

**ANNUAL
REPORT**



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CONSOLIDATED
DATED
FINANCIAL
STATEMENTS

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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 D3.

The accompanying Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF
FINANCIAL POSITIONadidas 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			
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 Hyperinflationary 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 losses (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 losses (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:

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 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

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			
	Category	Measurement	Category	Carrying amount Dec. 31, 2017	Retained earnings		Revenue reserves	Deferred tax	Carrying amount Jan. 1, 2018	Carrying amount Dec. 31, 2018	Fair value Dec. 31, 2018
					New measurement category	Change of evaluation measurement					
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			
	Category	Measurement	Category	Carrying amount Dec. 31, 2017	Retained earnings		Revenue reserves	Deferred tax	Carrying amount Jan. 1, 2018	Carrying amount Dec. 31, 2018	Fair value Dec. 31, 2018
					New measurement category	Change of evaluation measurement					
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			
	Category	Measurement	Category	Carrying amount Dec. 31, 2017	Retained earnings		Revenue reserves	Deferred tax	Carrying amount Jan. 1, 2018	Carrying amount Dec. 31, 2018	Fair value Dec. 31, 2018
					New measurement category	Change of evaluation measurement					
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			
	Category	Measurement	Category	Carrying amount Dec. 31, 2017	Retained earnings		Revenue reserves	Deferred tax	Carrying amount Jan. 1, 2018	Carrying amount Dec. 31, 2018	Fair value Dec. 31, 2018
					New measurement category	Change of evaluation measurement					
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 amount 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 amount 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		Unrealized		Currency translation	Fair value Dec. 31, 2018
				Gains	Losses	Gains	Losses		
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 comprehensive 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

As at December 31, 2018	Maturity	
	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			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	During the period 2018				
	Nominal amount	Assets	Liabilities						Amount from hedging reserve transferred to cost of inventory	Amount from cost of hedging transferred to cost of inventory	Amount reclas- sified from hedging reserve to profit or loss	Amount reclas- sified from cost of hedging to profit or loss	Line item in profit or loss affected by the reclassi- fication
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

	Jan. 1, 2018	Net (payments)/ proceeds in the period	Non-cash effects				Dec. 31, 2018
			New lease obligations	Fair value adjustments	Other	Effect of exchange rates	
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

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	573¹	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



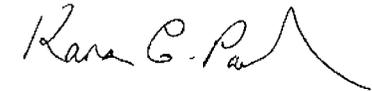
ROLAND AUSCHEL
GLOBAL SALES



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
Wirtschaftsprüfer
[German Public Auditor]

Schmidt
Wirtschaftsprüfer
[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

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.

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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](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

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CONCEPT, DESIGN AND REALIZATION

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