCI)									146	242	
Thereof: debt instruments									–	–	
Thereof: derivatives used in hedge accounting									83	184	
Thereof: equity investments (without recycling to profit and loss)									64	58	
Financial assets at amortized cost (AC)									4,290	5,074	
Financial liabilities at fair value through profit or loss (FVTPL)									54	63	
Thereof: held for trading (FLHfT)									–	–	
Financial liabilities at fair value through other comprehensive income (FVOCI)									259	67	
Thereof: derivatives used in hedge accounting									259	67	
Financial liabilities at amortized cost (AC)									4,564	5,585	

Fair value hierarchy of financial instruments according to IFRS 13 as at December 31, 2018 € in millions

	Fair value Dec. 31, 2018	Level 1	Level 2	Level 3
Cash equivalents	449		449	
Short-term financial assets	6		6	
Derivative financial instruments				
Derivatives used in hedge accounting	184		184	
Derivatives not used in hedge accounting	75		75	
Long-term financial assets				
Equity investments (FVTPL)	86			86
Equity investments (FVOCI)	58			58
Other long-term financial assets	27		27[1]	
Promissory notes	148			148
Earn-out components	21			21
Financial assets	**1,053**		**740**	**313**
Derivative financial instruments				
Derivatives used in hedge accounting	67		67	
Derivatives not used in hedge accounting	49		49	
Long-term borrowings	1,550	1,550		
Earn-out components	15			15
Financial liabilities	**1,681**	**1,550**	**116**	**15**

Level 1 is based on quoted prices in active markets for identical assets or liabilities.
Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).
1 Net gains in the amount of € 2 million and losses in the amounf of € 1 million due to currency translation differences were recognized in equity in 2018.

Fair value hierarchy of financial instruments according to IFRS 13 as at December 31, 2017 € in millions

	Fair value Dec. 31, 2017	Level 1	Level 2	Level 3
Short-term financial assets	5		5	
Derivative financial instruments				
Derivatives being part of a hedge	83		83	
Derivatives not being part of a hedge	42		42	
Long-term financial assets	227		89 [1]	138
Promissory notes	118			118
Earn-out components	19			19
Financial assets	**494**		**218**	**276**
Short-term borrowings	169		169	
Derivative financial instruments				
Derivatives being part of a hedge	259		259	
Derivatives not being part of a hedge	29		29	
Long-term borrowings	1,035	1,035		
Earn-out components	25			25
Financial liabilities	**1,517**	**1,035**	**457**	**25**

Level 1 is based on quoted prices in active markets for identical assets or liabilities.
Level 2 is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).
1 Net gains in the amount of € 4 million and losses in the amounf of € 3 million due to currency translation differences were recognized in equity in 2017.

Reconciliation of fair value hierarchy Level 3 in 2018 € in millions

	Fair value Jan. 1, 2018	Additions	Disposals	Realized Gains	Realized Losses	Unrealized Gains	Unrealized Losses	Currency translation	Fair value Dec. 31, 2018
Investments in other equity instruments held for trading (FAHfT)	82					1			83
Investments in other equity instruments (FVTPL)	8		(6)						2
Investments in other equity instruments (FVOCI)	64	3					8		58
Promissory notes (FVTPL)	149		(9)			1		5	147
Earn-out components – assets (FVTPL)	19					1			21
Earn-out components – liabilities (FVTPL)	25		(25)				15		15

Reconciliation of fair value hierarchy Level 3 in 2017 € in millions

	Fair value Jan. 1, 2017	Additions	Disposals	Gains	Losses	Currency translation	Fair value Dec. 31, 2017
Long-term financial assets	81	–	–	1	–	–	82
Promissory note	–	36	–	–	(1)	–	35
Promissory note	–	86	–	–	(0)	(3)	83
Promissory notes	45	–	–	–	(40)	(5)	–
Earn-out components (assets)	–	19	–	–	–	–	19
Investments in other equity instruments	64	26	(14)	–	(20)	–	56
Earn-out components (liabilities)	22	–	(2)	–	5	–	25

Due to the short-term maturities of cash and cash equivalents, short-term financial assets, accounts receivable and payable as well as other current financial receivables and payables, their respective fair values equal their carrying amount.

The fair values of non-current financial assets and liabilities are estimated by discounting expected future cash flows using current interest rates for debt of similar terms and remaining maturities and adjusted by a company-specific credit risk premium.

Fair values of long-term financial assets are based on quoted market prices in an active market or are calculated as present values of expected future cash flows.

Part of cash equivalents includes investments in money market funds which were categorized under n.a. under IAS 39 and measured at amortized cost. Classification and measurement under IFRS 9 were performed based on the respective business model for managing these investments and the contractual cash flow characteristics. Money market funds contain cash flows other than those of principal and interest on principal. As a result, those investments are measured at fair value through profit or loss.

Equity investments categorized as available-for-sale under IAS 39 and measured at cost are now classified under IFRS 9 as follows:

Generally, all investments in equity instruments are measured at fair value through profit or loss. An irrevocable election can be made at initial recognition to capture fair value changes in other comprehensive income for instruments that are neither held for trading nor contingent considerations recognized by an acquirer.

adidas designated certain investments as equity securities as at fair value through other comprehensive income (equity), because the company intends to hold those investments for the long term in order to gain insights into innovative production technologies and trends. The designation of certain equity instruments as at fair value through other comprehensive income (equity) is based on a strategic Management decision.

Debt securities categorized as available-for-sale under IAS 39 are now classified under IFRS 9 based on the respective business model and the contractual cash flow characteristics. Those securities are managed within a business model whose objective it is to hold assets to collect contractual cash flows, but the contractual cash flow characteristics are not fulfilled. The classification and measurement under IFRS 9 is fair value through profit or loss.

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

In accordance with IFRS 13, the following tables show the valuation methods used in measuring Level 1, Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Financial instruments Level 1 not measured at fair value

Type	Valuation method	Significant unobservable inputs	Category
Convertible bond	The fair value is based on the market price of the convertible bond as at December 31, 2018.	Not applicable	Amortized cost
Eurobond	The fair value is based on the market price of the Eurobond as at December 31, 2018.	Not applicable	Amortized cost

Financial instruments Level 2 measured at fair value

Type	Valuation method	Significant unobservable inputs	Category
Cash equivalents (money market funds)	The discounted cash flow method is applied, which considers the present value of expected payments, discounted using a risk-adjusted discount rate. Due to their short-term maturities, it is assumed that their respective fair value is equal to the notional amount.	Not applicable	Fair value through profit or loss
Short-term financial assets	The discounted cash flow method is applied, which considers the present value of expected payments, discounted using a risk-adjusted discount rate. Due to their short-term maturities, it is assumed that their respective fair value is equal to the notional amount.	Not applicable	Fair value through profit or loss
Long-term financial assets (investment securities)	The fair value is based on the market price of the assets as at December 31, 2018.	Not applicable	Fair value through profit or loss
Forward exchange contracts	In 2018, adidas applied the par method (forward NPV) for all currency pairs to calculate the fair value, implying actively traded forward curves.	Not applicable	Hedge accounting/Fair value through profit or loss
Currency options	adidas applies the Garman -Kohlhagen model, which is an extended version of the Black-Scholes model.	Not applicable	Hedge accounting/Fair value through profit or loss
Share option (cash settled)	adidas applies the Black-Scholes model.	Not applicable	Hedge accounting/Fair value through profit or loss
Total return swap (for own shares)	The fair value is based on the market price of the adidas AG share as at December 31, 2018, minus accrued interest.	Not applicable	Hedge accounting

Financial instruments Level 3 measured at fair value

Type	Valuation method	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement	Category
Investment in FC Bayern München AG	This equity security does not have a quoted market price in an active market. Existing contractual arrangements (based on the externally observable dividend policy of FC Bayern München AG) are used in order to calculate the fair value as at December 31, 2018. These dividends are recognized in other financial income.	See column 'Valuation method'		Fair value through profit or loss
Earn-out components (assets)	The valuation follows an option price model based on the Monte Carlo method to simulate future EBITDA values. The derived earn-out payments are discounted using a risk-adjusted discount rate.The fair value adjustment is recognized in discontinued operations.	Risk-adjusted maturity-specific discount rate (2.8% – 3.2%), EBITDA values, confidence level	The estimated fair value would increase (decrease) if EBITDA values were higher (lower) or the risk-adjusted discount rate was lower (higher).	Fair value through profit or loss
Promissory notes	The discounted cash flow method is applied, which considers the present value of expected payments discounted using a risk-adjusted discount rate. Fair value adjustments regarding TaylorMade and CCM promissory notes are recognized in discontinued operations. Fair value adjustments regarding the Mitchell & Ness promissory note are recognized in financial result.	Risk-adjusted maturity-specific discount rate (3.0% – 3.6%)	The estimated fair value would increase (decrease) if the risk-adjusted discount rate was lower (higher).	Fair value through profit or loss
Investments in other equity instruments	The significant inputs (financing rounds) used to measure fair value include one or more events where objective evidence of any changes was identified, considering expectations regarding future business development. The fair value adjustment is recognized in other financial result.	See column 'Valuation method'		Fair value through profit or loss
Investments in other equity instruments	The option to measure equity instruments at fair value through other comprehensive income upon implementation of IFRS 9 has been exercised. The significant inputs (financing rounds) used to measure fair value include one or more events where objective evidence of any changes was identified, considering expectations regarding future business development. The fair value adjustment is recognized in other reserves.	See column 'Valuation method'		Fair value through other compre-hensive income
Earn-out components (liabilities)	The discounted cash flow method is applied, which considers the present value of expected payments, discounted using a risk-adjusted discount rate. The fair value adjustment refers to accretion and is recognized in interest result.	Risk-adjusted discount rate (1.75%)	The estimated fair value would increase (decrease) if the target ratio achievement was higher (lower) or the risk-adjusted discount rate was lower (higher).	Fair value through profit or loss

During the course of 2018, significant unobservable inputs did not significantly change and there were no reclassifications between levels.

Net gains/(losses) on financial instruments recognized in the consolidated income statement € in millions

	Year ending Dec. 31, 2018
Financial assets classified at amortized cost (AC)	(42)
Financial assets at fair value through profit or loss (FVTPL)	7
Thereof: designated as such upon initial recognition	–
Thereof: classified as held for trading	1
Equity instruments at fair value through profit or loss (FVTPL)	(1)
Equity instruments at fair value through other comprehensive income (FVOCI)	–
Financial liabilities at amortized cost (AC)	36
Financial liabilities at fair value through profit or loss (FVTPL)	(15)
Thereof: designated as such upon initial recognition	–
Thereof: classified as held for trading	–

Net gains/(losses) on financial instruments recognized in the consolidated income statement € in millions

	Year ending Dec. 31, 2017	Year ending Dec. 31, 2016
Financial assets or financial liabilities at fair value through profit or loss	1	1
Thereof: designated as such upon initial recognition	–	–
Thereof: classified as held for trading	1	1
Loans and receivables	(60)	(35)
Available-for-sale financial assets	(56)	(3)
Financial liabilities at amortized cost	22	15

Net gains or losses on financial assets measured at amortized cost comprise mainly impairment losses and reversals.

Net gains or losses on financial assets or financial liabilities classified as fair value through profit or loss include the effects from fair value measurements of the derivatives that are not part of a hedging relationship, and changes in the fair value of other financial instruments as well as interest expenses.

Net gains or losses on equity instruments at fair value through profit or loss mainly include fair value adjustments based on the respective valuation method. SEE TABLE FINANCIAL INSTRUMENTS LEVEL 3 MEASURED AT FAIR VALUE

Net gains or losses on equity instruments at fair value through other comprehensive income include dividends. During 2018 no dividends regarding those investments occurred.

Net gains or losses on financial liabilities measured at amortized cost include effects from early settlement and reversals of accrued liabilities and refund liabilities.

Notional amounts of all outstanding currency hedging instruments € in millions

	Dec. 31, 2018	Dec. 31, 2017
Forward exchange contracts	10,784	11,327
Currency options	475	565
Total	**11,260**	**11,892**

Notional amounts of outstanding US dollar hedging instruments € in millions

	Dec. 31, 2018	Dec. 31, 2017
Forward exchange contracts	4,767	5,201
Currency options	319	453
Total	**5,086**	**5,654**

Fair values € in millions

	Dec. 31, 2018		Dec. 31, 2017	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Forward exchange contracts	208	(96)	101	(280)
Currency options	15	–	25	(3)
Total	**223**	**(96)**	**126**	**(283)**

FINANCIAL RISKS

Currency risks

Currency risks for adidas are a direct result of multi-currency cash flows within the company. The vast majority of the transactional risk arises from product sourcing in US dollars, while sales are typically denominated in the functional currency of the Group companies. The currencies in which these transactions are mainly denominated are US dollar, British pound, Japanese yen and Chinese renminbi.

As governed by the company's Treasury Policy, adidas has established a hedging system on a rolling basis up to 24 months in advance, under which the vast majority of the anticipated seasonal hedging volume is secured approximately six months prior to the start of a season. In rare instances, hedges are contracted beyond the 24-month horizon.

adidas uses a combination of different hedging instruments, such as forward exchange contracts, currency options and swaps, to protect itself against unfavorable currency movements. These contracts are generally designated as cash flow hedges. Critical terms of the hedge instrument and hedged item are matched and the hedge effectiveness is qualitatively and quantitatively established and adidas assesses the effectiveness of these hedge relationships by using the hypothetical derivative method. Ineffectiveness in these hedge relationships is mainly expected from changes in credit risk or changes in the timing of the hedged exposure.

Furthermore, translation impacts from the conversion of non-euro-denominated results into the company's functional currency, the euro, might lead to a material negative impact on the company's financial performance.

Further information about the accounting and hedge accounting treatment is included in these Notes. SEE NOTE 02

Exposures are presented in the following table:

Exposure to foreign exchange risk based on notional amounts € in millions

	USD	GBP	JPY	CNY
As at December 31, 2018				
Exposure from firm commitments and forecast transactions	(5,322)	1,079	731	1,088
Balance sheet exposure including intercompany exposure	(93)	0	(12)	(84)
Total gross exposure	**(5,415)**	**1,079**	**719**	**1,004**
Hedged with other cash flows				
Hedged with currency options	319	(94)	(48)	(18)
Hedged with forward contracts	4,298	(919)	(607)	(906)
Net exposure	**(798)**	**66**	**64**	**80**
As at December 31, 2017				
Exposure from firm commitments and forecast transactions	(5,824)	1,206	659	845
Balance sheet exposure including intercompany exposure	(154)	(17)	(6)	(43)
Total gross exposure	**(5,978)**	**1,189**	**653**	**802**
Hedged with other cash flows				
Hedged with currency options	453	(68)	(44)	
Hedged with forward contracts	4,465	(919)	(431)	(997)
Net exposure	**(1,060)**	**202**	**178**	**(195)**

The exposure from firm commitments and forecast transactions was calculated on a one-year basis.

In line with IFRS 7 requirements, the company has calculated the impact on net income and shareholders' equity based on changes in the most important currency exchange rates. The calculated impacts mainly result from changes in the fair value of the hedging instruments. The analysis does not include effects that arise from the translation of the company's foreign entities' financial statements into the company's reporting currency, the euro. The sensitivity analysis is based on the net balance sheet exposure, including intercompany balances from monetary assets and liabilities denominated in foreign currencies. Moreover, all outstanding currency derivatives were re-evaluated using hypothetical foreign exchange rates to determine the effects on net income and equity. The analysis was performed on the same basis for both 2018 and 2017.

Based on this analysis, a 10% increase in the euro versus the US dollar at December 31, 2018 would have led to an € 11 million increase in net income.

Sensitivity analysis of foreign exchange rate changes € in millions

	USD	GBP	JPY	CNY
As at December 31, 2018				
	EUR +10%	**EUR +10%**	**EUR +10%**	**USD +10%**
Equity	(269)	89	58	79
Net income	11	0	1	(9)
	EUR -10%	**EUR -10%**	**EUR -10%**	**USD -10%**
Equity	342	(104)	(72)	(79)
Net income	(9)	0	(1)	1
As at December 31, 2017				
	EUR +10%	**EUR +10%**	**EUR +10%**	**USD +10%**
Equity	(255)	88	43	72
Net income	7	1	1	12
	EUR -10%	**EUR -10%**	**EUR -10%**	**USD -10%**
Equity	334	(101)	(52)	(88)
Net income	(14)	(3)	(1)	(15)

The more negative market values of the US dollar hedges would have decreased shareholders' equity by € 269 million. A 10% weaker euro at December 31, 2018 would have led to a € 9 million decrease in net income. Shareholders' equity would have increased by € 342 million. The impacts of fluctuations of the US dollar against the Chinese renminbi and of the euro against the British pound and the Japanese yen on net income and shareholders' equity are also included in accordance with IFRS requirements.

However, many other financial and operational variables that could potentially reduce the effect of currency fluctuations are excluded from the analysis. For instance:

- Interest rates, commodity prices and all other exchange rates are assumed constant.
- Exchange rates are assumed at a year-end value instead of the more relevant sales-weighted average figure, which the company utilizes internally to better reflect both the seasonality of its business and intra-year currency fluctuations.
- The underlying forecast cash flow exposure (which the hedge instrument mainly relates to) is not required to be revalued in this analysis.
- Operational issues, such as potential discounts for key accounts, which have high transparency regarding the impacts of currency on our sourcing activities (due to their own private label sourcing efforts), are also excluded from this analysis.
- The credit risk is not considered as part of this analysis.

The company also largely hedges balance sheet risks. Due to its strong global position, adidas is able to partly minimize the currency risk by utilizing natural hedges. The company's gross US dollar cash flow exposure calculated for 2019 was around € 5.4 billion at year-end 2018, which was hedged using forward exchange contracts, currency options and currency swaps.

Credit risks

A credit risk arises if a customer or other counterparty to a financial instrument fails to meet its contractual obligations. adidas is exposed to credit risks from its operating activities and from certain financing activities. Credit risks arise principally from accounts receivable and, to a lesser extent, from other third-party contractual financial obligations such as other financial assets, short-term bank deposits and derivative financial instruments. Without taking into account any collateral, the carrying amount of financial assets and accounts receivable represents the maximum exposure to credit risk.

At the end of 2018, there was no relevant concentration of credit risk by type of customer or geography. The company's credit risk exposure is mainly influenced by individual customer characteristics. Under the company's credit policy, new customers are analyzed for creditworthiness before standard payment and delivery terms and conditions are offered. Tolerance limits for accounts receivable are also established for each customer. Both creditworthiness and accounts receivable limits are monitored on an ongoing basis. Customers that fail to meet the company's minimum creditworthiness are, in general, allowed to purchase products only on a prepayment basis.

Other activities to mitigate credit risks include retention of title clauses as well as, on a selective basis, credit insurance, the sale of accounts receivable without recourse, and bank guarantees.

At the end of 2018, no customer accounted for more than 10% of accounts receivable.

The Treasury department arranges currency, commodity and interest rate hedges and invests cash with major banks of a high credit standing throughout the world. adidas subsidiaries are authorized to work with banks rated BBB+ or higher. Only in exceptional cases are subsidiaries authorized to work with banks rated lower than BBB+. SEE TREASURY, P. 115 To limit risk in these cases, restrictions are clearly stipulated, such as maximum cash deposit levels. In addition, the credit default swap premiums of the company's partner banks are monitored on a monthly basis. In the event that the defined threshold is exceeded, credit balances are shifted to banks compliant with the limit.

adidas furthermore believes that the risk concentration is limited due to the broad distribution of the investment business of the company with more than 20 globally operating banks. At December 31, 2018, no bank accounted for more than 10% of the investments of adidas. Including subsidiaries' short-term deposits in local banks, the average concentration was 1%. This leads to a maximum exposure of € 125 million in the event of default of any single bank. The investment exposure was further diversified by investing into AAA-rated money market funds.

In addition, in 2018, adidas held derivatives of foreign exchange with a positive fair market value in the amount of € 223 million. The maximum exposure to any single bank resulting from these assets amounted to € 84 million and the average concentration was 6%.

In accordance with IFRS 7, the following table includes further information about set-off possibilities of derivative financial assets and liabilities. The majority of agreements between financial institutions and adidas include a mutual right to set off. However, these agreements do not meet the criteria for offsetting in the statement of financial position, because the right to set off is enforceable only in the event of counterparty defaults.

The carrying amounts of recognized derivative financial instruments, which are subject to the mentioned agreements, are also presented in the following table:

Set-off possibilities of derivative financial assets and liabilities
€ in millions

	2018	2017
Assets		
Gross amounts of recognized financial assets	249	115
Financial instruments which qualify for set-off in the statement of financial position	0	0
Net amounts of financial assets presented in the statement of financial position	**249**	**115**
Set-off possible due to master agreements	(94)	(100)
Total net amount of financial assets	**155**	**15**
Liabilities		
Gross amounts of recognized financial liabilities	(97)	(280)
Financial instruments which qualify for set-off in the statement of financial position	0	0
Net amounts of financial liabilities presented in the statement of financial position	**(97)**	**(280)**
Set-off possible due to master agreements	94	100
Total net amount of financial liabilities	**(3)**	**(180)**

Interest rate risks

Changes in global market interest rates affect future interest payments for variable-interest liabilities. As adidas does not have material variable-interest liabilities, even a significant increase in interest rates should have only slight adverse effects on the company's profitability, liquidity and financial position.

To reduce interest rate risks and maintain financial flexibility, a core tenet of the company's financial strategy is to continue to use surplus cash flow from operations to reduce gross borrowings. Beyond that, adidas may consider adequate hedging strategies through interest rate derivatives in order to mitigate interest rate risks. SEE TREASURY, P. 115

Share price risks

Share price risks arise due to the Long-Term Incentive Plan (LTIP), which is a share-based remuneration scheme with cash settlement and the equity-neutral convertible bond with cash settlement. In order to mitigate share price risks, it is company strategy to use swaps to hedge against share price fluctuations. These swaps are used to hedge the Long-Term Incentive Plan and are classified as cash flow hedges. Critical terms of the hedge instrument and the hedge item are matched, and the hedge effectiveness is qualitatively assessed and established. Ineffectiveness in these hedge relationships is mainly expected to arise due to differences in credit risk between the hedged item and the hedging instrument. The embedded cash option in the convertible bond is fully offset with a call option to mitigate the cash settlement.

In line with IFRS 7 requirements, adidas has calculated the impact on net income based on changes in the company's share price. A 10% increase in the adidas AG share price versus the closing share price at December 31, 2018 would have led to a € 4.6 million increase in net income whereas a 10% decrease in the adidas AG share price versus the closing share price at December 31, 2018 would have led to a € 2.5 million decrease in net income.

Financing and liquidity risks

Liquidity risks arise from not having the necessary resources available to meet maturing liabilities with regard to timing, volume and currency structure. In addition, the company faces the risk of having to accept unfavorable financing terms due to liquidity restraints. The Treasury department uses an efficient cash management system to manage liquidity risk. At December 31, 2018, cash and cash equivalents together with marketable securities amounted to € 2.635 billion (2017: € 1.604 billion). Moreover, the company maintains € 2.215 billion (2017: € 2.251 billion) in bilateral credit lines, which are designed to ensure sufficient liquidity at all times. Of these, € 600 million consists of core committed lines. SEE TREASURY, P. 115

Future cash outflows arising from financial liabilities that are recognized in the consolidated statement of financial position are presented in the following table.

Future cash outflows € in millions

	Up to 1 year	Up to 2 years	Up to 3 years	Up to 4 years	Up to 5 years	More than 5 years	Total
As at December 31, 2018							
Bank borrowings	66	19	19	19	19	66	208
Eurobond [1]	16	17	616	9	9	416	1,083
Equity-neutral convertible bond					484		484
Accounts payable	2,300						2,300
Other financial liabilities	83	0					83
Accrued liabilities [2]	921					1	922
Derivative financial liabilities	95	1					96
Total	**3,481**	**37**	**635**	**28**	**512**	**483**	**5,176**
As at December 31, 2017							
Bank borrowings	106						106
Eurobond [1]	16	16	17	616	9	425	1,099
Accounts payable	1,975						1,975
Other financial liabilities	88	5					93
Accrued liabilities [2]	837					1	838
Derivative financial liabilities	275	9					284
Total	**3,297**	**31**	**17**	**616**	**9**	**426**	**4,395**

1 Including interest payments.
2 Accrued interest excluded.

This includes payments to settle obligations from borrowings as well as cash outflows from cash-settled derivatives with negative market values. Financial liabilities that may be settled in advance without penalty are included on the basis of the earliest date of potential repayment. Cash flows for variable-interest liabilities are determined with reference to the conditions at the balance sheet date.

adidas ended the year 2018 with net cash of € 959 million (2017: net cash of € 484 million).

Financial instruments for the hedging of foreign exchange risk

As at December 31, 2018, adidas held the following instruments to hedge exposure to changes in foreign currency:

Average hedge rates

	Maturity	
As at December 31, 2018	**short-term**	**long-term**
Foreign currency risk		
Net exposure (€ in millions)	**(90)**	**873**
Forward exchange contracts		
Average EUR/USD forward rate	1.223	1.207
Average EUR/GBP forward rate	0.896	0.897
Average EUR/JPY forward rate	130.737	127.577
Average USD/CNY forward rate	6.687	6.872
Option exchange contracts		
Average EUR/USD forward rate	1.189	–
Average EUR/GBP forward rate	0.933	–
Average EUR/JPY forward rate	131.221	–
Average USD/CNY forward rate	6.901	–
Equity risk		
Net exposure (€ in millions)	**–**	**104**
Total return swap		
Average hedge rate	–	177.060

The amounts at the reporting date relating to items designated as hedged items were as follows.

Designated hedged items as at December 31, 2018 € in millions

	Change in value used for calculating hedge ineffectiveness	Hedge reserve	Cost of hedging reserve	Balances remaining in the cash flow hedge reserve from hedge relationships for which hedge accounting is no longer applied
Foreign currency risk				
Sales	4	(5)	(30)	–
Inventory purchases	(112)	119	19	–
Net foreign investment risk	**(1)**	**(138)**	**–**	**–**
Equity risk				
Long-Term Incentive Plans	(2)	2	–	–

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

Designated hedge instruments € in millions

	2018								During the period 2018				
		Carrying amount											
	Nominal amount	Assets	Liabilities	Line item in balance sheet where the hedging instrument is included	Changes in the value of the hedging instrument recognized in hedging reserve	Changes in the value of the hedging instrument recognized in cost of hedging	Hedge ineffectiveness recognized in profit or loss	Line item in profit or loss which includes hedge ineffectiveness	Amount from hedging reserve transferred to cost of inventory	Amount from cost of hedging transferred to cost of inventory	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging to profit or loss	Line item in profit or loss affected by the reclassification
Forward exchange contracts – sales	3,117	20	(54)	Other financial assets/liabilities	322	24	(11)	Cost of sales	–	–	22	(13)	Cost of sales
Forward exchange contracts – inventory purchases	4,051	145	(7)	Other financial assets/liabilities	(33)	(37)	(26)	Cost of sales	0	1	(87)	14	Cost of sales
Foreign exchange contracts – net foreign investments	486	6	(5)	Other financial assets/liabilities	(16)	–	–	Financial result	–	–	(0)	–	Financial result
Option exchange contracts – sales	139	3	–	Other financial assets/liabilities	(4)	1	–	Cost of sales	–	–	4	(2)	Cost of sales
Option exchange contracts – inventory purchases	231	6	–	Other financial assets/liabilities	6	2	3	Cost of sales	–	–	5	(8)	Cost of sales
Total return swap – Long-Term Incentive Plans	104	3	–	Other financial assets/liabilities	2	–	–	Financial result	–	–	1	–	Other operating expenses

The following table provides a reconciliation by risk category of components of equity and analysis of OCI items, net of tax, resulting from cash flow hedge accounting.

Changes in reserves by risk category € in millions

	Hedging reserve	Cost of hedging reserve
Balance at January 1, 2018	**(295)**	**(1)**
Cash flow hedges		
Changes in fair value:		
Foreign currency risk – sales	292	39
Foreign currency risk – inventory purchases	55	(40)
Foreign currency risk – net foreign investment	(16)	–
Amount reclassified to profit or loss:		
Foreign currency risk	(57)	(9)
Amount included in the cost of non-financial items:		
Foreign currency risk – inventory purchases	0	1
Tax on movements on reserves during the year	17	4
Equity hedges		
Changes in fair value:	3	–
Amount reclassified to profit or loss	(1)	–
Balance at December 31, 2018	**(3)**	**(7)**

In order to determine the fair values of its derivatives that are not publicly traded, adidas uses generally accepted quantitative financial models based on market conditions prevailing at the balance sheet date.

The fair values of derivatives were determined applying the 'par method' (forward NPV), which uses actively traded forward rates.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

As a result of the adoption of IFRS 9, adidas has adopted consequential amendments to IAS 1 'Presentation of Financial Statements', which require impairment of financial assets to be presented in a separate line item in the consolidated income statement. In this context, adidas also adjusted the presentation of other operating income and other operating expenses according to separate operational functions. Comparative information for 2017 is adjusted respectively.

All figures related to the 2018 and 2017 financial years in the 'Notes to the consolidated income statement' refer to the company's continuing operations unless otherwise stated.

32 » REVENUE

Under IFRS 15, revenue principally is recognized at the transfer of control of the goods to the customer whereas under IAS 18 revenue recognition was dependent on the transfer of risks and rewards, except for income from licensing contracts which, under IFRS 15, is recognized over the contractual period. Income from licensing contracts does not represent a significant item in the company's consolidated income statement. No significant changes in the timing or amount of revenue due to the application of IFRS 15 were identified. Accordingly, there was no significant impact on the company's consolidated income statement for the year ending December 31, 2018.

A disaggregation of revenue into product categories is included in these Notes. SEE NOTE 40

A significant impact on the presentation of the customer's right of return resulted from the application of IFRS 15. Under IAS 18, adidas recognized a return provision on a net basis based on past experience. The net value was determined by the amount of the gross margin (i.e. the difference between gross sales and cost of sales) for the products sold which are expected to be returned.

The accounting for the return provision was adjusted in accordance with IFRS 15. SEE NOTE 21 As at January 1, 2018, a liability in the amount of the credit notes for expected returns is recognized. Corresponding with this treatment, an asset for the right to recover products from customers upon settling the refund liability is recognized. The first-time application of IFRS 15 on January 1, 2018 resulted in an increase in the return provision of € 237 million, the recognition of a return asset in an amount of € 196 million and a decrease in retained earnings in an amount of € 41 million in the company's consolidated statement of financial position. As at December 31, 2018, the return liability and the return asset increased by € 308 million and € 258 million, respectively, due to the application of IFRS 15 compared to IAS 18. The application of IFRS 15 had no significant impact on the company's consolidated income statement for the year ending December 31, 2018

Due to the application of IFRS 15, contract assets and contract liabilities were recognized for the first time in relation to revenues from licensing contracts. The effect of this application resulted in the first-time recognition of contract assets in an amount of € 7 million, contract liabilities in an amount of € 1 million, and an increase in retained earnings in an amount of € 6 million as at January 1, 2018. As at December 31, 2018, contract assets and contract liabilities increased to € 10 million and € 1 million respectively due to the application of IFRS 15 compared to IAS 18. Revenue from licensing contracts had no significant impact on the company's consolidated income statement for the year ending December 31, 2018.

33 » OTHER OPERATING INCOME

Other operating income consists of the following:

Other operating income € in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Income from release of accrued liabilities and other provisions	6	1
Gains from disposal of fixed assets	10	3
Sundry income	32	13
Other operating income	**48**	**17**

Sundry income mainly relates to income from reimbursements of custom duties and from sub-licensing of trademarks.

34 » OTHER OPERATING EXPENSES

Other operating expenses include marketing and point-of-sale expenses, distribution and selling expenses, general and administration expenses as well as sundry expenses less any income from government grants, if applicable. In addition, other operating expenses include impairment losses as well as depreciation of tangible assets and amortization of intangible assets (except goodwill impairment losses), with the exception of depreciation and amortization which is included in the cost of sales.

Marketing and point-of-sale expenses consist of promotion and communication spending such as promotion contracts, advertising, events and other communication activities. However, they do not include marketing overhead expenses, which are presented in distribution and selling expenses.

The distribution and selling expenses consist of sales force and sales administration costs, direct and indirect supply chain costs, marketing overhead expenses, as well as expenses for research and development, which amounted to € 153 million in 2018 (2017: € 187 million).

General and administration expenses include the functions IT, Finance, Legal, Human Resources, Facilities & Services as well as General Management.

Expenses for sundry consists of costs for one-time effects as well as losses from disposal of fixed assets.

Depreciation and amortization expense for tangible and intangible assets (except goodwill impairment losses) and impairment losses were € 486 million and € 453 million for the years ending December 31, 2018 and 2017, respectively. Thereof, amounts of € 3 million and € 2 million, respectively, were recorded within the cost of sales as they are directly assigned to the production costs.

Income from government grants is reported as a deduction from the related expenses and amounted to € 27 million in 2018 (2017: €24 million).

35 » COST BY NATURE

Expenses are presented by function according to the 'cost of sales method' in the income statement. Supplementary information on the expenses by nature is detailed below.

Cost of materials

The total cost of materials relating to the amount of inventories recognized as an expense during the period was € 10.507 billion and € 10.454 billion for the years ending December 31, 2018 and 2017, respectively.

Personnel expenses

Personnel expenses were as follows:

Personnel expenses € in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Wages and salaries	2,156	2,234
Social security contributions	218	214
Pension expenses	107	101
Personnel expenses	**2,481**	**2,549**

Personnel expenses are primarily included within other operating expenses. Personnel expenses which are directly attributable to the production costs of goods are included within the cost of sales.

36 » FINANCIAL INCOME/FINANCIAL EXPENSES

Financial result consists of the following:

Financial income € in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Interest income from financial instruments measured at amortized cost	24	23
Interest income from financial instruments at fair value through profit or loss	0	0
Interest income from non-financial assets	0	2
Net foreign exchange gains	26	19
Other	7	1
Financial income	**57**	**46**

Financial expenses € in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Interest expense on financial instruments measured at amortized cost	42	62
Interest expense on financial instruments at fair value through profit or loss	0	0
Interest expense on other provisions and non-financial liabilities	0	0
Other	5	31
Financial expenses	**47**	**93**

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

Other financial expenses do not include any impairment losses on other financial assets for the year ending December 31, 2018 (2017: € 31 million).

Information regarding investments, borrowings and financial instruments is also included in these Notes. SEE NOTES 07, 16, 19 AND 31

37 » HYPERINFLATION

Due to the rapid devaluation of the Argentinian peso, Argentina is considered as hyperinflationary and as a result the application of IAS 29 was adopted for the first time in the third quarter of 2018. The financial statements of 2018 for those subsidiaries that have the Argentinian peso as a functional currency had been restated for the change in the general purchasing power retrospectively since January 1, 2018, and as a result are stated in terms of the measuring unit current at December 31, 2018. The financial statements are based on a historical cost approach. For translation into the presentation currency (euro), all amounts were translated at the closing rate at December 31, 2018. Pursuant to IAS 21 'The Effects of Changes in Foreign Exchange Rates', paragraph 42, the comparative amounts of the previous reporting period were not restated.

The price index at December 31, 2018 was 2,450.15 (2017: 1,656.63).

38 » INCOME TAXES

adidas AG and its German subsidiaries are subject to German corporate and trade taxes. For the years ending December 31, 2018 and 2017, the statutory corporate income tax rate of 15% plus a surcharge of 5.5% thereon is applied to earnings. The municipal trade tax is approximately 11.4% of taxable income.

For non-German subsidiaries, 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 in the consolidated statement of financial position:

Deferred tax assets/liabilities € in millions

	Dec. 31, 2018	Dec. 31, 2017[1]
Deferred tax assets	651	630
Deferred tax liabilities	(241)	(190)
Deferred tax assets, net	**410**	**440**

1 See Note 03.

The movement of deferred taxes is as follows:

Movement of deferred taxes € in millions

	2018	2017[1]
Deferred tax assets, net as at January 1	**440**	**442**
Deferred tax (expense)/income	4	(19)
Change in consolidated companies[2]	0	(17)
Change in deferred taxes attributable to remeasurements of defined benefit plans recorded in other comprehensive income[3]	6	(7)
Change in deferred taxes attributable to the change in the effective portion of the fair value of qualifying hedging instruments recorded in other comprehensive income[4]	(43)	68
Change in deferred taxes attributable to the implementation of IFRS 9	1	0
Change in deferred taxes attributable to the implementation of IFRS 15	8	0
Currency translation differences	(6)	(27)
Deferred tax assets, net as at December 31	**410**	**440**

1 See Note 03.
2 See Note 05.
3 See Note 25.
4 See Note 31.

Gross company deferred tax assets and liabilities after valuation allowances, but before appropriate offsettings, are attributable to the items detailed in the table below:

Deferred taxes € in millions

	Dec. 31, 2018	Dec. 31, 2017[1]
Non-current assets	182	150
Current assets	182	219
Accrued liabilities and provisions	311	302
Accumulated tax loss carry-forwards	14	30
Deferred tax assets	**689**	**702**
Non-current assets	206	170
Current assets	49	69
Accrued liabilities and provisions	24	23
Deferred tax liabilities	**279**	**262**
Deferred tax assets, net	**410**	**440**

1 See Note 03.

Deferred tax assets are recognized only to the extent that the realization of the related benefit is probable. For the assessment of probability, in addition to past performance and the respective prospects for the foreseeable future, appropriate tax structuring measures are also taken into consideration.

Deferred tax assets for which the realization of the related tax benefits is not probable increased from € 518 million to € 554 million for the year ending December 31, 2018. These amounts mainly relate to tax losses carried forward and unused foreign tax credits of the US tax group, which begin to expire in 2028. The remaining unrecognized deferred tax assets relate to subsidiaries operating in markets where the realization of the related tax benefit is not considered probable.

In accordance with US law, in 2018, the buyer of TaylorMade elected to treat the transaction as an asset acquisition for income tax purposes. In 2017, the divestiture of TaylorMade was reflected as a share transaction for income tax purposes. This election resulted in the retention of tax benefits (mainly relating to tax losses to carry forward) in respect of which realization is not probable.

adidas does not recognize deferred tax liabilities for unremitted earnings of non-German subsidiaries to the extent that they are expected to be permanently invested in international operations. These earnings, the amount of which cannot be practicably computed, could become subject to additional tax if they were remitted as dividends or if the company were to sell its shareholdings in the subsidiaries.

Tax expenses

Tax expenses are split as follows:

Income tax expenses € in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Current tax expenses	673	649
Deferred tax expenses/(income)	(4)	19
Income tax expenses	**669**	**668**

The deferred tax income includes tax income of € 52 million in total (2017: € 80 million) related to the origination and reversal of temporary differences.

Tax expense includes a benefit of € 69 million in respect of prior periods (2017: expense of € 1 million).

The company's effective tax rate differs from an assumed tax rate of 30% for the year ending December 31, 2018 as follows:

Tax rate reconciliation

	Year ending Dec. 31, 2018		Year ending Dec. 31, 2017	
	€ in millions	in %	€ in millions	in %
Expected income tax expenses	714	30.0	607	30.0
Tax rate differentials	(178)	(7.5)	(215)	(10.6)
Non-deductible expenses	27	1.2	44	2.2
Losses for which benefits were not recognizable and changes in valuation allowances	(29)	(1.2)	37	1.8
Changes in tax rates	3	0.1	87	4.3
Other, net	0	0.0	2	0.1
	537	**22.6**	**563**	**27.8**
Withholding tax expenses	132	5.6	105	5.2
Income tax expenses	**669**	**28.1**	**668**	**33.0**

In 2018, the effective tax rate was 28.1%. Excluding the effect of the US tax reform, the effective tax rate in 2017 was 29.3%.

For 2018, the line item 'Losses for which benefits were not recognizable and changes in valuation allowances' mainly related to the release of valuation allowances in respect of the US and Canada (€ 37 million), and an increase to the valuation allowance in Argentina (€ 8 million). For 2017, this line item mainly related to changes in valuation allowances for Brazil.

For 2018, the line item 'Changes in tax rates' mainly reflects tax rate reductions in France and Argentina. For 2017, this line item mainly reflected a tax rate reduction in the US.

39 » EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net income from continuing operations attributable to shareholders by the weighted average number of shares outstanding during the year, excluding ordinary shares purchased by adidas and held as treasury shares.

It is necessary to include 0.3 million and 1.8 million potential dilutive shares arising from the convertible bond issuance in March 2012 in the calculation of diluted earnings per share in 2018 and 2017, respectively, as due to the potential dilutive shares a dilutive effect resulted as at the balance sheet date. SEE NOTE 19 The average share price reached € 194.35 per share during 2018 and thus exceeded the conversion price of € 80.48 per share. As a consequence of contractual provisions relating to dividend protection, the conversion price was adjusted from € 81.13 to € 80.48 per share. This adjustment became effective on May 10, 2018.

Earnings per share

	Continuing operations		Discontinued operations		Total	
	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Net income from continuing operations (€ in millions)	1,709	1,354	–	–	–	–
Net income attributable to non-controlling interests (€ in millions)	3	3	–	–	–	–
Net income attributable to shareholders (€ in millions)	**1,707**	**1,352**	**(5)**	**(254)**	**1,702**	**1,097**
Weighted average number of shares	201,759,012	202,391,673	201,759,012	202,391,673	201,759,012	202,391,673
Basic earnings per share (€)	**8.46**	**6.68**	**(0.02)**	**(1.26)**	**8.44**	**5.42**
Net income attributable to shareholders (€ in millions)	1,707	1,352	(5)	(254)	1,702	1,097
Interest expense on convertible bond, net of taxes (€ in millions)	0	1	-	-	0	1
Net income used to determine diluted earnings per share (€ in millions)	**1,707**	**1,353**	**(5)**	**(254)**	**1,702**	**1,099**
Weighted average number of shares	201,759,012	202,391,673	201,759,012	202,391,673	201,759,012	202,391,673
Weighted assumed conversion of the convertible bond	280,100	1,846,245	280,100	1,846,245	280,100	1,846,245
Dilutive effect of share-based payments	5,855	2,712	5,855	2,712	5,855	2,712
Weighted average number of shares for diluted earnings per share	**202,044,967**	**204,240,629**	**202,044,967**	**204,240,629**	**202,044,967**	**204,240,629**
Diluted earnings per share (€)	**8.45**	**6.63**	**(0.02)**	**(1.26)**	**8.42**	**5.38**

Further information on basic and diluted earnings per share from discontinued operations is included in these Notes.
SEE NOTE 04

ADDITIONAL INFORMATION

40 » SEGMENTAL INFORMATION

adidas operates predominantly in one industry segment – the design, distribution and marketing of athletic and sports lifestyle products.

Effective January 1, 2018, the four former operating segments Greater China, Japan, South Korea and Southeast Asia/Pacific were consolidated to one operating segment Asia-Pacific. As at December 31, 2018, following the company's internal management reporting by markets and in accordance with the definition of IFRS 8 'Operating Segments', ten operating segments were identified: Europe (formerly called Western Europe), North America adidas, North America Reebok, Asia-Pacific, Latin America, Emerging Markets (formerly called Middle East), Russia/CIS, adidas Golf, Runtastic and Other centrally managed businesses.

Due to the completed divestitures, income and expenses of the former TaylorMade and CCM Hockey operating segments are reported as discontinued operations in 2018 and in 2017, respectively. SEE NOTE 04

The operating segments North America adidas and North America Reebok have been aggregated to North America.

According to the criteria of IFRS 8 for reportable segments, the operating segments Europe, North America, Asia-Pacific, Latin America, Emerging Markets and Russia/CIS are reported separately. The remaining operating segments are aggregated under Other Businesses due to their only subordinate materiality. Due to the consolidation of the operating segment Asia-Pacific as described above, former reportable segments Greater China, Japan and MEAA (aggregated Middle East, South Korea and Southeast Asia/Pacific) are no longer reported as they are replaced by reportable segments Asia-Pacific and Emerging Markets. The comparative information presented in this note has been restated accordingly.

Each market comprises all wholesale, retail and e-commerce business activities relating to the distribution and sale of products of the adidas and Reebok brands to retail customers and end consumers.

adidas Golf comprises the distribution and sale of adidas Golf branded products.

Runtastic operates in the digital health and fitness space. The company provides a comprehensive ecosystem for tracking and managing health and fitness data.

Other centrally managed businesses primarily includes the business activities of the Y-3 label.

Certain centralized corporate functions do not meet the definition of IFRS 8 for an operating segment. This includes, in particular, functions such as Global Brands and Global Sales (central brand and distribution management for the adidas and Reebok brands), central treasury, global sourcing as well as other headquarter functions. Assets, liabilities, income and expenses relating to these corporate functions are presented in the reconciliations.

The chief operating decision maker for adidas has been defined as the entire Executive Board of adidas AG.

There are no intersegment sales between the reportable segments. Accounting and valuation policies applied for reporting segmental information are the same as those used for adidas. SEE NOTE 02

The results of the operating segments are reported in the line item 'Segmental operating profit'. This is defined as gross profit minus other operating expenses plus royalty and commission income and other operating income attributable to the segment or group of segments, however without considering headquarter costs and central expenses for marketing.

Segmental assets include accounts receivable as well as inventories. Only these items are reported to the chief operating decision maker on a regular basis. Depreciation, amortization, impairment losses (except for goodwill) and reversals of impairment losses as well as capital expenditure for tangible and intangible assets are part of the segmental reporting, even though segmental assets do not contain tangible and intangible assets. Depreciation and amortization as well as impairment losses and reversals of impairment losses not directly attributable to a segment or a group of segments are presented under HQ and Consolidation in the reconciliations.

Segmental liabilities only contain accounts payable from operating activities as there are no other liability items reported regularly to the chief operating decision maker.

Interest income and interest expenses as well as income taxes are not allocated to the reportable segments and are not reported separately to the chief operating decision maker.

Segmental information I € in millions

	Net sales (third parties)[1]		Thereof: adidas brand[1]		Thereof: Reebok brand[1]		Segmental operating profit[1]		Segmental assets[2]		Segmental liabilities[2]	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Europe	5,885	5,932	5,405	5,434	480	499	1,176	1,192	1,511	1,738	115	130
North America	4,689	4,275	4,277	3,843	411	432	698	468	1,474	1,500	98	77
Asia-Pacific	7,141	6,403	6,805	6,067	336	337	2,339	2,115	1,417	1,170	333	242
Russia/CIS	595	660	446	478	149	182	146	136	157	216	5	7
Latin America	1,634	1,907	1,463	1,673	171	235	279	268	617	724	85	66
Emerging Markets	1,144	1,300	1,010	1,153	134	147	318	325	391	398	41	42
Reportable segments	**21,086**	**20,479**	**19,405**	**18,647**	**1,681**	**1,832**	**4,956**	**4,504**	**5,568**	**5,747**	**676**	**563**
Other Businesses (continuing operations)	829	739	446	345	6	12	163	67	280	300	18	25
Other Businesses (discontinued operations)	48	667	–	–	–	–	(4)	24	–	–	–	–
Other Businesses	**877**	**1,405**	**446**	**345**	**6**	**12**	**159**	**91**	**280**	**300**	**18**	**25**
Total	**21,963**	**21,885**	**19,851**	**18,993**	**1,687**	**1,843**	**5,114**	**4,596**	**5,848**	**6,047**	**693**	**588**

1 Year ending December 31.
2 At December 31.

Segmental information II € in millions

	Capital expenditure[1]		Depreciation and amortization[1]		Impairment losses and reversals of impairment losses[1]	
	2018	2017	2018	2017	2018	2017
Europe	69	76	55	51	3	1
North America	53	62	40	32	2	4
Asia-Pacific	157	160	133	104	2	2
Russia/CIS	7	38	23	27	(1)	1
Latin America	15	29	25	28	1	1
Emerging Markets	14	20	16	16	0	1
Reportable segments	**315**	**385**	**291**	**258**	**7**	**11**
Other Businesses (continuing operations)	5	9	7	9	8	9
Other Businesses (discontinued operations)	–	7	1	7	0	7
Other Businesses	**5**	**16**	**8**	**16**	**8**	**16**
Total	321	**401**	**299**	**274**	**16**	**26**

1 Year ending December 31.

Reconciliations

The following tables include reconciliations of segmental information to the aggregate numbers of the consolidated financial statements, taking into account items which are not directly attributable to a segment or a group of segments.

Information regarding the effect of the initial application of IFRS 15 is also included in these Notes. SEE NOTE 32 Due to the adoption of the modified retrospective method, comparative information for the year ending December 31, 2017 has not been restated. Net sales for the year ending December 31, 2018 represents revenue from contracts with customers.

Net sales (third parties) € in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Reportable segments	21,086	20,479
Other Businesses	877	1,405
Reclassification to discontinued operations	(48)	(667)
Total	**21,915**	**21,218**

Operating profit € in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Operating profit for reportable segments	4,956	4,504
Operating profit for Other Businesses	159	91
Segmental operating profit	**5,114**	**4,596**
Reclassification to discontinued operations	4	(24)
HQ	(1,755)	(1,623)
Central expenditure for marketing	(958)	(841)
Consolidation	(38)	(38)
Operating profit	**2,368**	**2,070**
Financial income	57	46
Financial expenses	(47)	(93)
Income before taxes	**2,378**	**2,023**

Capital expenditure € in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Reportable segments	315	385
Other Businesses	5	16
Reclassification to discontinued operations	–	(7)
HQ	473	357
Consolidation	–	–
Total	**794**	**752**

Depreciation and amortization € in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Reportable segments	291	258
Other Businesses	8	16
Reclassification to discontinued operations	(1)	(7)
HQ	171	146
Consolidation	–	–
Total	**470**	**413**

Impairment losses and reversals of impairment losses € in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Reportable segments	7	11
Other Businesses	8	16
Reclassification to discontinued operations	(0)	(7)
HQ	2	5
Consolidation	(2)	14
Total	**16**	**38**

Assets € in millions

	Dec. 31, 2018	Dec. 31, 2017
Accounts receivable and inventories of reportable segments	5,568	5,747
Accounts receivable and inventories of Other Businesses	280	300
Segmental assets	**5,848**	**6,047**
Non-segmental accounts receivable and inventories	15	(40)
Current financial assets	3,177	1,996
Other current assets	773	641
Non-current assets	5,799	5,374
Total	**15,612**	**14,019**

Liabilities € in millions

	Dec. 31, 2018	Dec. 31, 2017
Accounts payable of reportable segments	676	563
Accounts payable of Other Businesses	18	25
Segmental liabilities	**693**	**588**
Non-segmental accounts payable	1,607	1,387
Current financial liabilities	253	499
Other current liabilities	4,281	3,817
Non-current liabilities	2,414	1,711
Total	**9,248**	**8,002**

Product information

Net sales (third parties) € in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Footwear	12,783	12,428
Apparel	8,223	7,779
Hardware	958	1,679
Reclassification to discontinued operations	(48)	(667)
Total	**21,915**	**21,218**

Geographical information

Net sales (third parties) are shown in the geographic market in which the net sales are realized. Non-current assets are allocated to the geographic market based on the domicile of the respective subsidiary independent of the segmental structure and consist of tangible assets, goodwill, trademarks, other intangible assets and other non-current assets.

Geographical information € in millions

	Net sales (third parties)		Non-current assets	
	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Europe	6,372	6,401	2,354	2,177
North America	4,869	4,882	718	556
Asia-Pacific	7,334	6,711	1,077	1,050
Russia/CIS	595	660	189	215
Latin America	1,638	1,917	79	98
Emerging Markets	1,155	1,313	198	192
Reclassification to discontinued operations	(48)	(667)	–	–
Total	**21,915**	**21,218**	**4,615**	**4,289**

With regard to Germany, Europe contains net sales (third parties) (continuing operations) amounting to € 1,260 million and €1,226 million as well as non-current assets amounting to € 1,275 million and € 1,100 million for the years 2018 and 2017, respectively.

With regard to China, Asia-Pacific contains net sales (third parties) (continuing operations) amounting to € 4,546 million and € 3,800 million as well as non-current assets amounting to € 582 million and € 531 million for the years 2018 and 2017, respectively.

With regard to the USA, North America contains net sales (third parties) (continuing operations) amounting to € 4,485 million and €4,092 million as well as non-current assets amounting to € 640 million and € 478 million for the years 2018 and 2017, respectively.

41 » ADDITIONAL CASH FLOW INFORMATION

In 2018, the increase in cash generated from operating activities compared to the prior year was primarily due to an increase in income before taxes and operating working capital requirements which was partly offset by an increase in income taxes paid.

Net cash used in investing activities in 2018 mainly related to spending for property, plant and equipment such as investments in the furnishing and fitting of own-retail stores, in new office buildings and IT systems.

Net cash used in financing activities mainly related to the repurchase of treasury shares and the dividend paid to shareholders of adidas AG which was partly offset by the proceeds from the issuance of a convertible bond.

Net cash (used in)/ generated from discontinued operations
€ in millions

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Net cash (used in)/generated from operating activities	(20)	6
Net cash (used in) investing activities	–	(4)
Net cash (used in) financing activities	–	(0)
Net cash (used in)/generated from discontinued operations	**(20)**	**2**

In 2018, the following changes in financial liabilities impacted the net cash used in financing activities:

Impact of change in financial liabilities on net cash used in financing activities € in millions

			Non-cash effects				
	Jan. 1, 2018	Net (payments)/ proceeds in the period	New lease obligations	Fair value adjustments	Other	Effect of exchange rates	Dec. 31, 2018
Short-term borrowings	137	(12)	–	–	(31)	(28)	66
Long-term borrowings	983	625	–	–	1	–	1,609
Lease obligations	4	(2)	87	2	(0)	–	91
Total	**1,123**	**611**	**87**	**2**	**(29)**	**(28)**	**1,766**

42 » OTHER FINANCIAL COMMITMENTS AND CONTINGENCIES

Other financial commitments

adidas has other financial commitments (continuing operations) for promotion and advertising contracts, which mature as follows:

Financial commitments for promotion and advertising
€ in millions

	Dec. 31, 2018	Dec. 31, 2017
Within 1 year	1,015	893
Between 1 and 5 years	3,050	2,600
After 5 years	1,763	1,762
Total	**5,828**	**5,255**

Commitments with respect to promotion and advertising contracts maturing after five years have remaining terms of up to twelve years from December 31, 2018.

Compared to December 31, 2017, commitments for promotion and advertising contracts mainly increased due to the prolongation of the existing partnerships with Deutscher Fußball-Bund (DFB) and Juventus F.C., as well as due to the new partnership with Arsenal F.C. which was signed in the 2018 financial year.

Information regarding commitments under lease and service contracts is also included in these Notes. SEE NOTE 30

Litigation and other legal risks

The company is currently engaged in various lawsuits resulting from the normal course of business, mainly in connection with distribution agreements as well as intellectual property rights. The risks regarding these lawsuits are covered by provisions when a reliable estimate of the amount of the obligation can be made. SEE NOTE 21 In the opinion of Management, the ultimate liabilities resulting from such claims will not materially affect the assets, liabilities, financial position and profit or loss of the Group.

The company is in dispute with the local revenue authorities in South Africa (SARS) with regard to the customs value of imported products. In June 2018, SARS issued a ruling claiming a customs payment including interest and penalties for the years 2007 to 2013 in an amount of ZAR 1.871 million (€ 114 million). adidas has applied for a suspension of the payment demand and will bring an action against the decision before the High Court in South Africa in the course of the first half of 2019. In case the court rules in favor of SARS, adidas will appeal against the decision to the Supreme Court of South Africa. Based on external legal opinions, Management currently believes that it is more likely than not that the claim made by SARS will eventually not result in an outflow of resources. Therefore, a provision was not recognized in the consolidated statement of financial position.

In connection with the financial irregularities at Reebok India Company in 2012, various legal uncertainties were identified. The respective remaining risks cannot be assessed conclusively. However, based on legal opinions and internal assessments, Management assumes that the effects will not have any material influence on the assets, liabilities, financial position and profit or loss of the company.

In October 2018, a former employee of the company's US subsidiary was convicted of wire fraud in connection with unauthorized payments to certain college basketball players or their families during the former employee's time at the US subsidiary. The company's US subsidiary, with the full support of the company, has cooperated and continues to cooperate with the prosecutors, including by conducting an internal investigation with the assistance of outside counsel. While Management currently believes that the actions of its former employee will not have any material influence on the assets, liabilities, financial position and profit or loss of the company, actual results may ultimately differ from the current Management assessment. Any additional statements about these matters by the company could compromise the company's position in these proceedings and hence further information is not disclosed.

43 » RELATED PARTY DISCLOSURES

According to the definitions of IAS 24 'Related Party Disclosures', the Supervisory Board and the Executive Board of adidas AG have been identified as related parties who solely receive remuneration in connection with their function as key management personnel. This Annual Report contains detailed information about the remuneration of the Supervisory Board and the Executive Board of adidas AG. SEE COMPENSATION REPORT, P. 41, SEE NOTE 44

In addition, adidas Pension Trust e.V., a registered association, is regarded as a related party. Based on a Contractual Trust Arrangement, adidas Pension Trust e.V. manages the plan assets in the form of an administrative trust to fund and protect part of the pension obligations of adidas AG. SEE NOTE 25 Employees, senior executives and members of the Executive Board of adidas AG can be members of the registered association. adidas AG has the right to claim a refund of pension payments from adidas Pension Trust e.V. under specific contractually agreed conditions.

44 » OTHER INFORMATION

Employees

The average numbers of employees (continuing operations) are as follows:

Employees

	Year ending Dec. 31, 2018	Year ending Dec. 31, 2017
Own retail	32,033	32,349
Sales	3,855	3,981
Logistics	5,990	5,914
Marketing	5,835	5,717
Central administration	5,339	5,114
Production	988	1,241
Research and development	1,045	1,059
Information technology	1,354	1,204
Total	**56,438**	**56,577**

Accountant service fees for the auditor of the financial statements

The expenses for the audit fees comprise the expenses of adidas AG, Herzogenaurach, as well as all German subsidiaries of adidas AG. In 2018, the expenses for the professional audit service fees for the auditor KPMG AG Wirtschaftsprüfungsgesellschaft amounted to € 1.7 million (2017: € 1.6 million).

Expenses for tax consultancy services provided by the auditor, for other confirmation services provided by the auditor and for other services provided by the auditor amounted to € 0.1 million (2017: € 0.1 million), € 0.9 million (2017: €0.1 million) and € 0.2 million (2017: € 0.0 million), respectively.

Expenses for the audit fees of KPMG AG Wirtschaftsprüfungsgesellschaft were mainly related to the audits of both the consolidated financial statements and the financial statements of adidas AG, as well as the audit of the financial statements of its subsidiary, adidas CDC Immobilieninvest GmbH. Integrated IT project audits were also conducted.

Other confirmation services consist of audits which are either required by law or contractually agreed, such as the audit of the Compliance Management System (IDW AssS 980), European Market Infrastructure Regulation (EMIR) audits according to § 20 WpHG, audits according to the German Packaging Ordinance (Verpackungsverordnung – VerpackV), audits of the utilization of funds, and other contractually agreed-upon confirmation services.

The tax consultancy services include support services for transfer pricing and consulting for sales taxes on a case-by-case basis.

Other services provided by the auditor consist of supporting services to provide certificates for sales transactions and for legal consultancy services.

Remuneration of the Supervisory Board and the Executive Board of adidas AG

Supervisory Board

Pursuant to the Articles of Association of adidas AG, the Supervisory Board members' fixed annual payment amounted to € 2.2 million (2017: € 1.8 million).

Members of the Supervisory Board were not granted any loans or advance payments in 2018.

Executive Board

In 2018, the overall compensation of the members of the Executive Board totaled € 20.7 million (2017: €23.3 million), € 10.5 million thereof relates to short-term benefits (2017: € 23.3 million) and € 10.2 million to long-term benefits (2017: € 0.0 million). Post-employment benefits (costs for accrued pension entitlements for members of the Executive Board as well as follow-up bonuses for resigned members of the Executive Board) totaled € 3.2 million (2017: € 4.9 million).

In 2018, former members of the Executive Board and their survivors received pension payments totaling € 3.7 million (2017: € 3.7 million).

Pension obligations relating to former members of the Executive Board and their survivors amount in total to € 84.9 million (2017: € 84.7 million).

Benefits confirmed to former members of the Executive Board in 2017 due to the termination of their Executive Board mandates were recognized in the consolidated income statement and amounted to € 1.4 million.

Current members of the Executive Board were not granted any loans or advance payments in 2018.

In 2017, advance payments were made to a former member of the Executive Board with regard to the Performance Bonus for 2017 and prorated for 2018, as well as with regard to the LTIP 2015/2017.

Further information on disclosures according to § 314 section 1 no. 6a HGB is provided in the Compensation Report.

SEE COMPENSATION REPORT, P. 41

45 » INFORMATION RELATING TO THE GERMAN CORPORATE GOVERNANCE CODE

Information pursuant to § 161 German Stock Corporation Act (Aktiengesetz – AktG)

In February 2019, the Executive Board and Supervisory Board of adidas AG issued an updated Declaration of Compliance in accordance with § 161 AktG and made it permanently available to the shareholders. The full text of the Declaration of Compliance is available on the company's corporate website.

46 » EVENTS AFTER THE BALANCE SHEET DATE

Company-specific subsequent events

The Supervisory Board of adidas AG has appointed Martin Shankland to the Executive Board as Board Member responsible for Global Operations effective March 4, 2019. He succeeds Gil Steyaert who has left the Executive Board as of February 26, 2019. No further company-specific subsequent events are known which might have a material influence on the assets, liabilities, financial position and profit or loss of the company.

Date of preparation

The Executive Board of adidas AG prepared and approved the consolidated financial statements for submission to the Supervisory Board on February 27, 2019. It is the Supervisory Board's task to examine the consolidated financial statements and give their approval and authorization for issue.

Herzogenaurach, February 27, 2019

The Executive Board of adidas AG

Kasper Rorsted

Roland Auschel

Eric Liedtke

Harm Ohlmeyer

Karen Parkin

STATEMENT OF MOVEMENTS OF INTANGIBLE AND TANGIBLE ASSETS

Statement of Movements of Intangible and Tangible Assets € in millions — **Attachment I**

	Goodwill	Trademarks	Software, patents and concessions	Internally generated software	Total intangible assets	Land, land leases, buildings and leasehold improvements	Technical equipment and machinery	Other equipment, furniture and fixtures	Construction in progress	Total tangible assets
Acquisition cost										
January 1, 2017	**1,908**	**1,681**	**904**	**20**	**4,513**	**1,395**	**325**	**1,710**	**218**	**3,648**
Currency effect	(119)	(197)	(40)	–	(356)	(83)	(20)	(118)	(10)	(231)
Additions	–	–	74	–	74	89	27	300	266	681
Transfers to assets held for sale	(185)	(152)	(101)	–	(438)	(156)	(31)	(66)	(4)	(256)
Decrease in companies consolidated	(0)	–	(0)	–	(0)	(0)	0	0	0	(0)
Transfers	–	–	(2)	–	(2)	48	6	36	(89)	1
Disposals	–	–	(17)	–	(17)	(52)	(18)	(142)	(3)	(215)
December 31, 2017/January 1, 2018	**1,604**	**1,332**	**819**	**20**	**3,775**	**1,242**	**288**	**1,721**	**378**	**3,629**
Currency effect	38	62	9	–	109	3	(3)	(11)	2	(9)
Additions	–	2	94	–	96	137	22	240	299	699
Transfers	–	–	9	–	9	62	57	70	(198)	(9)
Disposals	(0)	(1)	(40)	–	(41)	(36)	(7)	(203)	(2)	(248)
December 31, 2018	**1,642**	**1,394**	**891**	**20**	**3,947**	**1,408**	**357**	**1,817**	**480**	**4,061**

Statement of Movements of Intangible and Tangible Assets € in millions **Attachment I**

	Goodwill	Trademarks	Software, patents and concessions	Internally generated software	Total intangible assets	Land, land leases, buildings and leasehold improvements	Technical equipment and machinery	Other equipment, furniture and fixtures	Construction in progress	Total tangible assets
Accumulated depreciation, amortization and impairment										
January 1, 2017	**496**	**573[1]**	**748**	**10**	**1,827**	**425**	**180**	**1,128**	**–**	**1,733**
Currency effect	(41)	(69)	(36)	–	(147)	(29)	(16)	(88)	(0)	(133)
Additions	–	–	59	4	63	66	31	261	0	358
Impairment losses	–	23	10	–	34	2	–	11	–	13
Reversals of impairment losses	–	–	(0)	–	(0)	(1)	–	(0)	–	(1)
Transfers to assets held for sale	(71)	(1)	(94)	–	(166)	(67)	(25)	(57)	–	(149)
Decrease in companies consolidated	–	0	(0)	–	(0)	(0)	0	0	–	(0)
Transfers	–	–	–	–	–	11	–	(11)	0	(0)
Disposals	–	–	(16)	–	(16)	(45)	(16)	(132)	0	(193)
December 31, 2017/January 1, 2018	**383**	**526**	**671**	**14**	**1,594**	**362**	**154**	**1,112**	**–**	**1,628**
Currency effect	13	24	9	–	46	4	(1)	(5)	–	(3)
Additions	–	–	57	3	61	71	32	306	–	409
Impairment losses	–	(0)	–	–	(0)	3	1	15	–	19
Reversals of impairment losses	–	–	(0)	–	(0)	(0)	–	(3)	–	(3)
Transfers	–	–	(0)	–	(0)	4	–	(4)	–	–
Disposals	(0)		(39)		(39)	(30)	(6)	(191)	(0)	(227)
December 31, 2018	**396**	**550**	**698**	**18**	**1,662**	**414**	**180**	**1,230**	**–**	**1,824**
Net carrying amount										
January 1, 2017	1,412	1,108[1]	157	10	2,687	970	145	582	218	1,915
December 31, 2017	1,220	806[1]	148	6	2,181	880	134	609	378	2,000
December 31, 2018	**1,245**	**844**	**193**	**2**	**2,285**	**994**	**177**	**587**	**480**	**2,237**

1 Adjusted according to IAS 8, see Note 03.

SHAREHOLDINGS

Shareholdings of adidas AG, Herzogenaurach at December 31, 2018 — **Attachment II**

	Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[1]	in %
	Germany					
1	adidas Insurance & Risk Consultants GmbH[2]	Herzogenaurach (Germany)	EUR	26	directly	100
2	adidas Beteiligungsgesellschaft mbH[2]	Herzogenaurach (Germany)	EUR	681,990	directly	100
3	adidas CDC Immobilieninvest GmbH	Herzogenaurach (Germany)	EUR	6,776	14	100
4	adidas Verwaltungsgesellschaft mbH[3]	Herzogenaurach (Germany)	EUR	4,277	75	100
5	adidas anticipation GmbH[2]	Herzogenaurach (Germany)	EUR	25	directly	100
	Europe (incl. Middle East and Africa)					
6	adidas sport gmbh	Cham (Switzerland)	CHF	6,184	directly	100
7	adidas Austria GmbH	Klagenfurt (Austria)	EUR	9,782	directly	95.89
					6	4.11
8	runtastic GmbH	Pasching (Austria)	EUR	1,788	10	100
9	adidas France S.a.r.l.	Strasbourg (France)	EUR	247,926	directly	100
10	adidas International B.V.	Amsterdam (Netherlands)	EUR	7,392,794	directly	93.97
					9	6.03
11	adidas International Trading B.V.	Amsterdam (Netherlands)	EUR	1,547,114	10	100
12	adidas International Marketing B.V.	Amsterdam (Netherlands)	EUR	55,298	10	100
13	adidas International Finance B.V.	Amsterdam (Netherlands)	EUR	50,660	10	100
14	adidas International Property Holding B.V.	Amsterdam (Netherlands)	EUR	52,371	85	100
15	adidas Infrastructure Holding B.V.	Amsterdam (Netherlands)	EUR	(26)	10	100
16	adidas Benelux B.V.	Amsterdam (Netherlands)	EUR	4,755	directly	100
17	adidas Ventures B.V. (formerly: Hydra Ventures B.V.)	Amsterdam (Netherlands)	EUR	(43,106)	10	100
18	adidas (UK) Limited	Stockport (Great Britain)	GBP	34,728	10	100
19	Reebok International Limited[4]	London (Great Britain)	EUR	326,634	75	100
20	Trafford Park DC Limited	London (Great Britain)	GBP	1,431	15	100
21	Reebok Pensions Management Limited[3,4]	London (Great Britain)	GBP	–	19	100
22	Reebok Europe Holdings	London (Great Britain)	GBP	26,714	19	100

1 The number refers to the number of the company.
2 Profit and loss transfer agreement.
3 Company with no active business.
4 Sub-group Reebok International Limited.
5 Sub-group Reebok International Ltd.
6 Sub-group adidas Indy, LLC.

Shareholdings of adidas AG, Herzogenaurach at December 31, 2018 **Attachment II**

	Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[1]	in %
23	Luta Limited[3,4]	London (Great Britain)	GBP	–	19	100
24	adidas (Ireland) Limited	Dublin (Ireland)	EUR	2,695	10	100
25	adidas International Re DAC	Dublin (Ireland)	EUR	20,902	10	100
26	Reebok Ireland Limited[3]	Dublin (Ireland)	EUR	56	24	100
27	Five Ten Europe NV[3]	Lasne (Belgium)	EUR	(297)	77	100
28	adidas España S.A.U.	Zaragoza (Spain)	EUR	37,838	2	100
29	adidas Finance Spain S.A.U.	Zaragoza (Spain)	EUR	36,496	75	100
30	Global Merchandising, S.L.	Madrid (Spain)	EUR	10,724	10	100
31	adidas Italy S.p.A.	Monza (Italy)	EUR	56,741	10	100
32	adidas Portugal – Artigos de Desporto, S.A.	Lisbon (Portugal)	EUR	6,209	10	100
33	adidas Business Services Lda.	Morea de Maia (Portugal)	EUR	1,263	10	98
					directly	2
34	adidas Norge AS	Oslo (Norway)	NOK	30,772	directly	100
35	adidas Sverige AB	Solna (Sweden)	SEK	51,600	directly	100
36	adidas Finance Sverige AB	Solna (Sweden)	SEK	270,921	75	100
37	adidas Suomi Oy	Helsinki (Finland)	EUR	1,549	10	100
38	adidas Danmark A/S	Copenhagen (Denmark)	DKK	26,514	10	100
39	adidas CR s.r.o.	Prague (Czech Republic)	CZK	131,939	directly	100
40	adidas Budapest Kft.	Budapest (Hungary)	HUF	881,494	directly	100
41	adidas Bulgaria EAD	Sofia (Bulgaria)	BGN	7,867	directly	100
42	LLC 'adidas, Ltd.'	Moscow (Russia)	RUB	28,254,471	7	100
43	adidas Poland Sp.z o.o.	Warsaw (Poland)	PLN	58,588	directly	100
44	adidas Finance Poland S.A.	Warsaw (Poland)	PLN	99,799	75	100
45	adidas Romania S.R.L.	Bucharest (Romania)	RON	19,954	10	100
46	adidas Baltics SIA	Riga (Latvia)	EUR	1,918	10	100
47	adidas Slovakia s.r.o.	Bratislava (Slovak Republic)	EUR	1,716	directly	100
48	adidas Trgovina d.o.o.	Ljubljana (Slovenia)	EUR	649	directly	100
49	SC 'adidas-Ukraine'	Kiev (Ukraine)	UAH	935,845	directly	100
50	adidas LLP	Almaty (Republic of Kazakhstan)	KZT	4,604,235	directly	100
51	adidas Serbia d.o.o.	Belgrade (Serbia)	RSD	546,663	10	100
52	adidas Croatia d.o.o.	Zagreb (Croatia)	HRK	45,630	10	100
53	adidas Hellas A.E.	Athens (Greece)	EUR	18,931	directly	100

1 The number refers to the number of the company.
2 Profit and loss transfer agreement.
3 Company with no active business.
4 Sub-group Reebok International Limited.
5 Sub-group Reebok International Ltd.
6 Sub-group adidas Indy, LLC.

Shareholdings of adidas AG, Herzogenaurach at December 31, 2018

Attachment II

	Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[1]	in %
54	adidas (Cyprus) Limited	Nicosia (Cyprus)	EUR	960	directly	100
55	adidas Spor Malzemeleri Satis ve Pazarlama A.S.	Istanbul (Turkey)	TRY	336,798	10	100
56	adidas Emerging Markets L.L.C	Dubai (United Arab Emirates)	USD	19,067	indirectly	51
					9	49
57	adidas Emerging Markets FZE	Dubai (United Arab Emirates)	USD	98,713	10	100
58	adidas Levant Limited	Dubai (United Arab Emirates)	JOD	3,265	57	100
59	adidas Levant Limited - Jordan	Amman (Jordan)	JOD	547	58	100
60	adidas Imports & Exports Ltd.	Cairo (Egypt)	EGP	(32,413)	61	100
61	adidas Sporting Goods Ltd.	Cairo (Egypt)	EGP	324,812	10	90
					11	10
62	adidas Egypt Ltd.[3]	Cairo (Egypt)	USD	(1,831)	directly	100
63	Reebok Israel Ltd.	Holon (Israel)	ILS	17,226	64	100
64	Life Sport Ltd.	Holon (Israel)	ILS	157,921	10	85
65	adidas Morocco LLC	Casablanca (Morocco)	MAD	(34,159)	directly	100
66	adidas (South Africa) (Pty) Ltd.	Cape Town (South Africa)	ZAR	356,671	directly	100
	North America					
67	adidas North America, Inc.	Portland, Oregon (USA)	USD	4,763,459	10	100
68	adidas America, Inc.	Portland, Oregon (USA)	USD	289,463	67	100
69	adidas International, Inc.	Portland, Oregon (USA)	USD	75,754	67	100
70	adidas Team, Inc.[3]	Des Moines, Iowa (USA)	USD	(1,013)	67	100
71	The Reebok Worldwide Trading Company, LLC	Wilmington, Delaware (USA)	USD	19,501	75	100
72	Reebok Securities Holdings LLC[3,5]	Wilmington, Delaware (USA)	USD	–	75	100
73	Onfield Apparel Group, LLC[3,6]	Dover, Delaware (USA)	USD	–	75	99
					74	1
74	Reebok Onfield, LLC[3,6]	Dover, Delaware (USA)	USD	–	75	100
75	Reebok International Ltd.[5]	Boston, Massachusetts (USA)	USD	(1,291,086)	67	100
76	adidas Indy, LLC[6]	Wilmington, Delaware (USA)	USD	21,236	75	99
					72	1
77	Stone Age Equipment, Inc.	Redlands, California (USA)	USD	(3,381)	68	100
78	Spartanburg DC, Inc.	Spartanburg, South Carolina (USA)	USD	15,120	68	100
79	adidas Canada Limited	Woodbridge, Ontario (Canada)	CAD	178,568	10	100

1 The number refers to the number of the company.
2 Profit and loss transfer agreement.
3 Company with no active business.
4 Sub-group Reebok International Limited.
5 Sub-group Reebok International Ltd.
6 Sub-group adidas Indy, LLC.

Shareholdings of adidas AG, Herzogenaurach at December 31, 2018 **Attachment II**

	Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[1]	in %
	Asia					
80	adidas Sourcing Limited	Hong Kong (China)	USD	354,814	11	100
81	adidas Services Limited	Hong Kong (China)	USD	14,716	10	100
82	adidas Hong Kong Limited	Hong Kong (China)	HKD	502,643	2	100
83	Reebok Trading (Far East) Limited	Hong Kong (China)	USD	31,985	75	100
84	adidas (Suzhou) Co. Ltd.	Suzhou (China)	CNY	232,265	2	100
85	adidas Sports (China) Co. Ltd.	Suzhou (China)	CNY	8,791,091	2	100
86	adidas (China) Ltd.	Shanghai (China)	CNY	394,765	10	100
87	adidas Sports Goods (Shanghai) Co., Ltd	Shanghai (China)	CNY	26	86	100
88	Runtastic Software Technology (Shanghai) Co., Ltd.	Shanghai (China)	CNY	7,481	10	100
89	Zhuhai adidas Technical Services Limited[3]	Zhuhai (China)	CNY	43,971	80	100
90	adidas Logistics (Tianjin) Co., Ltd.	Tianjin (China)	CNY	165,470	15	100
91	adidas Business Services (Dalian) Limited	Dalian (China)	CNY	13,004	10	100
92	adidas Japan K.K.	Tokyo (Japan)	JPY	4,369,376	10	100
93	adidas Korea LLC.	Seoul (Korea)	KRW	215,528,205	directly	100
94	adidas Korea Technical Services Limited	Busan (Korea)	KRW	4,052,429	80	100
95	adidas India Private Limited	New Delhi (India)	INR	4,630,671	directly	10.68
					10	89.32
96	adidas India Marketing Private Limited	New Delhi (India)	INR	7,958,127	95	98.62
					10	1.00
					directly	0.37
97	adidas Technical Services Private Limited	New Delhi (India)	USD	3,358	80	100.00
98	Reebok India Company	New Delhi (India)	INR	(21,458,472)	108	93.15
99	PT adidas Indonesia	Jakarta (Indonesia)	IDR	466,014,543	10	99
					directly	1
100	adidas (Malaysia) Sdn. Bhd.	Petaling Jaya (Malaysia)	MYR	83,232	directly	60
					10	40
101	adidas Philippines Inc.	Pasig City (Philippines)	PHP	1,052,684	directly	100
102	adidas Singapore Pte. Ltd.	Singapore (Singapore)	SGD	17,682	directly	100
103	adidas Taiwan Limited	Taipei (Taiwan)	TWD	2,226,686	10	100
104	adidas (Thailand) Co., Ltd.	Bangkok (Thailand)	THB	1,928,644	directly	100

1 The number refers to the number of the company.
2 Profit and loss transfer agreement.
3 Company with no active business.
4 Sub-group Reebok International Limited.
5 Sub-group Reebok International Ltd.
6 Sub-group adidas Indy, LLC.

Shareholdings of adidas AG, Herzogenaurach at December 31, 2018 — Attachment II

	Company and Domicile		Currency	Equity (currency units in thousands)	Share in capital held by[1]	in %
105	adidas Australia Pty Limited	Mulgrave (Australia)	AUD	101,306	10	100
106	adidas New Zealand Limited	Auckland (New Zealand)	NZD	7,719	directly	100
107	adidas Vietnam Company Limited	Ho Chi Minh City (Vietnam)	VND	182,126,875	10	100
108	Reebok (Mauritius) Company Limited	Port Louis (Mauritius)	USD	2,204	75	99
					71	1
	Latin America					
109	adidas Argentina S.A.	Buenos Aires (Argentina)	ARS	55,794	10	76.96
					2	23.04
110	Reebok Argentina S.A.[3]	Buenos Aires (Argentina)	ARS	(27,879)	11	96.25
					10	3.75
111	adidas do Brasil Ltda.	São Paulo (Brazil)	BRL	619,319	2	100
112	adidas Franchise Brasil Servicos Ltda.	São Paulo (Brazil)	BRL	63,258	111	100
113	Reebok Produtos Esportivos Brasil Ltda.[3]	Jundiaí (Brazil)	BRL	12,810	10	100
114	adidas Chile Limitada	Santiago de Chile (Chile)	CLP	77,705,689	directly	99
					1	1
115	adidas Colombia Ltda.	Bogotá (Colombia)	COP	4,912,204	directly	100
116	adidas Perú S.A.C.	Lima (Peru)	PEN	148,627	directly	99.21
					114	0.79
117	adidas de Mexico, S.A. de C.V.	Mexico City (Mexico)	MXN	1,458,663	directly	100
118	adidas Industrial, S.A. de C.V.	Mexico City (Mexico)	MXN	423,289	directly	100
119	Reebok de Mexico, S.A. de C.V.[3]	Mexico City (Mexico)	MXN	(579,808)	directly	100
120	adidas Latin America, S.A.	Panama City (Panama)	USD	(65,144)	directly	100
121	Concept Sport, S.A.	Panama City (Panama)	USD	2,756	10	100
122	adidas Market LAM, S.A.[3]	Panama City (Panama)	USD	(2,782)	10	100
123	3 Stripes S.A.[3]	Montevideo (Uruguay)	UYU	(436)	directly	100
124	Tafibal S.A.	Montevideo (Uruguay)	UYU	23,484	directly	100
125	Raelit S.A.	Montevideo (Uruguay)	UYU	51,068	directly	100
126	adidas Sourcing Honduras, S.A.[5] (formerly: Reebok Central America S.A.)	San Pedro Sula (Honduras)	HNL	–	75	99.60
					71	0.40
127	adidas Corporation de Venezuela, S.A.[3]	Caracas (Venezuela)	VEF	(17)	directly	100
128	adisport Corporation	San Juan (Puerto Rico)	USD	342	10	100

1 The number refers to the number of the company.
2 Profit and loss transfer agreement.
3 Company with no active business.
4 Sub-group Reebok International Limited.
5 Sub-group Reebok International Ltd.
6 Sub-group adidas Indy, LLC.

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group Management Report, which has been combined with the Management Report of adidas AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group.

Herzogenaurach, February 27, 2019

KASPER RORSTED
CEO

ROLAND AUSCHEL
GLOBAL SALES

ERIC LIEDTKE
GLOBAL BRANDS

HARM OHLMEYER
CFO

KAREN PARKIN
GLOBAL HUMAN RESOURCES

Based on the results of our audit, we have issued the following unqualified audit opinion:

INDEPENDENT AUDITOR'S REPORT

To adidas AG, Herzogenaurach

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

OPINIONS

We have audited the consolidated financial statements of adidas AG, Herzogenaurach, and its subsidiaries (hereinafter 'adidas' or the 'Group'), which comprise the consolidated statement of financial position as of December 31, 2018, the consolidated income statement, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1, 2018, to December 31, 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report of the entity and the group ("group management report") of adidas AG, Herzogenaurach, for the financial year from January 1, 2018, to December 31, 2018. In accordance with German legal requirements, we have not audited the content of the non-financial statement, which is included in the group management report and is identified as such, and the corporate governance statement as well as the corporate governance report, which are included in the 'Corporate governance report including corporate governance statement' section of the group management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2018, and of its financial performance for the financial year from January 1, 2018, to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the non-financial statement, corporate governance statement and corporate governance report mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany]. Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the Group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2018, to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

RECOVERABILITY OF THE REEBOK TRADEMARK

The accounting policies and the use of judgments and estimates are presented in the notes to the consolidated financial statements in note 02 along with the disclosures on the measurement of the Reebok trademark in note 15.

THE FINANCIAL STATEMENT RISK

The Reebok trademark was recognized as of December 31, 2018, at a value of EUR 826 million.

The Reebok trademark is to be tested for impairment once a year. Therefore, the trademark was allocated as a "corporate asset" pursuant to IAS 36 to the Reebok cash-generating units at the level of the markets and the value in use of the cash-generating units was compared with the book value of these units. The valuation model used to determine the value in use is complex; the result of this valuation is heavily dependent on the estimate of future net cash flows (taking into account future revenue growth, profit margins, exchange rates and long-term growth rates) and the discount factor used, which makes it subject to considerable uncertainty.

There is the risk for the financial statements that an impairment loss or a reversal of an impairment loss on the Reebok brand is not recognized as of the reporting date or that a required reversal of an impairment loss on the brand is not carried out.

OUR AUDIT APPROACH

With the involvement of our valuation experts, we assessed the appropriateness of the key assumptions and calculation methods of the Company, among other things. For this purpose, we discussed the expected business and earnings development at the level of the Reebok cash-generating units to which the trademark is allocated and the assumed long-term growth rates with those responsible for planning. We also reconciled this information with other internally available forecasts, e.g. the budget prepared by the Executive Board and approved by the Supervisory Board along with the strategic business plan 2020. Furthermore, we evaluated the consistency of the growth rates used in the business plan using external market assessments.

We also confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and by analyzing deviations. Since even small changes to the discount rate can have a significant impact on the results of impairment testing, we compared the assumptions and parameters underlying the discount rate, in particular the risk-free rate, the market risk premium and the beta coefficient, with our own assumptions and publicly available data.

To ensure the computational accuracy of the valuation model used, we verified the Company's calculations on the basis of selected risk-based elements.

In order to take forecast uncertainty into account, we examined the impact of potential changes in the discount rate, earnings performance and long-term growth rate on the value in use (sensitivity analysis) by calculating alternative scenarios and comparing these with the values stated by the Company.

OUR OBSERVATIONS

The calculation method used for impairment testing of the Reebok brand is appropriate and in line with the accounting policies to be applied. The assumptions and parameters used by management are balanced overall.

MEASUREMENT OF PROVISIONS FOR SALES RETURNS PURSUANT TO THE FIRST-TIME APPLICATION OF IFRS 15

The accounting policies and the use of judgments and estimates are presented in the notes to the consolidated financial statements in note 02 along with the disclosures on the measurement of the returns in note 32.

THE FINANCIAL STATEMENT RISK

In financial year 2018 Group revenue amounted to EUR 21,915 million. Within a given period adidas grants its customers the right to return the products for a full refund of the purchase price. The resulting return liabilities amount to EUR 606 million; the asset associated with this for the products that have been returned amounted to EUR 258 million as of the reporting date.

Calculation of expected returns is complex and, as regards the assumptions made, based largely on estimates and assessments of the Company. This is particularly true of the determination of the returns period and the return rate based on the expected value method. There is the risk for the financial statements that revenue will be incorrectly recognized as of the reporting date and the return liability and correspondingly the associated asset for the returned goods will be presented in the incorrect amount.

OUR AUDIT APPROACH

Based on our understanding of the process, we assessed the setup and design of the identified internal controls in terms of the determination of the return periods, return rates and measurement of the asset for expected returns. In doing so we evaluated the process used by the Company to determine the return periods, return rates and measurement of the asset for expected returns.

Based on the applicable legal and contractual arrangements as well as empirical values from the Company, we assessed whether the return periods and return rates that have been determined along with the write-down rates recorded by the Company to determine the asset for expected returns were appropriate.

Based on sales transactions selected in a risk-oriented manner, we verified the computational accuracy of the calculations to determine the return periods, return rates and to measure the asset for expected returns.

OUR OBSERVATIONS

The approach for recording the expected returns is appropriate.

The assumptions and judgment exercised by the Executive Board underlying the measurement of the return liability and asset for expected returns are appropriate.

OTHER INFORMATION

The Executive Board is responsible for the other information. The other information comprises:

- the non-financial statement,
- the corporate governance statement,
- the Corporate Governance Report pursuant to item 3.10 of the German Corporate Governance Code, and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

In accordance with our engagement letter, we conducted a separate assurance engagement of the non-financial statement. Please refer to our assurance report dated February 27, 2019, for information on the nature, scope and findings of this assurance engagement.

RESPONSIBILITIES OF THE EXECUTIVE BOARD AND THE SUPERVISORY BOARD FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The Executive Board is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the Executive Board is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Executive Board is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the Executive Board is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the Executive Board is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
— Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
— Evaluate the appropriateness of accounting policies used by the Executive Board and the reasonableness of estimates made by the Executive Board and related disclosures.
— Conclude on the appropriateness of the Executive Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
— Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the Executive Board in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the Executive Board as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor at the annual general meeting on May 9, 2018. We were engaged by the Supervisory Board on August 8, 2018. We have been the group auditor of adidas AG without interruption since the 1995 financial year.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Haiko Schmidt.

Munich, February 27, 2019

KPMG AG Wirtschaftsprüfungsgesellschaft

Braun	Schmidt
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

LIMITED ASSURANCE REPORT OF THE INDEPENDENT AUDITOR REGARDING THE COMBINED NON-FINANCIAL STATEMENT [1]

To the Supervisory Board of adidas AG, Herzogenaurach

We have performed an independent limited assurance engagement on the Combined Non-Financial Statement (further the "Report") of adidas AG, Herzogenaurach, and the adidas Group (further the "Company" or "adidas") according to §§ 315b, 315c German Commercial Code (HGB) in conjunction with §§ 289b to 289e HGB for the year from January 1 to December 31, 2018.

As described in the section "Working conditions in our supply chain" in the Report, 1,207 social compliance and environmental audits at suppliers were performed by in-house technical staff as well as external third-party monitors commissioned by adidas business entities and licensees. The reasonableness and accuracy of the conclusions from the performed audit work were not part of our limited assurance engagement.

MANAGEMENT'S RESPONSIBILITY

The management board of adidas is responsible for the preparation of the Report in accordance with §§ 315b, 315c HGB in conjunction with §§ 289b to 289e HGB.

This responsibility of the management board includes the selection and application of appropriate methods to prepare the Report and the use of assumptions and estimates for individual disclosures which are reasonable under the given circumstances. Furthermore, this responsibility includes designing, implementing and maintaining systems and processes relevant for the preparation of the Report in a way that is free of – intended or unintended – material misstatements.

INDEPENDENCE AND QUALITY ASSURANCE ON THE PART OF THE AUDITING FIRM

We are independent from the Company in accordance with the requirements of independence and quality assurance set out in legal provisions and professional pronouncements and have fulfilled our additional professional obligations in accordance with these requirements.

Our audit firm applies the legal provisions and professional pronouncements for quality assurance, in particular the professional code for German Public Auditors and Chartered Accountants (in Germany) and the quality assurance standard of the German Institute of Public Auditors (Institut der Wirtschaftsprüfer, IDW) regarding quality assurance requirements in audit practice (IDW QS 1).

PRACTITIONER'S RESPONSIBILITY

Our responsibility is to express a conclusion on the Report based on our work performed within a limited assurance engagement.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): "Assurance Engagements other than Audits or Reviews of Historical Financial Information" published by IAASB. This Standard requires that we plan and perform the assurance engagement to obtain limited assurance whether any matters have come to our attention that cause us to believe that the Report for the period from January 1 to December 31, 2018, has not been prepared, in all material respects in accordance with §§ 315b, 315c HGB in conjunction with §§ 289b to 289e HGB. We do not, however, issue a separate conclusion for each disclosure. In a limited assurance engagement the evidence gathering procedures are more limited than in a reasonable assurance engagement and therefore significantly less assurance is obtained than in a reasonable assurance engagement. The choice of audit procedures is subject to the auditor's own judgement.

Within the scope of our engagement, we performed amongst others the following procedures:

- Inquiries of personnel on group level who are responsible for the materiality analysis to get an understanding of the process for identifying material topics and respective report boundaries for adidas
- A risk assessment, including a media research, of relevant information about the sustainability performance of adidas in the reporting period
- Evaluation of the design and implementation of systems and processes for the collection, processing and monitoring of disclosures on environmental, employee and social matters, human rights, corruption and bribery, including data consolidation
- Inquiries of personnel on group level who are responsible for determining disclosures on concepts, due diligence processes, results and risks, the conduction of internal controls and consolidation of the disclosures
- Evaluation of selected internal and external documents
- Analytical evaluation of data and trends of quantitative disclosures which are reported by all sites on group level
- Assessment of local data collection and reporting processes and reliability of reported data via a sampling survey in Herzogenaurach (Germany) and a telephone interview with the distribution center Brantford (Canada)
- Assessment of the overall presentation of the disclosures

1 Our engagement applied to the German version of the Report 2018. This text is a translation of the Independent Assurance Report issued in German, whereas the German text is authoritative.

CONCLUSION

Based on the procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that the Report of adidas for the business year from January 1 to December 31, 2018 is not prepared, in all material respects, in accordance with §§ 315b, 315c HGB in conjunction with §§ 289b to 289e HGB.

RESTRICTION OF USE / CLAUSE ON GENERAL ENGAGEMENT TERMS

This report is issued for purposes of the Supervisory Board of adidas AG, Herzogenaurach, only. We assume no responsibility with regard to any third parties.

This assurance report is issued for purposes of the Supervisory Board of adidas AG, Herzogenaurach, only. We assume no responsibility with regard to any third parties.

Our assignment for the Supervisory Board of adidas AG, Herzogenaurach, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (HTTPS://WWW.KPMG.DE/BESCHEINIGUNGEN/LIB/AAB_ENGLISH.PDF). By reading and using the information contained in this assurance report, each recipient confirms notice of provisions of the General Engagement Terms (including the limitation of our liability for negligence to EUR 4 million as stipulated in No. 9) and accepts the validity of the General Engagement Terms with respect to us.

Munich, February 27, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Hell ppa. Auer

05 ADDITIONAL INFORMATION

TEN-YEAR OVERVIEW

Ten-year overview

	2018	2017	2016	2015	2014	2013	2012	2011 [1]	2010	2009
Income Statement Data (€ in millions)										
Net sales [2,3]	21,915	21,218	18,483	16,915	14,534	14,203	14,883	13,322	11,990	10,381
Gross profit [2,3]	11,363	10,703	9,100	8,168	6,924	7,001	7,103	6,329	5,730	4,712
Royalty and commission income [2,3]	129	115	105	119	102	103	105	93	100	86
Other operating income [2,3,4]	48	17	119	8	37	12	15	9	45	19
Other operating expenses [2,3,4]	9,172	8,766	7,741	7,201	6,102	5,883	6,038	5,478	4,981	4,309
EBITDA [2,3]	2,882	2,511	1,953	1,475	1,283	1,496	1,445	1,199	1,159	780
Operating profit [2,3,5,6,7,8]	2,368	2,070	1,582	1,094	961	1,233	1,185	953	894	508
Net financial result	10	(47)	(46)	(21)	(48)	(68)	(69)	(84)	(88)	(150)
Income before taxes [2,3,5,6,7,8]	2,378	2,023	1,536	1,073	913	1,165	1,116	869	806	358
Income taxes [2,3,9]	669	668	454	353	271	340	327	261	238	113
Net income attributable to non-controlling interests	3	3	2	6	6	3	(2)	(5)	(1)	0
Net income attributable to shareholders [5,6,7,8,9,10]	1,702	1,173	1,017	668	568	839	791	613	567	245
Income Statement Ratios										
Gross margin [2,3]	51.8%	50.4%	49.2%	48.3%	47.6%	49.3%	47.7%	47.5%	47.8%	45.4%
Operating margin [2,3,5,6,7,8]	10.8%	9.8%	8.6%	6.5%	6.6%	8.7%	8.0%	7.2%	7.5%	4.9%
Interest coverage [2,3]	131.6	55.6	32.7	23.8	19.3	24.0	14.6	12.2	10.1	3.9
Effective tax rate [2,3,5,6,7,8,9]	28.1%	29.3%	29.6%	32.9%	29.7%	29.2%	29.3%	30.0%	29.5%	31.5%
Net income attributable to shareholders in % of net sales [5,6,7,8,9,10]	7.8%	5.5%	5.5%	4.0%	3.9%	5.9%	5.3%	4.6%	4.7%	2.4%
Net Sales by Brand (€ in millions)										
adidas brand	19,851	18,993	16,334	13,939	11,774	11,059	11,344	9,867	8,714	7,520
Reebok brand	1,687	1,843	1,770	1,751	1,578	1,599	1,667	1,940	1,913	1,603

1 2011 restated according to IAS 8 in the 2012 consolidated financial statements.
2 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
3 2015, 2014 and 2013 figures reflect continuing operations as a result of the divestiture of the Rockport business.
4 Figures reflect the adjusted consolidated income statement structure introduced in 2018.
5 2015 excluding goodwill impairment of € 34 million.
6 2014 excluding goodwill impairment of € 78 million.
7 2013 excluding goodwill impairment of € 52 million.
8 2012 excluding goodwill impairment of € 265 million.
9 2017 excluding negative one-time tax impact of € 76 million.
10 Includes continuing and discontinued operations.
11 2017 restated according to IAS 8, see Note 03.
12 Subject to Annual General Meeting approval.
13 Based on net income from continuing operations.
14 Based on number of shares outstanding at the date of preparation of the Consolidated Financial Statements.

Ten-year overview

	2018	2017	2016	2015	2014	2013	2012	2011[1]	2010	2009
Net Sales by Product Category (€ in millions)										
Footwear [2,3]	12,783	12,427	10,132	8,360	6,658	6,587	6,922	6,242	5,389	4,642
Apparel [2,3]	8,223	7,747	7,352	6,970	6,279	5,811	6,290	5,733	5,380	4,663
Hardware [2,3]	910	1,044	999	1,585	1,597	1,806	1,671	1,347	1,221	1,076
Balance Sheet Data (€ in millions)										
Total assets [11]	15,612	14,019	15,176	13,343	12,417	11,599	11,651	11,237	10,618	8,875
Inventories	3,445	3,692	3,763	3,113	2,526	2,634	2,486	2,502	2,119	1,471
Receivables and other current assets	3,734	3,277	3,607	3,003	2,861	2,583	2,444	2,431	2,324	2,038
Working capital	2,979	2,354	2,121	2,133	2,970	2,125	2,504	1,990	1,972	1,649
Net cash/(net borrowings)	959	484	(103)	(460)	(185)	295	448	90	(221)	(917)
Shareholders' equity [11]	6,377	6,032	6,472	5,666	5,624	5,489	5,304	5,137	4,616	3,771
Balance Sheet Ratios										
Net borrowings/EBITDA [2,3]	(0.3)	(0.2)	0.1	0.3	0.1	(0.2)	(0.3)	(0.1)	0.2	1.2
Average operating working capital in % of net sales [2,3]	19.0%	20.4%	21.1%	20.5%	22.4%	21.3%	20.0%	20.4%	20.8%	24.3%
Financial leverage [11]	(15.0%)	(8.0%)	1.6%	8.1%	3.3%	(5.4%)	(8.5%)	(1.8%)	4.8%	24.3%
Equity ratio [11]	40.8%	43.0%	42.6%	42.5%	45.3%	47.3%	45.5%	45.7%	43.5%	42.5%
Equity-to-fixed-assets ratio [11]	110.0%	112.2%	102.9%	96.9%	110.9%	115.8%	111.1%	104.6%	97.4%	85.9%
Asset coverage I [11]	151.6%	144.1%	134.0%	136.8%	158.7%	145.0%	152.7%	140.7%	141.5%	137.4%
Asset coverage II [11]	95.1%	85.4%	83.8%	89.3%	105.9%	93.2%	100.4%	93.2%	97.7%	102.9%
Fixed asset intensity of investments [11]	37.1%	38.3%	41.4%	43.8%	40.8%	40.9%	41.0%	43.7%	44.6%	49.5%
Current asset intensity of investments [11]	62.9%	61.7%	58.6%	56.2%	59.2%	59.1%	59.0%	56.3%	55.4%	50.5%
Liquidity I	38.6%	25.5%	22.4%	25.5%	38.6%	34.4%	44.3%	31.6%	35.5%	30.0%
Liquidity II	73.9%	62.3%	54.9%	63.7%	83.0%	72.6%	82.9%	68.3%	78.2%	80.4%
Liquidity III	124.4%	121.0%	110.6%	121.8%	140.7%	128.3%	139.7%	126.0%	132.4%	132.2%
Working capital turnover [2,3]	7.4	9.0	8.7	7.9	4.9	6.7	5.9	6.7	6.1	6.3
Return on equity [10,11]	26.7%	18.2%	15.7%	11.2%	8.7%	14.3%	9.9%	11.9%	12.3%	6.5%
Return on capital employed [10,11]	45.1%	41.2%	24.2%	16.5%	13.8%	23.6%	19.3%	19.9%	20.2%	11.3%

1 2011 restated according to IAS 8 in the 2012 consolidated financial statements.
2 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
3 2015, 2014 and 2013 figures reflect continuing operations as a result of the divestiture of the Rockport business.
4 Figures reflect the adjusted consolidated income statement structure introduced in 2018.
5 2015 excluding goodwill impairment of € 34 million.
6 2014 excluding goodwill impairment of € 78 million.
7 2013 excluding goodwill impairment of € 52 million.
8 2012 excluding goodwill impairment of € 265 million.
9 2017 excluding negative one-time tax impact of € 76 million.
10 Includes continuing and discontinued operations.
11 2017 restated according to IAS 8, see Note 03.
12 Subject to Annual General Meeting approval.
13 Based on net income from continuing operations.
14 Based on number of shares outstanding at the date of preparation of the Consolidated Financial Statements.

Ten-year overview

	2018	2017	2016	2015	2014	2013	2012	2011[1]	2010	2009
Data per Share										
Share price at year-end (in €)	182.40	167.15	150.15	89.91	57.62	92.64	67.33	50.26	48.89	37.77
Basic earnings[2,3,5,6,7,8,9] (in €)	8.46	7.05	5.39	3.54	3.05	3.93	3.78	2.93	2.71	1.25
Diluted earnings[2,3,5,6,7,8,9] (in €)	8.45	7.00	5.29	3.54	3.05	3.93	3.78	2.93	2.71	1.22
Price/earnings ratio at year-end[2,3,5,6,7,8,9]	21.6	23.7	27.8	25.4	18.9	23.6	17.8	17.1	18.0	30.2
Market capitalization at year-end (€ in millions)	36,329	34,075	30,254	18,000	11,773	19,382	14,087	10,515	10,229	7,902
Net cash generated from operating activities[10] (in €)	13.11	8.14	6.73	5.41	3.36	3.03	4.50	3.86	4.28	6.11
Dividend (in €)	3.35[12]	2.60	2.00	1.60	1.50	1.50	1.35	1.00	0.80	0.35
Dividend payout ratio[2,3,5,6,7,8,9,13] (in %)	39.0[14]	37.0	37.4	44.5	47.2	38.0	35.8	34.4	29.5	29.8
Number of shares outstanding at year-end (in thousands)	199,171	203,861	201,489	200,197	204,327	209,216	209,216	209,216	209,216	209,216
Employees										
Number of employees at year-end[2,3]	57,016	56,888	58,902	55,555	53,731	49,808	46,306	46,824	42,541	39,596
Personnel expenses[2,3] (€ in millions)	2,481	2,549	2,373	2,184	1,842	1,833	1,872	1,646	1,521	1,352

1 2011 restated according to IAS 8 in the 2012 consolidated financial statements.
2 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
3 2015, 2014 and 2013 figures reflect continuing operations as a result of the divestiture of the Rockport business.
4 Figures reflect the adjusted consolidated income statement structure introduced in 2018.
5 2015 excluding goodwill impairment of € 34 million.
6 2014 excluding goodwill impairment of € 78 million.
7 2013 excluding goodwill impairment of € 52 million.
8 2012 excluding goodwill impairment of € 265 million.
9 2017 excluding negative one-time tax impact of € 76 million.
10 Includes continuing and discontinued operations.
11 2017 restated according to IAS 8, see Note 03.
12 Subject to Annual General Meeting approval.
13 Based on net income from continuing operations.
14 Based on number of shares outstanding at the date of preparation of the Consolidated Financial Statements.

GLOSSARY

/ A

ATHLEISURE

The term is composed of the words athletic and leisure. It describes a fashion trend of sportswear no longer being just meant for training but increasingly shaping everyday clothing.

/ B

BRAND LEADERSHIP

adidas' operating model that aims at providing an organizational structure which enables a 'consumer-obsessed' culture that can act with speed, agility and empowerment.

/ C

3Cs

'3Cs' stand for creativity, collaboration and confidence. It is adidas' goal to develop a culture that cherishes creativity, collaboration and confidence as well as high performance – the behaviors we deem crucial to the successful delivery of our corporate strategy. In fact, our culture and people serve as the foundation and a key enabler of the Creating the New strategy.

CASH POOLING

A cash management technique for physical concentration of cash. Cash pooling allows adidas to combine credit and debit positions from various accounts and several subsidiaries into one central account. This technique supports our in-house bank concept where advantage is taken of any surplus funds of subsidiaries to cover cash requirements of other subsidiaries, thus reducing external financing needs and optimizing our net interest expenses.

CONTROLLED SPACE

Includes own-retail business, mono-branded franchise stores, shop-in-shops, joint ventures with retail partners and co-branded stores. Controlled space offers a high level of brand control and ensures optimal product offering and presentation according to brand requirements.

CONVERSION RATE

A key ratio in retail business describing the number of buying customers compared to those who entered the store without buying something; i.e. a 25% conversion rate means that 100 persons entered a store with 25 of them buying something.

/ F

FITHUB

FitHub is Reebok's own-retail store concept, inspired by CrossFit gyms and fitness studios. Each FitHub offers a selection of Reebok's best product assortment, from footwear to apparel and accessories. Also, it inspires people to move, to train, to get fit and have fun doing it with innovative fitness products, trusted advice from trained staff and community-based events.

/ H

HARDWARE

A product category which comprises equipment that is used rather than worn by the consumer, such as bags, balls, fitness equipment, golf clubs and hockey sticks.

/ L

LEADERSHIP FRAMEWORK

The Leadership Framework is based on the three company behaviors creativity, collaboration, confidence (the '3Cs') and articulates the particular behaviors that are expected of leaders at adidas. The framework was developed jointly with employees worldwide who provided feedback on what great leadership within adidas looks like to them. It provides a global and universal language that is inclusive, reduces the need for local interpretations and outlines concrete behaviors that serve as a measure of leadership effectiveness. It is built into the way we hire and promote as well as rate performance.

/ M

MARKETING EXPENDITURE

Expenditures that relate to point-of-sale and marketing investments. While point-of-sale investments include expenses for advertising and promotion initiatives at the point of sale as well as store fittings and furniture, marketing investments relate to sponsorship contracts with teams and individual athletes as well as to advertising, events and other communication activities. Marketing overhead expenses are not included in marketing expenditure.

/ N

NEIGHBOURHOOD

Neighbourhood is adidas Originals' premium own-retail store concept which brings the style and spirit of sport to the streets. The aim is to turn Originals stores into a local cultural epicenter. The store environment takes its inspiration from the neighborhood, which is at the heart of Originals.

NET PROMOTER SCORE (NPS)

A survey-based measure of how likely people are to recommend a brand. The survey is based on one single question to consumers: 'How likely are you to recommend this brand to your friends?', which can be answered within a scale from 0 to 10. Promoters are consumers giving the brand a 9 or 10 rating, while detractors are those between a 0 and 6 rating. The NPS is the difference between promoters and detractors measured in percentage points.

NON-TRADE PROCUREMENT ACTIVITIES

Non-trade procurement is the sourcing of goods and services which are not linked or indirectly linked to regular trade products sold to customers. The goods and services are classified as consumption by internal stakeholders and include things such as repairing equipment and purchasing office supplies.

/ O

OPERATING OVERHEAD EXPENSES

Expenses which are not directly attributable to the products or services sold, such as distribution and selling as well as general and administration costs, but not including marketing and point-of-sale expenses.

/ P

PARLEY FOR THE OCEANS

Parley for the Oceans is an environmental organization and global collaboration network. Founded in 2012, Parley aims to raise awareness for the beauty and fragility of the oceans, and to inspire and empower diverse groups such as pacesetting companies, brands, organizations, governments, artists, designers, scientists, innovators and environmentalists in the exploration of new ways of creating, thinking and living on our finite, blue planet.

PARLEY OCEAN PLASTIC

Parley Ocean Plastic is a material created from upcycled plastic waste that was intercepted from beaches and coastal communities before reaching the ocean. Parley for the Oceans works with its partners to collect, sort and transport the recovered raw material (mainly PET bottles) to our supplier who produces the yarn, which is legally trademarked. It is used as a replacement for virgin plastic in the making of adidas x Parley products.

PERFORMANCE PRODUCTS

In the sporting goods industry, performance products relate to technical footwear and apparel used primarily in sports.

PROMOTION PARTNERSHIPS

Partnerships with events, associations, leagues, clubs and individual athletes. In exchange for the services of promoting the company's brands, the party is provided with products and/or cash and/or promotional materials.

/ S

SINGLE-SOURCING MODEL
Supply chain activities limited to one specific supplier. Due to the dependency on only one supplier, a company can face disadvantages during the sourcing process.

SPEEDFACTORY
adidas Speedfactory is a digitally automated, hyper-flexible shoe factory that can be placed anywhere in the world. It enables us to combine speed in manufacturing with the flexibility to rethink conventional processes, and give the consumers what they want, when they want it. Speedfactory provides greater precision, athlete data-driven design opportunities, and high performance. It also enables accelerated speed to market – three times faster than the standard production times – allowing for quicker response time to trends and shifts in the marketplace. There are currently two Speedfactory locations in the world: one in Ansbach, Germany and the other in Atlanta, USA.

SPORT INSPIRED
'Sport Inspired' stands for fashion inspired by sport – also known as 'sports lifestyle'. It draws inspiration from adidas' rich archives and legacy. Sport Inspired stands for Originals, Y-3, Statement and Yeezy. The 'Trefoil' logo is the brand mark of adidas Sport Inspired.

SPORT PERFORMANCE
The adidas brand has a deep-rooted connection with sport. 'Sport Performance' stands for the categories training, running, football, basketball and heartbeat sports such as outdoor, swim, tennis and US sports. The 'Badge of Sport' is the brand mark of adidas Sport Performance.

STADIUM
Stadium is an own-retail store concept for the adidas brand, inspired by high school stadiums. It aims at creating a sports stadium-like atmosphere to enhance the in-store experience, such as a tunnel entrance, stands for live-game viewing on big screens, locker rooms instead of dressing rooms and track and field areas where consumers can test and experience products.

SUSTAINABLE COTTON
For adidas, sustainable cotton means certified organic cotton or any other form of sustainably produced cotton that is currently available or might be in future, and Better Cotton.

/ W

WET PROCESSES
Wet processes are defined as water-intense processes, such as dyeing and finishing of materials.

DECLARATION OF SUPPORT

adidas AG declares support, except in the case of political risk, that the below-mentioned companies are able to meet their contractual liabilities. This declaration replaces the declaration dated February 23, 2018, which is no longer valid. The declaration of support automatically ceases from the time that a company no longer is a subsidiary of adidas AG.

adidas (China) Ltd., Shanghai, China
adidas (Cyprus) Limited, Nicosia, Cyprus
adidas (Ireland) Limited, Dublin, Ireland
adidas (Malaysia) Sdn. Bhd., Petaling Jaya, Malaysia
adidas (South Africa) (Pty) Ltd., Cape Town, South Africa
adidas (Suzhou) Co. Ltd., Suzhou, China
adidas (Thailand) Co., Ltd., Bangkok, Thailand
adidas (UK) Limited, Stockport, Great Britain
adidas America, Inc., Portland, Oregon, USA
adidas anticipation GmbH, Herzogenaurach, Germany
adidas Argentina S.A., Buenos Aires, Argentina
adidas Australia Pty Limited, Mulgrave, Australia
adidas Austria GmbH, Klagenfurt, Austria
adidas Baltics SIA, Riga, Latvia
adidas Benelux B.V., Amsterdam, Netherlands
adidas Budapest Kft., Budapest, Hungary
adidas Bulgaria EAD, Sofia, Bulgaria
adidas Business Services (Dalian) Limited, Dalian, China
adidas Business Services Lda., Morea de Maia, Portugal
adidas Canada Limited, Woodbridge, Ontario, Canada
adidas CDC Immobilieninvest GmbH, Herzogenaurach, Germany
adidas Chile Limitada, Santiago de Chile, Chile
adidas Colombia Ltda., Bogotá, Colombia
adidas CR s.r.o., Prague, Czech Republic
adidas Croatia d.o.o., Zagreb, Croatia
adidas Danmark A/S, Copenhagen, Denmark
adidas de Mexico, S.A. de C.V., Mexico City, Mexico
adidas do Brasil Ltda., São Paulo, Brazil
adidas Emerging Markets FZE, Dubai, United Arab Emirates
adidas Emerging Markets L.L.C, Dubai, United Arab Emirates
adidas España S.A.U., Zaragoza, Spain
adidas France S.a.r.l., Strasbourg, France
adidas Hellas A.E., Athens, Greece
adidas Hong Kong Limited, Hong Kong, China
adidas Imports & Exports Ltd., Cairo, Egypt
adidas India Marketing Private Limited, New Delhi, India
adidas Industrial, S.A. de C.V., Mexico City, Mexico
adidas Indy, LLC, Wilmington, Delaware, USA
adidas Insurance & Risk Consultants GmbH, Herzogenaurach, Germany
adidas International B.V., Amsterdam, Netherlands
adidas International Finance B.V., Amsterdam, Netherlands
adidas International Marketing B.V., Amsterdam, Netherlands
adidas International Property Holding B.V., Amsterdam, Netherlands
adidas International Re DAC, Dublin, Ireland
adidas International Trading B.V., Amsterdam, Netherlands
adidas International, Inc., Portland, Oregon, USA
adidas Italy S.p.A., Monza, Italy
adidas Japan K.K., Tokyo, Japan
adidas Korea LLC., Seoul, Korea
adidas Latin America, S.A., Panama City, Panama
adidas LLP, Almaty, Republic of Kazakhstan
adidas Logistics (Tianjin) Co., Ltd., Tianjin, China
adidas Morocco LLC, Casablanca, Morocco
adidas New Zealand Limited, Auckland, New Zealand
adidas Norge AS, Oslo, Norway
adidas North America, Inc., Portland, Oregon, USA
adidas Perú S.A.C., Lima, Peru
adidas Philippines Inc., Pasig City, Philippines
adidas Poland Sp.z o.o., Warsaw, Poland
adidas Portugal - Artigos de Desporto, S.A., Lisbon, Portugal
adidas Romania S.R.L., Bucharest, Romania
adidas Serbia d.o.o., Belgrade, Serbia
adidas Services Limited, Hong Kong, China
adidas Singapore Pte. Ltd., Singapore, Singapore
adidas Slovakia s.r.o., Bratislava, Slovak Republic
adidas Sourcing Limited, Hong Kong, China
adidas Spor Malzemeleri Satis ve Pazarlama A.S., Istanbul, Turkey
adidas sport gmbh, Cham, Switzerland
adidas Sporting Goods Ltd., Cairo, Egypt
adidas Sports Goods (Shanghai) Co., Ltd, Shanghai, China
adidas Sports (China) Co. Ltd., Suzhou, China
adidas Suomi Oy, Helsinki, Finland
adidas Sverige AB, Solna, Sweden
adidas Taiwan Limited, Taipei, Taiwan
adidas Trgovina d.o.o., Ljubljana, Slovenia
adidas Ventures B.V. (formerly: Hydra Ventures B.V.), Amsterdam, Netherlands
adidas Vietnam Company Limited, Ho Chi Minh City, Vietnam
adisport Corporation, San Juan, Puerto Rico
Concept Sport, S.A., Panama City, Panama
Global Merchandising, S.L., Madrid, Spain
LLC 'adidas, Ltd.', Moscow, Russia
PT adidas Indonesia, Jakarta, Indonesia
Raelit S.A., Montevideo, Uruguay
Reebok Argentina S.A., Buenos Aires, Argentina
Reebok International Limited, London, Great Britain
Reebok International Ltd., Boston, Massachusetts, USA
Reebok Produtos Esportivos Brasil Ltda., Jundiaí, Brazil
Reebok Israel Ltd., Holon, Israel
SC 'adidas-Ukraine', Kiev, Ukraine
Spartanburg DC, Inc., Spartanburg, South Carolina, USA
Stone Age Equipment, Inc., Redlands, California, USA
Tafibal S.A., Montevideo, Uruguay
Trafford Park DC Limited, London, Great Britain

FINANCIAL CALENDAR 2019

MAR 13
FULL YEAR 2018 RESULTS

MAY 3
FIRST QUARTER 2019 RESULTS

MAY 9
ANNUAL GENERAL MEETING

MAY 14
DIVIDEND PAYMENT

(subject to Annual General Meeting approval)

AUG 8
FIRST HALF 2019 RESULTS

NOV 6
NINE MONTHS 2019 RESULTS

CONTACT

ADI-DASSLER-STR. 1
91074 HERZOGENAURACH
GERMANY

TEL + 49 (0) 91 32 84 – 0
FAX + 49 (0) 91 32 84 – 22 41
↗ ADIDAS-GROUP.COM

ADIDAS IS A MEMBER OF DIRK

(GERMAN INVESTOR RELATIONS ASSOCIATION)

INVESTOR RELATIONS

TEL + 49 (0) 91 32 84 – 29 20

FAX + 49 (0) 91 32 84 – 31 27

↗ **INVESTOR.RELATIONS@ADIDAS-GROUP.COM**
↗ **ADIDAS-GROUP.COM/INVESTORS**

PHOTO CREDITS

ADIDAS, ANDREAS KÜCHENMEISTER
(P. 18, 21, 22, 23, 24)
GETTYIMAGES (AL BELLO / STAFF, GETTY IMAGES SPORT, P. 16)

CONCEPT, DESIGN AND REALIZATION

MPM CORPORATE COMMUNICATION SOLUTIONS,
MAINZ, DÜSSELDORF, GERMANY

↗ MPM.DE