adidas

2019

ANNUAL REPORT

OUR CORE BELIEF

THROUGH SPORT, WE HAVE THE POWER TO CHANGE LIVES

OUR MISSION
TO BE THE BEST
SPORTS COMPANY IN THE WORLD

TARGETS – RESULTS – OUTLOOK

Targets 2019[1]	Results 2019	Outlook 2020[2]
Currency-neutral sales **increase at a rate between 5% and 8%**	Currency-neutral sales **increase of 6%** Sales of **€ 23.640 billion**	Currency-neutral sales **increase at a rate between 6% and 8%**
Gross margin **increase to a level of around 52.0%**	Gross margin **increase of 0.2pp to 52.0%**	Gross margin **slight decrease compared to the prior year level of 52.0%**
Operating margin **increase between 0.5pp and 0.7pp** to a level between 11.3% and 11.5%	Operating margin **increase of 0.4pp to 11.3%**	Operating margin **increase between 0.2pp and 0.5pp** to a level between 11.5% and 11.8%
Net income from continuing operations[3] **increase at a rate between 8% and 12%** to a level between € 1.845 billion and € 1.915 billion	Net income from continuing operations[3] **increase of 12% to € 1.918 billion**	Net income from continuing operations **increase at a rate between 10% and 13%** to a level between € 2.100 billion and € 2.160 billion
Average operating working capital in % of net sales **slight increase**	Average operating working capital in % of net sales **decrease of 0.9pp to 18.1%**	Average operating working capital in % of net sales **slight increase**
Capital expenditure[4] **increase to a level of up to € 900 million**	Capital expenditure[4] **€ 711 million**	Capital expenditure[4] **increase to a level of around € 800 million**

1 As published on March 13, 2019.
2 Subject to change due to coronavirus outbreak in China.
3 2019 including negative impact from accounting change according to IFRS 16; excluding this impact, net income from continuing operations was expected to increase at a rate between 10% and 14% to a level between € 1.880 billion and € 1.950 billion.
4 Excluding acquisitions and leases.

FINANCIAL HIGHLIGHTS 2019 (IFRS)

	2019	2018[1]	Change
Operating Highlights (€ in millions)			
Net sales	23,640	21,915	8%
Gross profit	12,293	11,363	8%
Other operating expenses	9,843	9,172	7%
EBITDA	3,845	2,882	33%
Operating profit	2,660	2,368	12%
Net income from continuing operations	1,918	1,709	12%
Net income attributable to shareholders[2]	1,976	1,702	16%
Key Ratios			
Gross margin	52.0%	51.8%	0.2pp
Other operating expenses in % of net sales	41.6%	41.9%	(0.2pp)
Operating margin	11.3%	10.8%	0.4pp
Effective tax rate	25.0%	28.1%	(3.1pp)
Net income attributable to shareholders in % of net sales[2]	8.4%	7.8%	0.6pp
Average operating working capital in % of net sales	18.1%	19.0%	(0.9pp)
Equity ratio[3]	32.9%	40.8%	(8.0pp)
Net borrowings/EBITDA	(0.2)	(0.3)	n.a.
Financial leverage[3]	(12.8%)	(15.0%)	2.2pp
Return on equity[2,3]	29.1%	26.7%	2.4pp
Balance Sheet and Cash Flow Data (€ in millions)			
Total assets	20,680	15,612	32%
Inventories	4,085	3,445	19%
Receivables and other current assets	4,338	3,734	16%
Operating working capital	4,007	3,563	12%
Net cash	873	959	(9%)
Shareholders' equity	6,796	6,377	7%
Capital expenditure	711	794	(11%)
Net cash generated from operating activities[2]	2,819	2,686	5%
Per Share of Common Stock (€)			
Basic earnings	9.70	8.46	15%
Diluted earnings	9.70	8.45	15%
Net cash generated from operating activities[2]	14.26	13.31	7%
Dividend	3.85[4]	3.35	15%
Share price at year-end	289.80	182.40	59%
Other (at year-end)			
Number of employees	59,533	57,016	4%
Number of shares outstanding	195,969,387	199,171,345	(2%)
Average number of shares	197,606,107	201,759,012	(2%)

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated with the exception of the presentation of interest paid in the consolidated statement of cash flows, p. 139.
2 Includes continuing and discontinued operations.
3 Based on shareholders' equity.
4 Subject to Annual General Meeting approval.

ABOUT THIS REPORT

With the Annual Report 2019, adidas communicates financial and non-financial information in a combined publication. The report provides a comprehensive overview of the financial, environmental and social performance of adidas in the 2019 financial year.

We publish our Annual Report exclusively in a digital format. It is available as a PDF and online version.

ADIDAS ANNUAL REPORT 2019

PDF

ADIDAS ONLINE ANNUAL REPORT 2019

↗ REPORT.ADIDAS-GROUP.COM

To enhance readability, registered trademarks as well as references to rounding differences, which may arise in percentages and totals, are omitted in this publication. In addition, we have used the masculine form throughout, although all such references are not intended to be gender-specific. The adidas Annual Report 2019 is available in English and German.

THE FOLLOWING SYMBOLS INDICATE IMPORTANT INFORMATION:

- ↗ There is more information online.
- There is more information in a related table or diagram.
- There is more information within the report.
- These are parts of the non-financial statement that are covered by a separate limited assurance engagement. SEE NON-FINANCIAL STATEMENT, P. 90

DATA AND FINANCIAL REPORTING STANDARDS

The reporting period is the financial year from January 1 to December 31, 2019. To ensure this report is as current as possible, it includes all relevant information available up to the date of the Responsibility Statement, February 25, 2020.

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

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

INDEPENDENT ASSURANCE

The consolidated financial statements prepared by adidas AG, including the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows, and the notes as well as the Group Management Report have been audited by KPMG AG Wirtschaftsprüfungsgesellschaft. SEE REPRODUCTION OF THE INDEPENDENT AUDITOR'S REPORT, P. 214

In addition, this report contains a combined non-financial statement for adidas AG and the Group. The content of the non-financial statement is covered by a separate limited assurance engagement of KPMG AG Wirtschaftsprüfungsgesellschaft. SEE NON-FINANCIAL STATEMENT, P. 90 The assurance was conducted using the International Standard on Assurance Engagements ISAE 3000 (Revised). SEE LIMITED ASSURANCE REPORT, P. 219 The content of the non-financial statement combined with further information in this report and on our corporate website fulfills the Global Reporting Initiative's (GRI) Standards 'Core' option. The GRI content index can be found in our Online Report. ↗ REPORT.ADIDAS-GROUP.COM

It was not part of KPMG's engagement to review the Online Report or references to external sources such as our corporate website.

FORWARD-LOOKING STATEMENTS

Our Group Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of our company. The outlook is based on estimates that we have made on the basis of all the information available to us at the time of completion of this Annual Report. In addition, such forward-looking statements are subject to uncertainties which are beyond the control of the company. SEE RISK AND OPPORTUNITY REPORT, P. 120 In case the underlying assumptions turn out to be incorrect or described risks or opportunities materialize, actual results and developments may materially deviate (negatively or positively) from those expressed by such statements. adidas does not assume any obligation to update any forward-looking statements made in the Group Management Report beyond statutory disclosure obligations. SEE OUTLOOK, P. 117

ADIDAS ANNUAL REPORT 2019

1 TO OUR SHAREHOLDERS

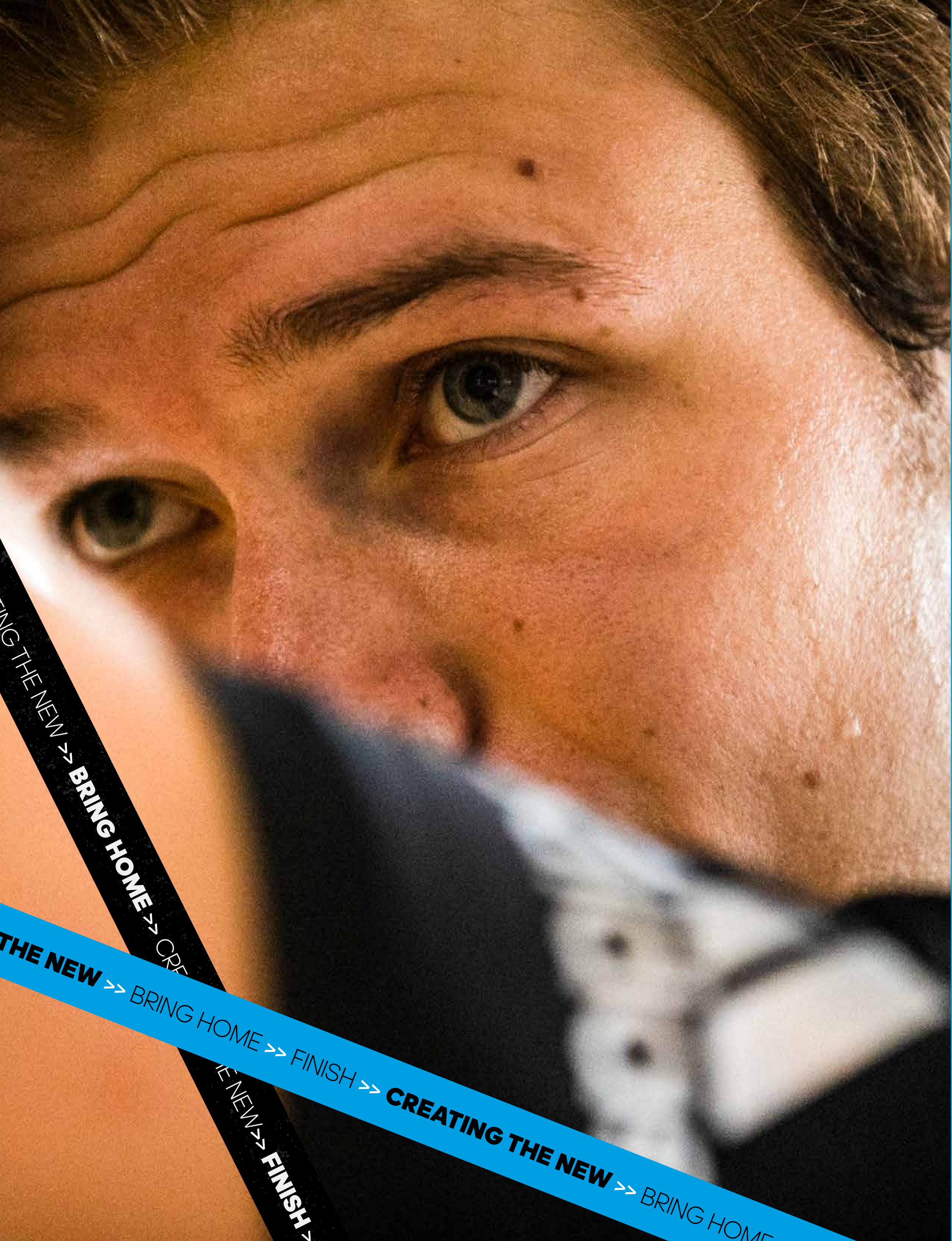
2 GROUP MANAGEMENT REPORT OUR COMPANY

3 GROUP MANAGEMENT REPORT FINANCIAL REVIEW

4 CONSOLIDATED FINANCIAL STATEMENTS

5 ADDITIONAL INFORMATION

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



1 TO OUR SHARE-HOLDERS

LETTER
FROM THE CEO

»2019 MARKED A SPECIAL YEAR FOR ADIDAS. WE ARE STRONGER THAN EVER BEFORE.«

KASPER RORSTED

DEAR SHAREHOLDERS,

2019 marked a special year for adidas as we celebrated the 70th anniversary of the company and the completion of our modern workplace, 'World of Sports', our company headquarters. What our founder Adi Dassler started officially as a Franconian crafts business with 47 employees in 1949 is now a truly global brand and international company that has almost 60,000 employees and a presence on all continents.

As we aspire to be the best sports company in the world, we are immensely proud of our history and our roots in Germany. To this day, we live up to the philosophy of Adi Dassler, who always wanted to create the best product for the athlete. Numerous sporting highlights, such as the first world title for the German national football team in 1954, will remain forever connected with the 3-Stripes brand. Timeless products like the adidas Superstar have an established place in fashion.

It was an emotional moment for all employees, including myself, to celebrate our company's birthday together with Adi Dassler's daughter Siggi and other members of the Dassler family, our creative partner Pharrell Williams, tennis icon Stan Smith, football world champion Philipp Lahm, Olympic champions Laura Dahlmeier, Magdalena Neuner and Kristina Vogel, as well as Run DMC, who had a worldwide hit with 'My adidas'.

2019 FINANCIAL RESULTS

In terms of business, top-line growth and another strong profitability improvement in 2019 put us in a position to complete our strategic cycle 'Creating the New' successfully. Although held back by supply chain shortages, we increased sales to € 23.6 billion, reflecting currency-neutral growth of 6% and nominal growth of 8%. Our gross margin climbed 20 basis points to 52%. Our operating margin improved 40 basis points to a level of 11.3%, the highest operating margin in the history of our company. Our net income from continuing operations again grew significantly faster than our top line, up 12% to a record € 1.9 billion.

ATTRACTIVE CASH RETURN TO SHAREHOLDERS

Our strategy 'Creating the New' includes a strong commitment to returning cash to you, our shareholders, through both dividends and share buybacks. In 2019, we continued to deliver on this promise. We completed the second tranche of our current multi-year share buyback program, repurchasing 3.2 million shares for a consideration of € 815 million. Taking into account the dividend payment of € 664 million for the financial year 2018, which was paid out in May 2019, the total amount of cash the company returned to its shareholders in 2019 was again € 1.5 billion.

FOCUS ON STRATEGIC GROWTH DRIVERS PAYS OFF

Our strategic growth drivers adidas North America, Greater China and E-commerce all contributed over-proportionally to our currency-neutral growth. E-com was our fastest-growing channel with a 34% increase year-over-year, confirming the strategic importance of building the perfect store for our consumers online with adidas.com and reebok.com. Greater China grew at a double-digit rate for the fifth year in a row, up 15%, as we capitalized on important brand and shopping moments such as Singles' Day and an early Chinese New Year. adidas North America was impacted the most by our supply chain shortages, but still grew 7%. This means we continued to gain market share in the largest sporting goods market in the world.

Our top line was driven by growth in all market segments. Our home market Europe returned to growth with a 3% sales increase. Latin America grew 7%, Emerging Markets 13% and Russia/CIS 8%.

CLEAR COMMITMENT TO SUSTAINABILITY

adidas' commitment to sustainability started way before the topic gained global attention. For 20 years, we have been a change leader in our industry, as evidenced by our inclusion for the 20th time in the Dow Jones Sustainability Indices, a family of benchmarks evaluating the sustainability performance of the largest 2,500 companies listed in the Dow Jones Global Total Stock Market Index.

In terms of integrating sustainability in our business model, we produced a record more than eleven million pairs of shoes containing plastic waste collected from beaches and coastal regions in 2019, more than double the amount produced the year before. From 2024 onward, we are committed to using only recycled polyester. Our fight to end plastic waste is the best expression of our purpose that, through sport, we have the power to change lives. The increasing use of recycled materials is just one example of our sustainability activities. The spectrum ranges from waste prevention and new types of take-back programs for used products, to climate protection. This will contribute to our ultimate goal of climate neutrality in all our activities as well as our supply chain by 2050.

2020 OUTLOOK

2020 is the last year of our five-year strategy cycle 'Creating the New'. We have come a long way since we embarked on this journey at the beginning of 2016. We added almost € 7 billion to our top line, drove operating margin up nearly 500 basis points and increased net income by € 1.2 billion. Already today, adidas is a much better and stronger company than ever before. But we will not stop here. Like every athlete, we train and work hard to up our game season after season, year after year. For 2020, we are targeting a currency-neutral sales increase of between 6% and 8%. By further leveraging our scalable operating model, net income is expected to once again grow at a double-digit rate to a level of more than € 2.1 billion. Operating margin is expected to come in between 11.5% and 11.8%. These figures will enable us to fully achieve our 2020 financial ambition.

The company's outlook for 2020 as outlined in this report is subject to change depending on the further developments related to the coronavirus outbreak.

IN CLOSING

Together with all adidas employees, I am very much looking forward to 2020. It will be an exciting year for our company. We will continue on our international growth track, accelerate our digital transformation and make our product range at adidas and Reebok even more sustainable. Through high-performing athletes, innovative products and inspiring marketing campaigns, adidas will take center-stage at the two major sport events of the year, the UEFA EURO 2020 and the Tokyo Olympics, and other important moments in sport and culture. We will finish our 'Creating the New' strategy with excellence before presenting our new strategy beyond 2020 in November. We are operating in an attractive industry and are well positioned for the future. Success is in our own hands.

Thank you for your ongoing support.

Sincerely yours,

KASPER RORSTED
CEO

EXECUTIVE BOARD

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

Harm Ohlmeyer
Chief Financial Officer

Martin Shankland
Global Operations

Roland Auschel
Global Sales

Brian Grevy
Global Brands

Kasper Rorsted
Chief Executive Officer

Karen Parkin
Global Human Resources

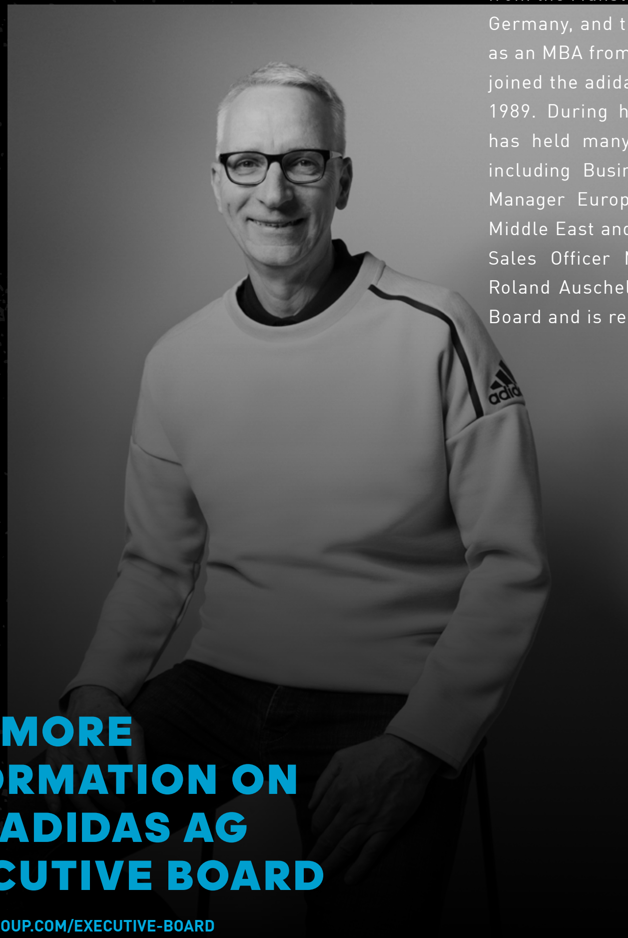
KASPER RORSTED
CHIEF EXECUTIVE OFFICER

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

Mandates:

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

1 Until March 31, 2019.

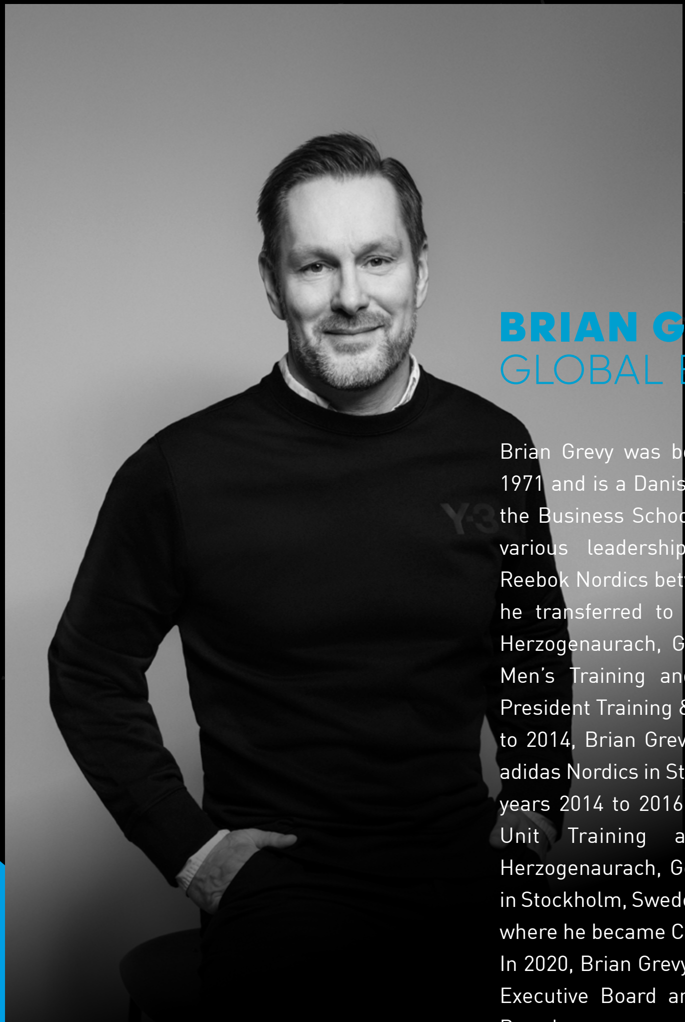


ROLAND AUSCHEL
GLOBAL SALES

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

FOR MORE INFORMATION ON THE ADIDAS AG EXECUTIVE BOARD

↗ ADIDAS-GROUP.COM/EXECUTIVE-BOARD



BRIAN GREVY[2]
GLOBAL BRANDS

Brian Grevy was born in Kolding, Denmark, in 1971 and is a Danish citizen. After his studies at the Business School in Vejle, Denmark, he held various leadership positions at adidas and Reebok Nordics between 1998 and 2006. In 2006, he transferred to the adidas headquarters in Herzogenaurach, Germany, to become Director Men's Training and, as of 2010, Senior Vice President Training & Regional Sports. From 2012 to 2014, Brian Grevy acted as General Manager adidas Nordics in Stockholm, Sweden. During the years 2014 to 2016, he led the adidas Business Unit Training as General Manager in Herzogenaurach, Germany. He then joined Gant in Stockholm, Sweden, as Chief Marketing Officer, where he became Chief Executive Officer in 2018. In 2020, Brian Grevy was appointed to the adidas Executive Board and is responsible for Global Brands.

Mandates:

— Member of the Board of Directors, Pitzner Gruppen Holding A/S, Copenhagen, Denmark

2 Since February 1, 2020.

HARM OHLMEYER
CHIEF FINANCIAL OFFICER

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

KAREN PARKIN
GLOBAL HUMAN RESOURCES

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

MARTIN SHANKLAND[3]
GLOBAL OPERATIONS

Martin Shankland was born in Sydney, Australia, in 1971 and is an Australian national. He holds a Bachelor of Commerce degree from the University of New South Wales, Australia, and completed the Professional Year Program at the Australian Institute of Chartered Accountants. He joined adidas in 1997 as Finance Director for adidas Russia/CIS and was Managing Director from 2000 to 2017. From 2017 to 2019, he led adidas Emerging Markets as Managing Director. In 2019, Martin Shankland was appointed to the Executive Board and is responsible for Global Operations.

3 Since March 4, 2019.

Member of the Executive Board until February 26, 2019:

GIL STEYAERT
GLOBAL OPERATIONS

Mandates:

- Member of the Supervisory Board, Fashion for Good B.V., Amsterdam, the Netherlands[4]

4 Until February 26, 2019.

Member of the Executive Board until December 31, 2019:

ERIC LIEDTKE
GLOBAL BRANDS

Mandates:

- Member of the Board of Directors, Carbon, Inc., Redwood City, USA
- Member of the Supervisory Board, Fashion for Good B.V., Amsterdam, The Netherlands[5]

5 From April 25, 2019 until December 31, 2019.

SUPERVISORY BOARD

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

THOMAS RABE
DEPUTY CHAIRMAN[1]
residing in Berlin, Germany
born on August 6, 1965
Member of the Supervisory Board since May 9, 2019
Chairman and Chief Executive Officer, Bertelsmann Management SE, Gütersloh, Germany
Chief Executive Officer, RTL Group S.A., Luxembourg, Luxembourg
- Member of the Supervisory Board, Symrise AG, Holzminden, Germany[2]

Membership in comparable domestic and foreign controlling bodies of commercial enterprises
Mandates held in foreign subsidiaries of Bertelsmann SE & Co. KGaA:
- Chairman of the Board of Directors, Penguin Random House LLC, New York, USA
- Member of the Supervisory Board, Majorel Group Luxembourg S.A., Luxembourg, Luxembourg[3]

UDO MÜLLER*
DEPUTY CHAIRMAN[4]
residing in Herzogenaurach, Germany
born on April 14, 1960
Member of the Supervisory Board since October 6, 2016
Director Communication, Herzogenaurach, adidas AG, Herzogenaurach, Germany

PETRA AUERBACHER*
residing in Emskirchen, Germany
born on December 27, 1969
Member of the Supervisory Board since May 9, 2019
Project Manager Creative Direction, adidas AG, Herzogenaurach, Germany

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

Mandates within the Groupe Bruxelles Lambert or in entities under common control with the Groupe Bruxelles Lambert:
- Member of the Board of Directors, Imerys SA, Paris, France
- Member of the Board of Directors, Sienna Capital S.à r.l., Strassen, Luxembourg
- Member of the Board of Directors, Compagnie Nationale à Portefeuille SA, Loverval, Belgium
- Member of the Board of Directors, Frère-Bourgeois SA, Loverval, Belgium
- Member of the Board of Directors, Château Cheval Blanc, Société Civile, Saint-Émilion, France
- Member of the Board of Directors, GBL Advisors Ltd., London, United Kingdom
- Member of the Board of Directors, GBL Development Ltd., London, United Kingdom
- Member of the Supervisory Board, Marnix French ParentCo SAS (Webhelp Group), Paris, France[5]

ROSWITHA HERMANN*
residing in Erlangen, Germany
born on December 27, 1962
Member of the Supervisory Board since May 9, 2019
Full-time member of the Works Council Herzogenaurach, adidas AG, Herzogenaurach, Germany
Deputy Chairwoman of the Works Council Herzogenaurach, adidas AG, Herzogenaurach, Germany

HERBERT KAUFFMANN
residing in Stuttgart, Germany
born on April 20, 1951
Member of the Supervisory Board since May 7, 2009
Independent Management Consultant, Stuttgart, Germany

KATHRIN MENGES
residing in Großenbrode, Germany
born on October 16, 1964
Member of the Supervisory Board since May 8, 2014
Self-employed entrepreneur
Mandates held within the Henkel Group[6]:
- Member of the Supervisory Board, Henkel Central Eastern Europe GmbH, Vienna, Austria
- Member of the Supervisory Board, Henkel Nederland B.V., Nieuwegein, The Netherlands
- Member of the Board of Directors, Henkel Norden AB, Stockholm, Sweden
- Member of the Board of Directors, Henkel Finland Oy, Vantaa, Finland

BIOGRAPHICAL INFORMATION ON OUR SUPERVISORY BOARD MEMBERS IS AVAILABLE ONLINE

↗ ADIDAS-GROUP.COM/SUPERVISORY-BOARD

* Employee representative.
1 Since May 9, 2019.
2 Until December 31, 2019; chairmanship until August 7, 2019.
3 Since January 4, 2019; formerly known as ACR – Advanced Customer Relation S.à.r.l.
4 Since May 9, 2019.
5 Since November 19, 2019.
6 Until resigning the Executive Board mandate at Henkel AG & Co. KGaA on April 9, 2019.

ROLAND NOSKO*
residing in Wolnzach, Germany
born on August 19, 1958
Member of the Supervisory Board since May 13, 2004
District Manager of the Industrial Union IG Bergbau, Chemie, Energie (IG BCE), District of Nuremberg, Nuremberg, Germany
- Deputy Chairman of the Supervisory Board, CeramTec GmbH, Plochingen, Germany
- Member of the Supervisory Board, Plastic Omnium Automotive Exteriors GmbH, Munich, Germany

BEATE ROHRIG*
residing in Glashütten, Germany
born on March 24, 1965
Member of the Supervisory Board since May 9, 2019
State District Manager of the Industrial Union IG Bergbau, Chemie, Energie (IG BCE), State District Bavaria, Munich, Germany
- Member of the Supervisory Board, Evonik Nutrition & Care GmbH, Essen, Germany
- Member of the Supervisory Board, Heraeus Holding GmbH, Hanau, Germany[7]
- Member of the Supervisory Board, Wacker Chemie AG, Munich, Germany[8]

NASSEF SAWIRIS
residing in London, United Kingdom
born on January 19, 1961
Member of the Supervisory Board since June 15, 2016
Chief Executive Officer and Member of the Board of Directors, OCI N.V., Amsterdam, The Netherlands
- Member of the Board of Directors, LafargeHolcim Ltd., Jona, Switzerland[9]

FRANK SCHEIDERER*
residing in Wilhelmsdorf, Germany
born on April 16, 1977
Member of the Supervisory Board since May 9, 2019
Director Head Office – Brand & Sales Finance, adidas AG, Herzogenaurach, Germany

MICHAEL STORL*
residing in Oberreichenbach, Germany
born on July 3, 1959
Member of the Supervisory Board since May 9, 2019
Full-time member of the Works Council Herzogenaurach, adidas AG, Herzogenaurach, Germany

BODO UEBBER
residing in Stuttgart, Germany
born on August 18, 1959
Member of the Supervisory Board since May 9, 2019
Independent Management Consultant
- Member of the Supervisory Board, Bertelsmann SE & Co. KGaA/ Bertelsmann Management SE, Gütersloh, Germany
- Chairman of the Supervisory Board, Daimler Financial Services AG, Stuttgart, Germany[10]

Membership in comparable domestic and foreign controlling bodies of commercial enterprises[11]:
- Member of the Board of Directors, BAIC Motor Corporation Ltd., Beijing, China
- Member of the Board of Directors, Mercedes-Benz Grand Prix Ltd., Brackley, United Kingdom
- Member of the Board of Directors, Delta Topco Ltd., St Helier, Jersey, United Kingdom

JING ULRICH
residing in Hong Kong, China
born on June 28, 1967
Member of the Supervisory Board since May 9, 2019
Vice Chairman of Global Banking and Asia Pacific, JPMorgan Chase & Co., New York, USA

GÜNTER WEIGL*
residing in Oberreichenbach, Germany
born on April 14, 1965
Member of the Supervisory Board since May 9, 2019
Senior Vice President Global Sports Marketing & Brand Relations, adidas AG, Herzogenaurach, Germany

STANDING COMMITTEES AS OF MAY 9, 2019
Steering Committee:
Igor Landau (Chairman), Udo Müller*, Thomas Rabe
General Committee:
Igor Landau (Chairman), Udo Müller*, Roland Nosko*, Thomas Rabe
Audit Committee:
Herbert Kauffmann (Chairman), Frank Scheiderer*, Bodo Uebber[12], Günter Weigl*
Nomination Committee:
Igor Landau (Chairman), Kathrin Menges, Thomas Rabe
Mediation Committee pursuant to § 27 section 3 Co-Determination Act (MitbestG):
Igor Landau (Chairman), Roswitha Hermann*, Udo Müller*, Thomas Rabe

* Employee representative.
7 Until December 31, 2019.
8 Since July 18, 2019.
9 Until May 15, 2019.
10 Until May 22, 2019.
11 Until resigning the Executive Board mandate at Daimler AG on May 22, 2019.
12 Since January 1, 2020; Ian Gallienne until December 31, 2019.

MEMBERS OF THE SUPERVISORY BOARD UNTIL MAY 9, 2019:

SABINE BAUER*
DEPUTY CHAIRWOMAN
Full-time member of the Works Council Herzogenaurach, adidas AG
Chairwoman of the European Works Council, adidas AG

WILLI SCHWERDTLE
DEPUTY CHAIRMAN
Independent Management Consultant as well as Partner, WP Force Solutions GmbH, Bad Homburg v. d. Höhe, Germany
- Member of the Supervisory Board, Eckes AG, Nieder-Olm, Germany
- Chairman of the Supervisory Board, Windeln.de SE, Munich, Germany

DR. FRANK APPEL
Chief Executive Officer, Deutsche Post AG, Bonn, Germany

DIETER HAUENSTEIN*
Specialist for job safety, adidas AG

DR. WOLFGANG JÄGER*
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Chairwoman of the Works Council Uffenheim, adidas AG
Deputy Chairwoman of the Central Works Council, adidas AG

KURT WITTMANN*
Full-time member of the Works Council Herzogenaurach, adidas AG

STANDING COMMITTEES UNTIL MAY 9, 2019

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

* Employee representative.

SUPERVISORY BOARD REPORT

DEAR SHAREHOLDERS,

Last year, the company's success story from the foundation in 1949 up until today was highlighted in an impressive manner by a successful 70th anniversary celebration and the completion of the extension of the headquarters in Herzogenaurach, Germany. From a financial point of view, too, we look back on 2019 as another successful year. Thanks to a sharp focus on our consumers' needs as part of the stringent execution of our strategic business plan 'Creating the New', the company was once again able to increase sales and achieve strong bottom-line growth in the 2019 financial year. While double-digit growth in the key e-commerce sales channel as well as in our focus market Greater China merit special mention, the company's growth as a whole was broad-based, with top-line increases in all regions, including our home market Europe. Supply chain shortages which slowed the company's growth, mainly in North America in the first half of the year, were quickly and permanently mitigated. In light of this sales momentum as well as the continuing high investments into our brands and the scalability of the business, the company is in an excellent position to successfully conclude the strategy cycle 2015-2020 in the current financial year. We continue to ensure that we share the positive development of the company with our shareholders, as underscored by the total cash return from the dividend payout and share buyback of € 1.5 billion in 2019.

SUPERVISION AND ADVICE IN DIALOGUE WITH THE EXECUTIVE BOARD

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

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

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

In the past financial year, the Supervisory Board primarily exercised its duties in plenary sessions. We held eight regular meetings of the entire Supervisory Board, one of which was a constituent meeting and one which took place outside Germany. Moreover, one resolution was passed by way of a circular resolution.

As in previous years, we were able to record a constantly high participation rate in our consultations despite a high number of meetings in the year under review. The overall attendance rate of the members at the meetings of the Supervisory Board and its committees was around 96% in the year under review. Members who were unable to participate in the meetings took part in the resolutions by submitting their vote in writing. SEE TABLE 1

Individual meeting participation of the Supervisory Board members 1
in meetings of the Supervisory Board in the 2019 financial year

	Number of meetings	Participation	Participation in %
Members of the Supervisory Board as at December 31, 2019			
Igor Landau, Chairman of the Supervisory Board	16	16	100
Udo Müller, Deputy Chairman of the Supervisory Board [1]	12	11	92
Thomas Rabe, Deputy Chairman of the Supervisory Board [2]	9	8	89
Petra Auerbacher [2]	4	4	100
Ian Gallienne	13	12	92
Roswitha Hermann [2]	4	3	75
Herbert Kauffmann	13	13	100
Kathrin Menges	10	10	100
Roland Nosko	14	14	100
Beate Rohrig [2]	4	3	75
Nassef Sawiris	8	8	100
Frank Scheiderer [2]	7	7	100
Michael Storl [2]	4	4	100
Bodo Uebber [2]	4	4	100
Jing Ulrich [2]	4	3	75
Günter Weigl [2]	7	7	100
Members of the Supervisory Board until the end of the Annual General Meeting on May 9, 2019			
Sabine Bauer, Deputy Chairwoman of the Supervisory Board	6	6	100
Willi Schwerdtle, Deputy Chairman of the Supervisory Board	7	7	100
Dr. Frank Appel	4	4	100
Dieter Hauenstein	4	4	100
Dr. Wolfgang Jäger	6	6	100
Katja Kraus	4	4	100
Hans Ruprecht	6	6	100
Heidi Thaler-Veh	4	4	100
Kurt Wittmann	4	4	100

1 Deputy Chairman of the Supervisory Board from the end of the Annual General Meeting on May 9, 2019
2 Member of the Supervisory Board from the end of the Annual General Meeting on May 9, 2019

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

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

The Supervisory Board also regularly conferred on, in particular, Supervisory Board matters and personnel matters of the Executive Board without the Executive Board.

TOPICS FOR THE ENTIRE SUPERVISORY BOARD

Our consultations and examinations focused on the following topics:

SITUATION AND BUSINESS DEVELOPMENT

The development of sales and earnings, the employment situation as well as the financial position of the company and the business development of the company's individual business areas and markets were presented to us in detail by the Executive Board at every Supervisory Board meeting and were discussed regularly. Moreover, we discussed the company's business strategy and the annual and multi-year business planning of the Executive Board. In this context, we were particularly informed on a regular basis about the progress made in mitigating the supply chain shortages in North America. Further topics which were always discussed were the possible impact of global economic developments as well as the development of the individual brands and markets.

The Executive Board outlined the company's situation and retail strategy at the February meeting. We also discussed important potential and pending legal disputes. The Executive Board reported on the financial figures for the 2018 financial year at the balance sheet meeting in March. After in-depth examination of the financial statements, the Supervisory Board approved the annual financial statements and consolidated financial statements as well as the combined Management Report, including the non-financial statement for adidas AG and the Group as at December 31, 2018. The annual financial statements were thus adopted. Prior to the passing of the resolution, the auditor reported on the material results of the audit, including the results of the examination of the content of the non-financial statement commissioned by the Supervisory Board in accordance with § 111 section 2 sentence 4 German Stock Corporation Act (Aktiengesetz – AktG). Furthermore, the Supervisory Board Report to the Annual General Meeting for the 2018 financial year was approved. Finally, we discussed, inter alia, the business development of Reebok and innovation at adidas. At the May meeting, we primarily dealt with the results for the first quarter of the year under review. Particular topics of the August meeting were the financial results for the second quarter and the first half year. We also discussed the business development in Emerging Markets and dealt in detail with the main sustainability initiatives. At our annual strategy meeting in October, we discussed the details presented by the Executive Board regarding the strategic business plan 'Creating the New'. Another focal point of the October meeting was the development of business in Asia-Pacific. Finally, topics of our December meeting were the 2020 Budget and Investment Plan as well as the marketing and sponsorship agreements concluded in the year under review.

TRANSACTIONS REQUIRING SUPERVISORY BOARD APPROVAL

In accordance with statutory regulations or the Rules of Procedure of the Supervisory Board, certain transactions and measures require the prior approval of the Supervisory Board. We approved the following measures in the period under review:

In March, we approved the resolutions proposed to the Annual General Meeting on May 9, 2019 ('2019 Annual General Meeting'), including the proposal regarding the appropriation of retained earnings for the 2018 financial year. At the May meeting, we approved the adjusted resolution proposal of the Executive Board on the appropriation of retained earnings. The adjustment was necessary as the number of dividend-entitled shares had decreased since the publication of the invitation to the Annual General Meeting, due to the ongoing share buyback program. Furthermore, we approved Eric Liedtke taking over a supervisory board mandate at Fashion for Good B.V. At our December meeting, after comprehensive consultation, we approved the 2020 Budget and Investment Plan of the Executive Board.

COMPOSITION OF THE EXECUTIVE BOARD

In the year under review, we dealt extensively with personnel matters of the Executive Board.

We appointed Martin Shankland as a new member of the Executive Board, responsible for Global Operations, with effect from March 2019. Martin Shankland succeeded Gil Steyaert. As successor to Eric Liedtke, we appointed Brian Grevy as a member of the Executive Board, responsible for Global Brands, with effect from February 1, 2020. Moreover, we extended the Executive Board mandates of Karen Parkin, responsible for Global Human Resources, and Harm Ohlmeyer, responsible for Finance, for another five years until 2025, respectively.

In this respect and after in-depth examination, we approved the newly concluded Executive Board service contracts with Martin Shankland and Brian Grevy as well as the amended Executive Board contracts of Karen Parkin and Harm Ohlmeyer as part of the extension of their mandates. We also discussed the long-term succession planning for the Executive Board based on the General Committee's preparations.

EXECUTIVE BOARD COMPENSATION

Another focal point of our work was Executive Board compensation. After an in-depth review of the individual performance of the Executive Board members and the achievement of the targets set for the 2018 Performance Bonus and the 2018 tranche for the Long-Term Incentive Plan 2018/2020 ('LTIP 2018/2020'), we resolved upon the performance-related compensation to be paid to the Executive Board members for the 2018 Performance Bonus and the 2018 LTIP tranche at our meetings in February. The Supervisory Board also determined the appropriateness of the Executive Board compensation. Furthermore, after comprehensive consultation, we set the criteria and targets decisive for the 2019 Performance Bonus and the 2019 tranche for the LTIP 2018/2020 along with the individual bonus target amounts for each Executive Board member at our meetings in February and March.

Further detailed information on the Executive Board compensation can be found in the Compensation Report. SEE COMPENSATION REPORT, P. 30

CORPORATE GOVERNANCE

The Supervisory Board regularly monitors the application and further development of the corporate governance regulations within the company, in particular the implementation of the recommendations of the Code. The General Committee and the entire Supervisory Board proactively discussed in depth the changed requirements of the German Stock Corporation Act and the Code in regard to corporate governance at their meetings in October and December. Further detailed information on corporate governance within the company can be found in the Declaration on Corporate Governance and Corporate Governance Report. SEE DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT, P. 24

Following an in-depth discussion, the current Declaration of Compliance pursuant to § 161 AktG was resolved upon by the Executive Board and Supervisory Board of adidas AG in December 2019 and was made permanently available on our website. ↗ ADIDAS-GROUP.COM/S/CORPORATE-GOVERNANCE

During our consultations regarding the Declaration of Compliance, we particularly discussed the independence of the members of the Supervisory Board as per the respective independence criteria. In the Supervisory Board's assessment, all Supervisory Board members representing the shareholders were independent within the meaning of section 5.4.2 of the Code in the year under review.

In the year under review, no conflicts of interest arose in regard to the Executive Board members. There were also no conflicts of interest within the Supervisory Board. It must be pointed out that the company concluded a contract with a company in which one Supervisory Board member in office until the end of the 2019 Annual General meeting is involved. The Supervisory Board had already approved this contract and the business volume stipulated in this contract in December 2018. In the view of the Supervisory Board, there was no conflict of interest. Nevertheless, as in previous years, the Supervisory Board member concerned did not participate in the voting on the respective resolution.

Both the Supervisory Board and the Audit Committee reviewed the efficiency of their work in the 2018 financial year. The members of the Supervisory Board assessed the work in the entire Supervisory Board and in the Audit Committee as efficient in both cases and resolved upon individual improvements regarding the organization of the Supervisory Board's work. These improvements were implemented in the year under review. The next efficiency examination of the Supervisory Board and Audit Committee is scheduled for the 2020 financial year in light of, inter alia, the changed composition of the Supervisory Board as a result of the new election of the shareholder and employee representatives in 2019.

The members of the Supervisory Board are individually responsible for undertaking any necessary training and further education measures required for their tasks. In the year under review, the company offered the newly elected members of the Supervisory Board an onboarding program relating to the work of the Supervisory Board at adidas AG in order to facilitate the exercise of their mandates. Furthermore, in the context of the Supervisory Board meeting outside Germany, the company enabled members of the Supervisory Board to visit key suppliers in Vietnam.

EFFICIENT COMMITTEE WORK

In order to perform our tasks in an efficient manner, we have established a total of five standing Supervisory Board committees. SEE SUPERVISORY BOARD, P. 15 The newly elected Supervisory Board resolved at its constituent meeting in May to no longer constitute the Finance and Investment Committee.

The committees prepare resolutions and topics for the meetings of the entire Supervisory Board. Within the legally permissible framework and in appropriate cases, we have furthermore delegated the Supervisory Board's authority to pass certain resolutions to individual committees. With the exception of the Audit Committee, the Supervisory Board Chairman also chairs all the standing committees. Herbert Kauffmann is the Chairman of the Audit Committee.

The respective committee chairmen report to the Supervisory Board on the content and results of the committee meetings on a regular and comprehensive basis.

- The **Steering Committee** did not meet in the year under review.
- The **General Committee** held six meetings in the year under review.
  The main focus was the preparation of the resolutions of the entire Supervisory Board regarding personnel matters of the Executive Board and Executive Board compensation. The General Committee particularly discussed the resignation of Gil Steyaert and Eric Liedtke, the appointment of Martin Shankland and Brian Grevy as well as the extension of the mandates of Karen Parkin and Harm Ohlmeyer. With reference to the Executive Board compensation, the primary focus was on preparation of the resolutions relating to target achievement for the 2018 Performance Bonus and the 2018 LTIP tranche and the targets for the 2019 Performance Bonus and the 2019 LTIP tranche, as well as on the establishment of the appropriateness of the Executive Board compensation. Furthermore, the General Committee dealt intensively with long-term succession planning for the Executive Board as well as with the changed requirements of the German Stock Corporation Act and the Code in regard to corporate governance.
- The **Audit Committee** held five meetings in the year under review. One resolution was passed by way of a circular resolution. The Chief Financial Officer and the auditor were present at all meetings and reported to the committee members in detail.
  In addition to the supervision of the accounting process, the committee's work also focused on the examination of the annual financial statements and the consolidated financial statements for 2018, including the combined Management Report and the non-financial statement of adidas AG and the Group, as well as the Executive Board's proposal regarding the appropriation of retained earnings. Following an in-depth review of the audit reports on the annual financial statements and consolidated financial statements with the auditor, the committee decided to recommend that the Supervisory Board approve the 2018 annual financial statements and consolidated financial statements. Furthermore, the audit of the non-financial statement, including the selection and commissioning of the external auditor by the Supervisory Board, was prepared. In addition, the Audit Committee resolved to recommend that the Supervisory Board commission KPMG with the examination of the content of the non-financial statement with limited assurance pursuant to § 111 section 2 sentence 4 AktG. Following in-depth discussions, the Audit Committee also made a recommendation to the Supervisory Board regarding the proposal to the Annual General Meeting 2019 for the appointment of the auditor. The Audit Committee declared to the Supervisory Board that the recommendation is free from undue influence by a third party and that no clause of the kind referred to in Article 16 section 6 of the EU Regulation No. 537/2014 of the European Parliament and of the Council of

April 16, 2014 on specific requirements regarding the statutory audit of public-interest entities has been imposed upon it. A further subject of in-depth discussions was the assignment of the audit mandate to the auditor for the 2019 financial year, the determination of the focus points of the audit, the supervision of the independence and qualification of the auditor as well as the quality of the audit of annual accounts, the determination of the audit fees and ultimately the discussion of the quarterly financial figures and the half year report. The Audit Committee dealt intensively with the monitoring of the effectiveness of the Risk Management System, the Internal Control System and Audit System as well as with the Compliance Management System. Moreover, the committee addressed the findings of Internal Audit and the audit plan. Potential and pending important legal disputes were also discussed. In addition, at every meeting of the Audit Committee, the Chief Compliance Officer gave regular reports on the Compliance Management System and the main compliance cases in the year under review.
In the year under review, the Audit Committee also discussed in depth the financing of the existing pension plans for the Executive Board and employees. Finally, the Audit Committee discussed the regulations for related party transactions which were recently added to the German Stock Corporation Act. According to these regulations, if the value of the transaction exceeds a defined threshold, listed stock corporations may only engage in related party transactions with the approval of the Supervisory Board. The Audit Committee recommended that the Supervisory Board delegate the authorization to approve related party transactions to the Audit Committee. The Supervisory Board approved the respective resolution proposal at its October meeting.

- The **Nomination Committee** held two meetings in the year under review. It particularly prepared the recommendations of the Supervisory Board regarding the shareholder representative election to the 2019 and 2020 Annual General Meeting. In this respect, taking the statutory requirements into account, the suitability and independence of the candidates were discussed. Furthermore, taking into consideration the competency profile for the members of the Supervisory Board defined by the Supervisory Board, a qualification profile was developed. Based on this, the Nomination Committee dealt with suitable candidates for the mandates to be filled within the Supervisory Board.
- The **Mediation Committee** to be established in accordance with the German Co-Determination Act (Mitbestimmungsgesetz — MitbestG) did not have to be convened in the year under review.

ELECTION AND COMPOSITION OF THE NEW SUPERVISORY BOARD

The terms of office of all members of the Supervisory Board ended upon conclusion of the 2019 Annual General Meeting.

The shareholder representatives on the Supervisory Board were newly elected at the 2019 Annual General Meeting. In light of the expiry of the one-year term of office of Igor Landau, a new Supervisory Board member will be elected in the context of the 2020 Annual General Meeting. For every new election taking place, the Supervisory Board submits its proposals to the Annual General Meeting. Prior to submitting an election proposal, there is a diligent selection process for suitable candidates. The selection criteria for the candidates are based on a pre-defined qualification profile. These selection criteria are based on the objectives of the Supervisory Board regarding its composition, as defined by the Supervisory Board, and take into account the competency profile as well as statutory provisions and the applicable recommendations of the Code.

With the exception of Igor Landau and Herbert Kauffmann, the Supervisory Board proposed that the new Supervisory Board members be appointed for the period from the end of the 2019 Annual General Meeting to the end of the 2024 Annual General Meeting. The Supervisory Board proposed that Igor Landau be appointed until the end of the 2020 Annual General Meeting. The reappointment of Igor Landau for a term of office of only one year serves the purpose of ensuring a smooth handover of the chairmanship of the Supervisory Board. The Supervisory Board proposed that Herbert Kauffmann be appointed until the end of the 2021 Annual General Meeting. The proposal to appoint Herbert Kauffmann for a term of office of only two years is based on the fact that he will then have served as a Supervisory Board member of adidas AG for twelve years. While the Supervisory Board has no doubts about Herbert Kauffmann's independence, the Supervisory Board is already following the recommendations of the new version of the Code as amended on December 16, 2019. According to the Code, as a rule, a member is no longer considered independent after a twelve-year term of office on the Supervisory Board. As set forth in the new version of the Code, the Audit Committee shall always be chaired by an independent member.

The 2019 Annual General meeting approved all election proposals with a large majority.

The employee representatives on the Supervisory Board were newly elected in March 2019. For the first time, the employee representatives were elected by delegates. In this regard, all adidas AG employees eligible to vote elected delegates, who subsequently elected the Supervisory Board members at the assembly of delegates. The candidates thereby elected, together with the trade union representatives, form the employee representation on the Supervisory Board since the end of the 2019 Annual General Meeting.

The Chairman and his two Deputies as well as the committee members were elected at the constituent meeting of the Supervisory Board. With regard to the representation of women and men, the Supervisory Board complies with the statutory minimum quota pursuant to § 96 section 2 sentence 1 AktG. Prior to the resolution on the election proposals in accordance with § 96 section 2 sentence 3 AktG, both the shareholder representatives and the employee representatives resolved that the minimum quota of 30% women and 30% men on the Supervisory Board shall be fulfilled separately for the shareholder representatives and the employee representatives.

EXAMINATION OF THE 2019 ANNUAL FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

KPMG audited the 2019 consolidated financial statements prepared by the Executive Board in accordance with § 315e German Commercial Code (Handelsgesetzbuch – HGB) in compliance with the International Financial Reporting Standards (IFRS), as they are to be applied in the EU, and issued an unqualified opinion thereon. The auditor also approved without qualification the 2019 annual financial statements of adidas AG, prepared in accordance with the requirements of the German Commercial Code, and the combined Management Report of adidas AG and the adidas Group. Furthermore, at the request of the Supervisory Board, KPMG audited the non-financial statement. KPMG has been acting as auditor and Group auditor for adidas AG since the 1995 financial year. On the basis of the transitional periods of Article 41 Regulation (EU) No 537/2014, KPMG must not be reappointed after June 17, 2023 and it is mandatory to carry out an external rotation. As the responsible audit partners, auditor Haiko Schmidt has been signing the financial statements since the 2017 financial year and auditor Prof. Dr. Kai Andrejewski since the 2019 financial year. The 2019 Annual General Meeting elected KPMG as auditor and Group auditor upon proposal of the Supervisory Board, corresponding with a recommendation of the Audit Committee. Prior to this, KPMG had confirmed to both the Supervisory Board and Audit Committee that there are no circumstances which could prejudice their independence as auditor or which could cast doubt on KPMG's independence. In this respect, KPMG also declared to which extent non-audit services were rendered for the company in the previous financial year or are contractually agreed upon for the following year. The financial statements, the proposal put forward by the Executive Board regarding the appropriation of retained earnings and the auditor's reports were distributed by the Executive Board to all Supervisory Board members in a timely manner.

We examined the documents in depth, with a particular focus on legality and regularity, in the presence of the auditor at the Audit Committee meeting held on March 9, 2020 and at the Supervisory Board's March 10, 2020 financial statements meeting, during which the Executive Board explained the financial statements in detail. At both meetings, the auditor reported on the material results of the audit, inter alia with regard to the priority topics agreed and the key audit matters and was available for questions and the provision of additional information. The auditor did not report any significant weaknesses with respect to the internal control and risk management system relating to the accounting process. We also discussed in depth the Executive Board's proposal concerning the appropriation of retained earnings, which provides for a dividend of € 3.85 per dividend-entitled share, and adopted this increase in the dividend to € 3.85 compared with the previous year, also taking into consideration the good financial situation and business development in the 2019 financial year as well as the company's positive future prospects.

Based on our own examinations of the annual and consolidated financial statements (including the non-financial statement), we came to the conclusion that there are no objections to be raised. At our financial statements meeting, therefore, following the recommendation of the Audit Committee, we approved the audit results and the financial statements including the non-financial statement prepared by the Executive Board. The 2019 annual financial statements of adidas AG were thus approved.

EXPRESSION OF THANKS

On behalf of the entire Supervisory Board, I would like to thank the members of the Supervisory Board who left in the year under review for their commitment for the benefit of the company. Furthermore, I wish to thank the current Executive Board, the departing Executive Board members Gil Steyaert and Eric Liedtke as well as all employees around the world for their great personal dedication and their ongoing commitment. I would also like to express my thanks for the trusting cooperation between the employee and shareholder representatives on the Supervisory Board.

For the Supervisory Board

IGOR LANDAU
CHAIRMAN OF THE SUPERVISORY BOARD

March 2020

DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT [1]

Corporate Governance stands for responsible and transparent management and corporate control oriented toward a sustainable increase in value. We are convinced that good corporate governance is an essential foundation for sustainable corporate success and enhances the confidence placed in our company by our shareholders, business partners, employees and the financial markets. The following report includes the Declaration on Corporate Governance and the Corporate Governance Report and is issued by the Executive Board and Supervisory Board in accordance with the German Corporate Governance Code ('Code') as amended on February 7, 2017, which was published in the Federal Gazette on April 24, 2017 and May 19, 2017 (corrected version).

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

The Executive Board and Supervisory Board of adidas AG issued their last Declaration of Compliance pursuant to § 161 AktG in February 2019. For the period from the publication of the last Declaration of Compliance, the following Declaration refers to the German Corporate Governance Code ('Code') as amended on February 7, 2017, which was published in the Federal Gazette on April 24, 2017 and May 19, 2017 (corrected version).

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

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

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

Herzogenaurach, December 2019

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

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

SUGGESTIONS OF THE GERMAN CORPORATE GOVERNANCE CODE LARGELY FULFILLED

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

DUAL BOARD SYSTEM

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

COMPOSITION AND WORKING METHODS OF THE EXECUTIVE BOARD

The composition of our Executive Board, which consists of six members, reflects the international character of our company. The Executive Board is responsible for independently managing the company, determining the Group's strategic orientation, agreeing this with the Supervisory Board and ensuring its implementation. Further, it defines business

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

targets, company policy and the organization of the Group. The Executive Board is in charge of preparing the quarterly statements, the company's half year report as well as the annual financial statements and consolidated financial statements and the combined Management Report of adidas AG and the Group. Moreover, it prepares a combined non-financial statement for the company and the Group. Additionally, the Executive Board ensures appropriate risk management and risk controlling as well as compliance with statutory regulations and internal guidelines. In this regard, the Executive Board is responsible for implementing an adequate compliance management system which meets the requirements of the company's risk situation. It is bound to the company's interest and obligated to strive for a sustainable increase in company value.

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

The Executive Board and Supervisory Board cooperate closely for the benefit of the company. The Executive Board reports to the Supervisory Board regularly, extensively and in a timely manner on all matters relevant for the company's strategy, planning, business development, financial position and compliance as well as on essential business risks. Fundamental questions related to the corporate strategy and its implementation are thoroughly discussed and agreed with the Supervisory Board. When filling leadership positions in the company, the Executive Board takes diversity into account and aims for, in particular, adequate consideration of women.

No member of the Executive Board has accepted more than a total of three supervisory board mandates in non-group listed companies or in supervisory bodies of non-group companies with comparable requirements. SEE EXECUTIVE BOARD, P. 11

COMPOSITION AND WORKING METHODS OF THE SUPERVISORY BOARD

Our Supervisory Board consists of 16 members. It comprises eight shareholder representatives and eight employee representatives in accordance with the German Co-Determination Act (Mitbestimmungsgesetz – MitbestG). SEE SUPERVISORY BOARD, P. 15 The shareholder representatives are elected by the shareholders at the Annual General Meeting, and the employee representatives by the employees. The most recent regular elections took place in the 2019 financial year. The term of office of all current members of the Supervisory Board commenced at the end of the Annual General Meeting on May 9, 2019 and will, in principle, expire at the end of the 2024 Annual General Meeting. The term of office of Igor Landau expires at the end of the 2020 Annual General Meeting and the term of office of Herbert Kauffmann at the end of the 2021 Annual General Meeting.

Objectives for the composition of the Supervisory Board

Due to the Supervisory Board elections in the 2019 financial year, the Supervisory Board confirmed at its meeting in December 2019 the objectives regarding its composition (including the profile of skills and expertise [competency profile] for the full Supervisory Board) which had last been resolved upon in October 2018, taking into account the recommendations of the Code. These objectives are published on our website. ↗ ADIDAS-GROUP.COM/S/BODIES According to these objectives, the Supervisory Board should be composed in such a way that qualified supervision of and advice to the Executive Board are ensured. Its members as a whole are expected to have the knowledge, skills and professional experience required to properly perform the tasks of a supervisory board in a capital market-oriented, international company in the sporting goods industry. To this end, it is ensured that the Supervisory Board as a whole possesses the competencies considered essential in view of adidas' activities. This includes, in particular, in-depth knowledge and experience in the sporting goods and sports- and leisurewear industry, in the business of fast-moving consumer-oriented goods and in the areas of technology, digitalization and information technology (including IT security), production, marketing and sales, in particular in the e-commerce and retail sector. Moreover, the Supervisory Board is expected to possess knowledge and experience in the markets relevant for adidas, in particular the Asian and US markets, and in the management of a large international company. Furthermore, the Supervisory Board as a whole must possess knowledge and experience in the areas of business strategy development and implementation, personnel planning and management, accounting and financial reporting, controlling/risk management, governance/compliance as well as corporate social responsibility. At least one member of the Supervisory Board must have expertise in the areas of accounting or auditing of annual accounts. Additionally, the Supervisory Board members as a whole are expected to be familiar with the sporting goods industry.

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

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

In the Supervisory Board's assessment, the Supervisory Board as a whole fulfills the objectives stated and the competency profile. Together, the members of the Supervisory Board have the knowledge, skills and professional expertise required to properly perform their duties. All of them are familiar with the sector in which the company operates. As they furthermore have extensive knowledge of various professional fields and many years of international experience, they bring a broad spectrum of expertise and experience to the performance of the Supervisory Board's function. Moreover, with Herbert Kauffmann, the Chairman of the Audit Committee, at least one member of the Supervisory Board has proven expertise in the areas of accounting or auditing of annual accounts. The number of female Supervisory Board members currently amounts to five; thus, the statutory minimum quota regarding the composition, namely at least 30% female and at least 30% male members, is fulfilled. Further information on the fulfillment of the quota stipulated in § 96 section 2 sentence 1 AktG is contained in this report. SEE SECTION 'COMMITMENT TO THE PROMOTION OF EQUAL PARTICIPATION OF WOMEN AND MEN IN LEADERSHIP POSITIONS', P. 27 The members of our Supervisory Board do not exercise directorships or similar positions or advisory tasks for key competitors of the company. Further, they do not have business or personal relations with adidas AG, its Executive Board and Supervisory Board or a controlling shareholder which may cause a substantial and not merely temporary conflict of interest. No members of the Supervisory Board are former Executive Board members. In the Supervisory Board's assessment, all eight shareholder representatives were independent within the meaning of the Code in the year under review. In accordance with the objectives resolved upon regarding its composition, the Supervisory Board deems this to be an appropriate number. The names of the independent shareholder representatives are set out in the overview of all Supervisory Board members in this Annual Report. SEE SUPERVISORY BOARD, P. 15 Assuming that all of the employee representatives also in principle meet the independence criteria as defined by the Code, in the Supervisory Board's assessment, all of its members were independent in the year under review. Regarding the Supervisory Board's composition, the age limit of, in general, 72 years at the time of election as well as the regular length of membership in the Supervisory Board of, in general, 15 years or three terms of office, was taken into account. The reappointment of Igor Landau, who exceeds both the age limit and the regular length of membership, for a term of office of only one year allows for transfer of the Supervisory Board chairmanship to a new Chairman. The orderly handover to a successor is highly important in particular in view of the fact that we are in the final implementation phase of the strategic business plan 'Creating the New'. This is furthermore in the interest of the company because the company can benefit from Igor Landau's extensive expertise as he will see the strategic business plan through to its completion in the 2020 financial year, thus ensuring a smooth handover to a new Supervisory Board Chairman. Furthermore, Roland Nosko, a union representative on the employee representative side, belonged to the Supervisory Board for more than 15 years upon his reappointment.

The Supervisory Board's election proposals to the Annual General Meeting are prepared by the Nomination Committee. They take into account the objectives regarding the Supervisory Board's composition in accordance with section 5.4.1 of the Code resolved upon by the Supervisory Board and are aimed at fulfilling the competency profile developed by the Supervisory Board for the Board as a whole. The Supervisory Board pays attention to a balanced composition to ensure that the required know-how is represented on as broad a scale as possible. Moreover, the Supervisory Board ascertains that each proposed candidate has sufficient time to perform their mandates.

Tasks of the Supervisory Board

The Supervisory Board supervises and advises the Executive Board in questions relating to the management of the company. The Executive Board regularly, expeditiously and comprehensively reports on business development and planning as well as on the company's risk situation including compliance and coordinates the strategy of the company and its implementation with the Supervisory Board. The Supervisory Board examines and approves the annual financial statements and consolidated financial statements as well as the combined Management Report of adidas AG and the Group, taking into consideration the auditor's reports, and resolves upon the proposal of the Executive Board on the appropriation of retained earnings. Additionally, it resolves upon the Supervisory Board's resolution proposals to be presented to the Annual General Meeting. Moreover, the Supervisory Board examines the combined non-financial statement for the company and the Group. Certain business transactions and measures of the Executive Board with fundamental significance are subject to prior approval by the Supervisory Board or by a Supervisory Board committee. The respective details are set out in § 9 of the Rules of Procedure of the Supervisory Board of adidas AG. Furthermore, the requirement of prior Supervisory Board approval is stipulated in some resolutions by the Annual General Meeting.

The Supervisory Board is also responsible for the appointment and dismissal of the Executive Board members as well as for the allocation of their areas of responsibility. The respective proposals are prepared by the General Committee. When appointing new Executive Board members, the Supervisory Board aims to select candidates with a wide range of complementary skills to ensure the best possible Executive Board composition for the company, keeping long-term succession planning in mind. Inter alia, experience, industry knowledge as well as professional and personal qualifications play an important role in this regard. In addition, taking into account the international structure of the company, the Supervisory Board considers diversity. This applies, in particular, also with regard to age, gender, internationality and further important personal qualities. Considering all circumstances of the individual case, the company's interest is always key when deciding who to appoint to a specific Executive Board position. Furthermore, the Supervisory Board determines the Executive Board compensation system, examines it regularly and decides on the individual overall compensation of each Executive Board member. Further information on Executive Board compensation is compiled in the Compensation Report. SEE COMPENSATION REPORT, P. 30

Further information on Corporate Governance

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

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

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

Apart from the individual skills expected of the members, the Rules of Procedure of the Supervisory Board and of the Audit Committee also set out the tasks and responsibilities as well as the procedure for meetings and passing resolutions. These Rules of Procedure are available on our website. The Supervisory Board Report provides information on the activities of the Supervisory Board and its committees in the year under review. SEE SUPERVISORY BOARD REPORT, P. 18

The members of the Supervisory Board are individually responsible for undertaking any necessary training and professional development measures required for their tasks and, in doing so, are supported by adidas AG. The company informs the Supervisory Board regularly about current legislative changes as well as opportunities for external training, and provides the Supervisory Board with relevant specialist literature. In this regard, the Supervisory Board also obtained information about the latest corporate governance developments and dealt extensively with the revised version of the Code.

Furthermore, the Supervisory Board and the Audit Committee examine the efficiency of their work on a regular basis. The most recent efficiency examination took place in the 2018 financial year.

The compensation of the Supervisory Board members is set out in the Compensation Report. SEE COMPENSATION REPORT, P. 30

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

When filling leadership positions in the company, the Executive Board takes diversity into account and especially aims for appropriate consideration of women. The Supervisory Board is also convinced that an increase in the number of women in leadership positions within the company is necessary to ensure that, in the future, a larger number of suitable female candidates are available for Executive Board positions. The Supervisory Board thus supports the company's initiatives to foster diversity and inclusion and promote women in leadership positions. SEE PEOPLE AND CULTURE, P. 70

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

The target figure for the Executive Board is 1/7 or 14.29%. The deadline for achieving this target figure is June 30, 2022.

The deadline for achieving the target figures for the first and second management levels expired on December 31, 2019. On the first management level below the Executive Board, the percentage share of women amounted to 20% at the deadline. The target figure of 24% was thus not achieved. This is attributable to, in particular, unplanned departures from the company in the year under review as well as an increase in the total number of senior executives on this management level. In this respect, it must be noted that adidas AG has only a small number of leadership positions on this management level; therefore, minor changes already result in considerable changes in percentage numbers. On the second management level below the Executive Board, the percentage share of women amounted to 28.8% at the deadline. The target figure of 30% was thus not achieved. This target figure was only just missed, mainly because of the reorganization of departments which led to the elimination of a number of leadership positions partly held by women. As at December 31, 2019, female representation in leadership positions amounted to 34% on a global level. The target figure of 32% for the year 2020 has thus already been exceeded. The company will continue to intensify its efforts to remain an attractive employer in the future, with a particular focus on a long-term approach for equal participation in leadership positions.

The Executive Board has once again determined target figures and implementation deadlines for the percentage of female representation on the first and second management levels below the Executive Board. These target figures are as follows:

The target figure for the first management level below the Executive Board is 24.2% and 30% for the second management level below the Executive Board. The implementation period for both targets expires on December 31, 2021.

In accordance with § 96 section 2 sentence 1 AktG, at least 30% of the members of the Supervisory Board have to be female and at least 30% have to be male. Prior to the Supervisory Board election in 2019 and also for the Supervisory Board election in 2020, the shareholder representatives and the employee representatives each resolved in accordance with § 96 section 2 sentence 3 AktG that this minimum quota shall be fulfilled separately for the shareholder representatives and the employee representatives. As at December 31, 2019, altogether five of the 16 Supervisory Board mandates of the company were held by women, two on the shareholder representative side and three on the employee representative side. The minimum quota required is thus fulfilled on both sides.

AVOIDING CONFLICTS OF INTEREST

The members of the Executive Board and Supervisory Board are obligated to disclose any conflicts of interest to the Supervisory Board without delay. Substantial transactions between the company and members of the Executive Board or related parties of the Executive Board require Supervisory Board approval. Contracts between the company and members of the Supervisory Board also require Supervisory Board approval. The Supervisory Board reports any conflicts of interest, as well as the handling thereof, to the Annual General Meeting. In the year under review, the members of the Executive Board and the members of the Supervisory Board did not face any conflicts of interest. SEE SUPERVISORY BOARD REPORT, P. 18

SHARE TRANSACTIONS CONDUCTED BY THE EXECUTIVE BOARD AND SUPERVISORY BOARD

An overview of the transactions of the Executive Board and the Supervisory Board pursuant to Article 19 of the Regulation (EU) No 596/2014 (Market Abuse Regulation) notified to adidas AG in 2019 is published on our website. ↗ ADIDAS-GROUP.COM/S/MANAGERS-TRANSACTIONS

RELEVANT MANAGEMENT PRACTICES

Our business activities are oriented toward the legal systems in the various countries and markets in which we operate. This implies a high level of social and environmental responsibility. Further information on company-specific practices which are applied in addition to statutory requirements, such as our Code of Conduct ('Fair Play'), on compliance with working and social standards within our supply chain, environmentally friendly resource management in our manufacturing processes and our social commitment, is available in this Annual Report and on our website. SEE PEOPLE AND CULTURE P. 70, SEE SUSTAINABILITY, P. 78, ↗ ADIDAS-GROUP.COM/S/SUSTAINABILITY

COMPLIANCE AND RISK MANAGEMENT

Compliance with laws, internal and external provisions and responsible risk management are part of corporate governance at adidas. Our compliance management system is linked to the company's risk and opportunity management system. As part of our global 'Fair Play Concept', the compliance management system establishes the organizational framework for company-wide awareness of our internal rules and guidelines and for the legally compliant conduct of our business. It underscores our strong commitment to ethical and fair behavior in our own organization and also sets the parameters for how we deal with others. The principles of our compliance management system are set out in the Risk and Opportunity Report. The risk and opportunity management system ensures risk-aware, opportunity-oriented and informed actions in a dynamic business environment in order to guarantee the competitiveness and sustainable success of adidas. SEE RISK AND OPPORTUNITY REPORT, P. 120

Further information on the principles of our management

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

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

TRANSPARENCY AND PROTECTION OF SHAREHOLDERS' INTERESTS

It is our goal to inform all institutional investors, private shareholders, financial analysts, business partners, employees and the interested public about the company's situation, at the same time and to an equal extent, through regular, transparent and up-to-date communication. We publish all essential information, such as press releases, ad hoc announcements and voting rights notifications as well as all presentations from roadshows and conferences, all financial reports and the financial calendar on our website. With our Investor Relations activities, we maintain close and continuous contact with our current and potential shareholders. ↗ ADIDAS-GROUP.COM/S/INVESTORS, SEE OUR SHARE, P. 46

In addition, we provide all documents and information on our Annual General Meeting on our website. The shareholders of adidas AG exercise their shareholders' rights at the Annual General Meeting. Each share grants one vote. Our shareholders are involved in all fundamental decisions at the Annual General Meeting through their participation rights. It is our intention to support our shareholders in exercising their voting rights at the Annual General Meeting. At our next Annual General Meeting, taking place in Fuerth (Bavaria) on May 14, 2020, we will again provide our shareholders with the best possible service. Shareholders have the possibility, inter alia, to electronically register for the Annual General Meeting through our shareholder portal or to participate in voting by granting powers of representation and voting instructions online to the proxies appointed by the company.

SHARE-BASED PROGRAMS

A long-term incentive plan, which is part of the remuneration for senior executives of adidas, applies. Based on this plan, the plan participants receive virtual shares (Restricted Stock Units). SEE NOTE 28, P. 176, SEE PEOPLE AND CULTURE, P. 70

As per their contracts, each member of the Executive Board is entitled to participate in a Long-Term Incentive Plan (LTIP) set up for the Executive Board members. The LTIP 2018/2020 links the long-term compensation of the Executive Board to the company's performance and thus to the interests of the shareholders. The decisive assessment factors are designed in a transparent manner and are linked to the long-term profitability targets externally communicated. Moreover, the long-term compensation of the Executive Board and the long-term compensation of senior management are aligned. The LTIP 2018/2020 is share-based. The adidas shares purchased are subject to a multi-year lock-up period. SEE COMPENSATION REPORT, P. 30

Employees of adidas AG and its affiliated companies are able to participate in an employee stock purchase plan, under which they can acquire adidas AG shares with a discount and benefit, on a prorated basis, from free matching shares. SEE NOTE 28, P. 176

ACCOUNTING AND ANNUAL AUDIT

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

KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, was appointed as auditor for the 2019 annual financial statements and consolidated financial statements by the Annual General Meeting. The Supervisory Board had previously assured itself of the auditor's independence. SEE INDEPENDENT AUDITOR'S REPORT, P. 214

COMPENSATION REPORT

For adidas, transparent and comprehensible reporting on the compensation of the Executive Board and Supervisory Board is an essential element of good corporate governance. The Compensation Report is a component of the combined Management Report and outlines the principles of the compensation system for the members of the Executive Board and Supervisory Board as well as the level and structure of the compensation in accordance with the legal requirements and the recommendations of the German Corporate Governance Code ('Code') as amended on February 7, 2017, which was published in the Federal Gazette on April 24, 2017 and May 19, 2017 (corrected version).

COMPENSATION OF THE EXECUTIVE BOARD MEMBERS

Following preparation by the Supervisory Board's General Committee, the compensation system for the Executive Board and the total compensation of each member of the Executive Board is determined and regularly reviewed by the entire Supervisory Board. The compensation and personnel topics dealt with by the Supervisory Board and General Committee in the year under review are described in the Supervisory Board Report. SEE SUPERVISORY BOARD REPORT, P. 18

COMPENSATION SYSTEM

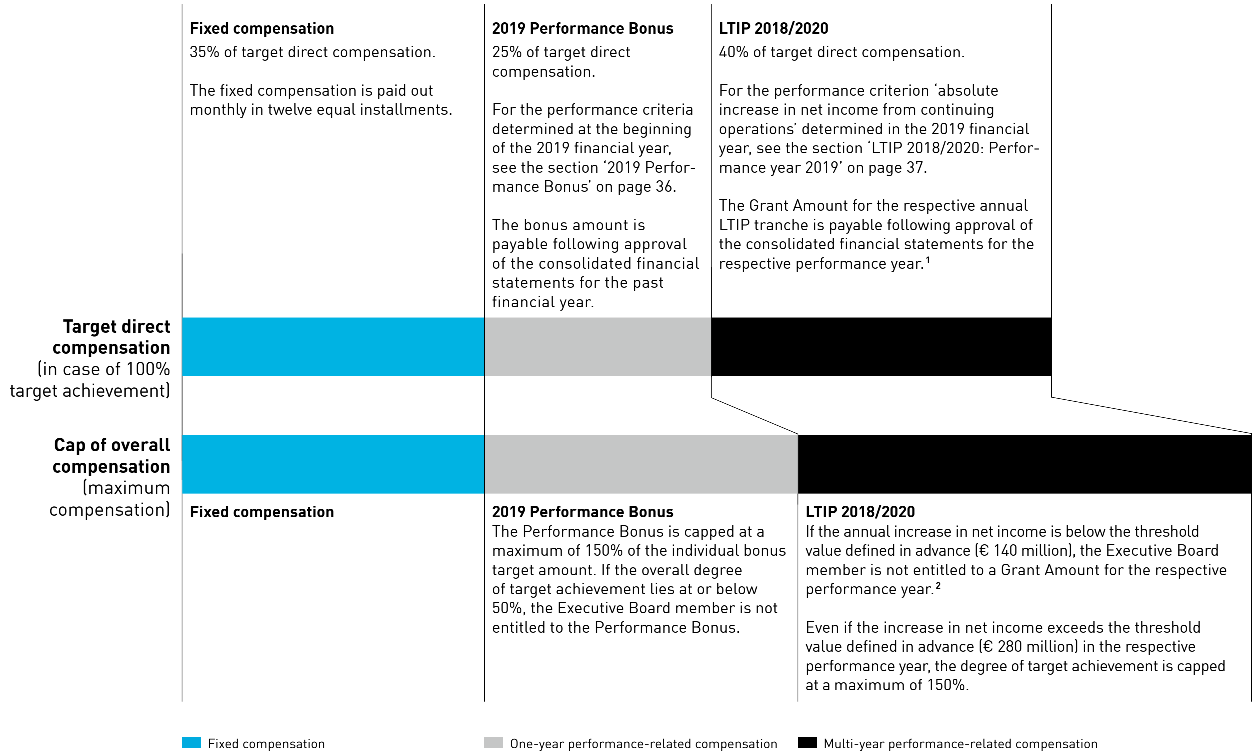
PRINCIPLES OF THE COMPENSATION SYSTEM

The compensation system is geared toward creating an incentive for successful, sustainable and long-term corporate management and development. The compensation is thus structured with an appropriate balance of non-performance-related and performance-related components. More than 50% of the performance-related target compensation components are based on mainly future-related, multi-year performance criteria. They are designed in such a way that both positive and negative developments are considered. Moreover, the incentive to achieve the long-term targets decisive for the multi-year performance-related compensation component is higher than the incentive to achieve the targets decisive for being granted the one-year performance-related compensation component. Execution of the corporate strategy is promoted by selecting suitable performance targets for the performance-related compensation. Therefore, at least 80% of the performance-related compensation is directly linked to the short- and long-term sales and profitability targets externally communicated, thus bringing the compensation of the Executive Board members directly in line with the interests of the shareholders. SEE SECTION 'VARIABLE PERFORMANCE-RELATED COMPONENTS', P. 33

When designing the compensation system and determining the Executive Board compensation, the Supervisory Board takes into account the size and global orientation, the economic situation, the success and the outlook of the company. Furthermore, the Supervisory Board considers the common level of compensation in particular by taking into account the compensation level of the DAX 30 companies and the relation between the Executive Board compensation and that of senior management and employees overall, also in terms of its development over time. Compared with competitors, the compensation should be attractive, offering incentives to attract qualified members for the Executive Board and retain them long-term. In addition, when determining the compensation, the tasks of the respective Executive Board member and their contribution to the company's success are taken into consideration. The performance-related compensation is measured based on the achievement of ambitious, pre-agreed targets; subsequent changes to performance targets or comparison parameters are not permitted. The compensation system aims to appropriately remunerate exceptional performance, while diminishing performance-related compensation when targets are not met. Thus, in the Supervisory Board's opinion, an appropriate level of compensation, which is reviewed regularly by the Supervisory Board and adjusted if required, is ensured.

The compensation system which has been applicable for the members of the Executive Board since the 2018 financial year was adopted by the shareholders at the Annual General Meeting on May 9, 2018. In view of the Act on the Implementation of the Second Shareholders' Rights Directive (Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie – 'ARUG II') and the coming into force of the new version of the German Corporate Governance Code, structural changes to the compensation system for the Executive Board members will become necessary. Furthermore, in late 2020, adidas will present the new long-term strategic business plan applicable from the 2021 financial year and the associated targets. In this context, it is intended to present the revised compensation system to the Annual General Meeting for approval in 2021 in accordance with the provisions of ARUG II. In this way, the new short-term and long-term performance-related compensation components for the Executive Board members can be aligned with the company's new long-term targets applicable from the 2021 financial year.

Compensation system for the Executive Board members 2



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

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

- 35% fixed compensation,
- 25% Performance Bonus and
- 40% LTIP Bonus. SEE DIAGRAM 2

Overall, the Supervisory Board believes that the compensation system is clear and easy to understand and makes use of transparent performance criteria. Due to the fact that the target direct compensation consists predominantly of variable components which are directly linked to the short- and long-term objectives of the company and due to the share-based long-term compensation of the Executive Board members, the interests of the Executive Board are aligned with the interests of the shareholders.

FIXED NON-PERFORMANCE-RELATED COMPONENTS

Fixed compensation

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

Other benefits

Other benefits for the Executive Board members primarily consist of paying for, or providing the monetary value of, non-cash benefits such as premiums or contributions to insurance schemes in line with market practice, the provision of a company car or the payment of a car allowance and, if Executive Board members are also subject to taxation abroad, the costs for the tax consultant selected by adidas. The total amount of other benefits is capped at 5% of the total amount of the fixed compensation and a (possible) Performance Bonus granted in the respective financial year ('Benefit Cap'). Moreover, if an Executive Board member has to relocate upon initial appointment to the Executive Board, adidas pays reasonable expenses incurred for international relocations for the Executive Board member and their family; the expenses paid are capped on an individual basis.

Defined contribution pension plans

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

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

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

At the option of the Executive Board member or the surviving dependents, the payout of all pension benefits is made either as a one-time payment or in up to ten equal annual installments. If no choice is made by the Executive Board member or by the surviving dependents, the pension benefits are paid out in three equal annual installments. As a rule, in case of a payout in annual installments, the installments are due in January of the respective year.[3]

1 The pension plan for Gil Steyaert, who resigned as a member of the Executive Board in the year under review, deviates from the above: Until the end of his mandate, annual pension contributions were paid for Gil Steyaert into a special account at a financial institute which is subject to access restrictions. The special account and the access restrictions are maintained until occurrence of the pension-triggering event. The rules for this pension plan generally correspond to the rules of the defined contribution pension plans of the current Executive Board members, except that there are no ongoing interest payments and no credited contributions in the case of invalidity or death. The respective annual pension contributions to be determined by the Supervisory Board were therefore increased for Gil Steyaert by an amount determined based on actuarial principles.
2 The provisions for Karen Parkin and the departed Executive Board member Eric Liedtke deviate from the above: The pension plans for Karen Parkin and Eric Liedtke do not provide for early retirement pensions upon reaching the age of 62.
3 The provisions for Karen Parkin and the departed Executive Board members Eric Liedtke and Gil Steyaert deviate from the above: The pension plans for Karen Parkin and Eric Liedtke stipulate that the pension benefits are paid out in three equal installments payable in January of the three calendar years following the occurrence of the pension-triggering event. Moreover, under US law, there may be certain waiting periods regarding the payout of the first annual installment. The pension plan for Gil Steyaert stipulates that on occurrence of the pension-triggering event, the access restrictions no longer apply and the amount on the special account at the respective point in time becomes available to him.

VARIABLE PERFORMANCE-RELATED COMPONENTS

Performance Bonus

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

The amount of the Performance Bonus is determined based on the achievement of, generally, four weighted criteria. Two of these criteria are the same for all Executive Board members and are overall weighted at 60%. These criteria are directly linked to the annual guidance externally communicated and, at the same time, follow directly from the – also externally communicated – long-term growth targets of adidas. The other two criteria, which are also in line with the company's short- and long-term targets and reflect priorities of the respective Executive Board function also taking into account non-financial aspects, are determined on an individual basis for the respective Executive Board member and are overall weighted at 40%. All criteria are designed in such a way that target achievement may also be zero. When targets are clearly not met, the Performance Bonus may consequently be forfeited entirely. SEE TABLE 3

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

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

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

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

Performance Bonus 3

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

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

The LTIP 2018/2020 aims to link the long-term performance-related compensation of the Executive Board to the company's performance and thus to the interests of the shareholders. Therefore, the LTIP 2018/2020 is share-based. It consists of three annual tranches (2018, 2019 and 2020) and each tranche is assessed based on a period of approximately four and a half years. Each of the three annual LTIP tranches consists of a performance year and a subsequent lock-up period of slightly more than three years. SEE TABLE 4

LTIP 2018/2020 4

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

At the beginning of 2018, the Supervisory Board determined for each of the three performance years (2018, 2019 and 2020) the absolute increase in net income from continuing operations compared to the respective previous year as performance criterion. The target values for the annual LTIP tranches follow directly from the externally published long-term net income growth targets of the company. For instance, if net income from continuing operations increased by a total of € 630 million (100% target achievement) in the three-year period from 2018 to 2020, net income from continuing operations would amount to € 2,060 million in 2020. Compared to 2015 (basis of adidas' corporate strategy), this would correspond to an average increase in net income of 23% per year, which would be within the target corridor of 22% to 24%, as defined by adidas in its current strategic business plan. SEE TABLE 5

LTIP 2018/2020: Growth targets 5

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

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

If the increase in net income from continuing operations is below € 210 million in the respective performance year, the target value for 100% target achievement is increased correspondingly for the following performance year, unless the Supervisory Board decides otherwise at its equitable discretion. For instance, if net income increased by only € 180 million in the past performance year, net income in the following performance year must be increased by € 240 million for 100% target achievement. However, if the increase in net income is higher than € 210 million in a performance year, the target for the following performance year remains unaffected. So despite a net income increase in 2019 of € 263 million (2018: € 279 million), reflecting a target achievement of 138% (2018: 149%), net income in the following performance year 2020 must still be increased by € 210 million for a target achievement of 100%.

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

The precise target achievement is determined on the basis of the approved consolidated financial statements for the respective performance year. In this respect, the Supervisory Board may, at its equitable discretion, take into account extraordinary positive and negative developments which are not related to the performance of the Executive Board. The degree of target achievement by which the annual LTIP target amount determined for the respective Executive Board member is multiplied is derived from the amount of the actual increase in net income from continuing operations for the respective performance year. SEE TABLE 6

LTIP 2018/2020: Calculation of target achievement 6

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

If the actual increase in net income from continuing operations compared to the previous year is between the predefined threshold values, the degree of target achievement is determined based on a sliding scale. If the annual increase in net income is below € 140 million, the degree of target achievement is zero. Consequently, the LTIP Bonus for the respective LTIP tranche is forfeited completely. Furthermore, the degree of target achievement is capped at 150%, even if the increase in net income exceeds € 280 million.

By multiplying the degree of target achievement thus calculated with the annual LTIP target amount determined for the respective Executive Board member based on 100% target achievement, the Grant Amount is determined, which is paid out to the Executive Board member for the respective annual LTIP tranche following the approval of the consolidated financial statements of adidas for the performance year. The Executive Board members have to invest the full Grant Amount which remains after deducting applicable taxes and social security contributions ('LTIP Payout Amount') into the acquisition of adidas AG shares ('Share Ownership'). The shares purchased are subject to a lock-up period. The lock-up

LTIP 2018/2020: Annual LTIP tranches 7

LTIP tranche	2018	2019	2020	2021	2022	2023	2024
2018	1	2	3	4	5		
2019		1	2	3	4	5	
2020			1	2	3	4	5

Performance year | Lock-up period

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

period ends in the third financial year after the acquisition of the shares upon expiry of the month in which the Annual General Meeting of adidas AG takes place. The Executive Board members may only dispose of the shares after expiry of the lock-up period. SEE DIAGRAM 7

Due to this mechanism, the compensation which the Executive Board members eventually receive from each of the LTIP tranches is directly dependent on the share price performance during the respective lock-up period of slightly more than three years and is thus dependent on the long-term performance of the company. The Executive Board members are entitled to any dividends distributed in connection with these shares during the lock-up period. If an Executive Board member takes or leaves office during a performance year, the Grant Amount for the respective annual LTIP tranche is generally calculated on a pro rata basis. The departed Executive Board member does not participate in the annual LTIP tranches for which the performance year begins after the respective Executive Board member's departure. In certain cases defined in the terms and conditions of the LTIP 2018/2020, any claims in connection with the LTIP 2018/2020 are generally forfeited and adidas AG shares already purchased, for which the lock-up period has not yet expired, must be transferred to adidas without compensation payments.

Furthermore, to ensure sustainable management and development of the company, the terms and conditions of the LTIP 2018/2020 contain malus and clawback provisions; until expiry of the lock-up period (malus) and beyond (clawback), these provisions allow the Supervisory Board at its equitable discretion, under certain circumstances, to partially or completely reduce the compensation from the LTIP 2018/2020 already paid. Such circumstances are, for instance, material misstatements in the financial reports, serious compliance violations and violations of duty as well as breaches of the company-internal rules of conduct by the Executive Board member which, in any such case, would lead to an unjustified bonus payment in the context of the LTIP 2018/2020. Moreover, in the event of violations of duty by Executive Board members, the respective claims for damages under stock corporation law are applicable.

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

SHARE OWNERSHIP

40% of the target direct compensation of the Executive Board members is granted based on the long-term performance-related compensation component LTIP 2018/2020. To promote sustainable development of the company, the Executive Board members are obligated in the context of the LTIP 2018/2020 to invest the full Payout Amount into the acquisition of adidas AG shares. The shares purchased are subject to a lock-up period of slightly more than three years – as a result, the number of adidas AG shares directly held by the Executive Board members increases on an annual basis. SEE TABLE 10

COMMITMENTS TO EXECUTIVE BOARD MEMBERS UPON TERMINATION OF TENURE

Unless otherwise agreed in the individual case, if the service contract ends upon the Executive Board member reaching the age of 65 or upon non-renewal of the service contract, the Executive Board member is entitled to receive annual fixed compensation on a pro rata basis up to the date on which they leave office as well as a potential prorated Performance Bonus and a potential prorated LTIP Bonus. Further, Executive Board members are subject to a post-contractual competition prohibition of two years. As consideration, for the duration of the competition prohibition, the Executive Board members generally receive a monthly compensation amount totaling 50% of the monthly fixed compensation last received, subject to offsetting (e.g. of income from other use of their work capacity). If the departed Executive Board member receives pension payments from the company, this compensation is offset against any pension benefits owed by the company during the period of the competition prohibition.

Under certain circumstances, the departing Executive Board member also receives a follow-up bonus. As regards the current members of the Executive Board, such a follow-up bonus is agreed with Roland Auschel in the amount of 75% of the Performance Bonus granted to him for the last full financial year. This follow-up bonus is payable in two tranches, twelve and 24 months following the end of the contract.

In case of premature termination of tenure in the absence of good cause, the Executive Board service contracts cap potential severance payments at a maximum of twice the total annual compensation, not exceeding payment claims for the remaining period of the service contract ('Severance Payment Cap'). If the service contract is terminated due to a change of control, a possible severance payment is limited to 150% of the Severance Payment Cap. The Executive Board member does not receive a severance payment if they terminate tenure prematurely at their own request or if there is good cause for the company to terminate the employment relationship. The service contracts concluded with Executive Board members newly appointed with effect from January 1, 2020, generally stipulate that compensation for periods of competition prohibition possibly paid on a monthly basis to departing Executive Board members is offset against any severance payments potentially paid by adidas.

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

SIDELINE ACTIVITIES OF EXECUTIVE BOARD MEMBERS

Executive Board members may only take on sideline activities with or without remuneration, in particular supervisory board mandates in group-external companies, with the prior approval of the Supervisory Board. Group-internal mandates are deemed covered by the contractually agreed Executive Board compensation. The Supervisory Board decides whether or not compensation for group-external mandates is credited to the Executive Board compensation. In accordance with a Supervisory Board resolution, the compensation received by Kasper Rorsted for his Board of Directors mandate at Nestlé S.A. is not credited to his Executive Board compensation.
SEE EXECUTIVE BOARD, P. 11

EXECUTIVE BOARD COMPENSATION 2019

2019 PERFORMANCE BONUS

For the 2019 financial year, the Supervisory Board determined
- currency-neutral sales growth,
- an increase in the operating margin and
- two criteria relating to the individual performance of the Executive Board members

as performance criteria.

The targets determined for the Performance Bonus are oriented toward the guidance communicated for the 2019 financial year, namely 'currency-neutral sales increase between 5% and 8%' and an 'increase in the operating margin to a level between 11.3% and 11.5%'. When determining the degree of target achievement for the criterion 'increase in the operating margin', the positive effect of the accounting change pursuant to IFRS 16 in the amount of € 24 million was excluded. SEE TABLE 8

2019 Performance Bonus: Target achievement 8

Performance criterion	Weighting	100% target value	Actual value 2019	Degree of target achievement
Currency-neutral sales growth	30%	increase by 7.5%	6.1%	69%
Operating margin increase	30%	increase to 11.5%	11.2%[1]	50%
Individual criterion 1	20%		individual	
Individual criterion 2	20%		individual	

1 Without the positive effect of the accounting change pursuant to IFRS 16 in the amount of approximately € 24 million.

In the 2019 financial year, the individual criteria relating to the individual Executive Board function focused on, for instance, execution of the corporate strategy, succession planning and performance management within the company, business success in the individual markets, product innovations, digitalization and operating efficiency. Based on the targets actually achieved, this results in an overall degree of target achievement between 75% and 107% (2018: 67%-118%) for the individual Executive Board members for the year under review. As in prior years, when determining the respective individual overall degrees of target achievement, the Supervisory Board did not take into account any extraordinary positive or negative developments which are not related to the performance of the Executive Board.

LTIP 2018/2020: PERFORMANCE YEAR 2019

In the 2018 financial year, the Supervisory Board determined as performance criterion for each of the three performance years (2018, 2019 and 2020) the absolute increase in net income from continuing operations compared to the respective previous year. SEE TABLE 9

LTIP 2018/2020: Target achievement in the performance year 2019 9

Performance criterion	0% target value	100% target value	150% target value	Actual value 2019	Degree of target achievement
Increase in net income from continuing operations compared to the previous year	< + € 140 million	+ € 210 million	≥ + € 280 million	+ € 263 million[1]	138%

1 Without the negative effect of the accounting change pursuant to IFRS 16 in the amount of approximately € 54 million.

Based on the actual target achievement, this results in a degree of target achievement of 138% (2018: 149%) for each Executive Board member for the performance year 2019. When determining the degree of target achievement, the negative effect of the accounting change pursuant to IFRS 16 in the amount of € 54 million was excluded. Apart from this, as in prior years, the Supervisory Board did not take into account any extraordinary positive or negative developments which are not related to the performance of the Executive Board. The Executive Board members have to invest the full Grant Amount which remains after deducting applicable taxes and social security contributions ('LTIP Payout Amount') into the acquisition of adidas AG shares ('Share Ownership'). The shares purchased will be subject to a lock-up period ending upon expiry of the month in which the Annual General Meeting of adidas AG takes place in the 2023 financial year. SEE SECTION 'LONG-TERM INCENTIVE PLAN 2018/2020 (LTIP 2018/2020)', P. 33

As at December 31, 2019, the total number of adidas AG shares which are held by Executive Board members active in the 2019 financial year and which are subject to a lock-up period amounts to 21,451 shares with a total value of € 6.217 million. The lock-up period for the adidas AG shares purchased in the 2018 LTIP tranche expires on May 31, 2022 and for the adidas AG shares purchased in the 2019 LTIP tranche on May 31, 2023. The number and performance of the adidas AG shares purchased so far by the Executive Board members in the context of the LTIP 2018/2020 are set out individually in the following. SEE TABLE 10

The Executive Board was not granted a special bonus, as in prior years.

LTIP 2018/2020: Acquisition of shares in the 2018 LTIP tranche in € 10

	Grant Amount	LTIP Payout Amount	Purchase price as at April 1, 2019	Number of shares as at December 31, 2019	Share price as at December 31, 2019	Total value of adidas AG shares
Kasper Rorsted	3,405,714	1,788,851	219.20	8,160	289.80	2,364,768
Roland Auschel	1,566,629	822,873	219.20	3,753	289.80	1,087,619
Eric Liedtke	1,702,857	894,425	219.20	4,080	289.80	1,182,384
Harm Ohlmeyer	1,170,246	614,670	219.20	2,804	289.80	812,599
Karen Parkin	1,170,246	581,974	219.20	2,654	289.80	769,129
Martin Shankland[1]	–	–	–	–	–	–
Total	**9,015,692**	**4,702,793**		**21,451**		**6,216,500**

1 Executive Board member with effect from March 4, 2019. First-time participation in the LTIP 2018/2020 in the 2019 financial year (2019 LTIP tranche).

PENSION COMMITMENTS

The service costs for the pension commitments granted to the Executive Board members and the cash values of the vested rights in the 2019 financial year are set out individually in the following. SEE TABLE 11

Pension commitments in the 2019 financial year in € — 11

	Service costs		Accumulated pension obligation for the pension	
	2019	**2018**	**2019**	**2018**
Executive Board members incumbent as at December 31, 2019				
Kasper Rorsted	856,807	1,052,993	3,872,421	2,114,236
Roland Auschel	321,247	402,742	2,874,476	1,622,119
Eric Liedtke	345,945	447,154	2,836,852	1,587,967
Harm Ohlmeyer	395,186	386,523	1,444,973	741,407
Karen Parkin	374,370	375,785	1,247,607	644,177
Martin Shankland (since March 4, 2019)	355,518	–	355,518	–
Total	**2,649,073**	**2,665,197**	**12,631,847**	**6,709,906**
Executive Board members departed in the 2019 financial year				
Gil Steyaert (until February 26, 2019)[1]	672,276	528,998	1,498,021	825,745
Total	**672,276**	**528,998**	**1,498,021**	**825,745**

1 Due to the adjustment of Gil Steyaert's pension commitment in the 2018 financial year, the service costs correspond to the gross contribution credited by adidas AG for the respective financial year to the special account opened for him. For Gil Steyaert, the service costs 2019 comprise the gross contribution contractually agreed due to his departure which was granted to Gil Steyaert as pension benefits payable until May 31, 2020 for early termination of the Executive Board mandate. The accumulated pension obligation for Gil Steyaert's pension commitment corresponds to the gross contribution credited by adidas AG during the time of his Executive Board mandate to the special account opened for him.

OVERALL COMPENSATION FOR 2019 IN ACCORDANCE WITH THE CODE

Based on the Supervisory Board's aforementioned determination, the overall compensation of the Executive Board for the 2019 financial year amounts to € 22.361 million. This represents a decrease of approximately 6% (2018: € 23.912 million). Of this overall compensation, € 3.574 million (2018: € 4.431 million) was attributable to the one-year and € 9.245 million (2018: € 10.186 million) to the multi-year performance-related compensation.

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

BENEFITS GRANTED IN ACCORDANCE WITH THE CODE

In the following table, the individual compensation components in case of 100% target achievement of the performance-related compensation are disclosed for each Executive Board member individually, including other benefits and service costs, and also including the maximum and minimum achievable compensation. SEE TABLE 12

Benefits granted in € 12

	Kasper Rorsted Chief Executive Officer				Roland Auschel Global Sales			
	2018	2019	2019 (min.)	2019 (max.)	2018	2019	2019 (min.)	2019 (max.)
Fixed compensation	2,000,000	2,000,000	2,000,000	2,000,000	920,000	920,000	920,000	920,000
Other benefits	19,314	26,417	26,417	26,417	17,943	19,165	19,165	19,165
Total	**2,019,314**	**2,026,417**	**2,026,417**	**2,026,417**	**937,943**	**939,165**	**939,165**	**939,165**
One-year variable compensation	1,428,571	1,428,571	0	2,142,857	657,143	657,143	0	985,715
Multi-year variable compensation	2,285,714	2,285,714	0	3,428,571	1,051,429	1,051,429	0	1,577,144
LTIP 2018/2020 (2019 tranche)	–	2,285,714	0	3,428,571	–	1,051,429	0	1,577,144
LTIP 2018/2020 (2018 tranche)	2,285,714	–	–	–	1,051,429	–	–	–
Total	**5,733,599**	**5,740,702**	**2,026,417**	**7,597,844**	**2,646,515**	**2,647,737**	**939,165**	**3,502,023**
Service costs	1,052,993	856,807	856,807	856,807	402,742	321,247	321,247	321,247
Overall compensation	**6,786,592**	**6,597,509**	**2,883,224**	**8,454,651**	**3,049,257**	**2,968,984**	**1,260,412**	**3,823,270**

	Eric Liedtke[1] Global Brands until December 31, 2019				Harm Ohlmeyer Chief Financial Officer			
	2018	2019	2019 (min.)	2019 (max.)	2018	2019	2019 (min.)	2019 (max.)
Fixed compensation	1,000,000	1,000,000	1,000,000	1,000,000	687,225	687,225	687,225	687,225
Other benefits	24,475	26,935	26,935	26,935	17,826	19,684	19,684	19,684
Total	**1,024,475**	**1,026,935**	**1,026,935**	**1,026,935**	**705,051**	**706,909**	**706,909**	**706,909**
One-year variable compensation	714,286	714,286	0	1,071,429	490,875	490,875	0	736,313
Multi-year variable compensation	1,142,857	1,142,857	0	1,714,286	785,400	785,400	0	1,178,100
LTIP 2018/2020 (2019 tranche)	–	1,142,857	0	1,714,286	–	785,400	0	1,178,100
LTIP 2018/2020 (2018 tranche)	1,142,857	–	–	–	785,400	–	–	–
Total	**2,881,618**	**2,884,078**	**1,026,935**	**3,812,649**	**1,981,326**	**1,983,184**	**706,909**	**2,621,322**
Service costs	447,154	345,945	345,945	345,945	386,523	395,186	395,186	395,186
Overall compensation	**3,328,772**	**3,230,023**	**1,372,880**	**4,158,594**	**2,367,849**	**2,378,370**	**1,102,095**	**3,016,508**

Benefits granted in € 12

	Karen Parkin Global Human Resources				Martin Shankland[2] Global Operations since March 4, 2019			
	2018	**2019**	**2019 (min.)**	**2019 (max.)**	**2018**	**2019**	**2019 (min.)**	**2019 (max.)**
Fixed compensation	687,225	687,225	687,225	687,225	–	567,145	567,145	567,145
Other benefits	18,692	18,692	18,692	18,692	–	118,164	118,164	118,164
Total	**705,917**	**705,917**	**705,917**	**705,917**	–	**685,309**	**685,309**	**685,309**
One-year variable compensation	490,875	490,875	0	736,313	–	405,104	0	607,656
Multi-year variable compensation	785,400	785,400	0	1,178,100	–	648,166	0	972,249
LTIP 2018/2020 (2019 tranche)	–	785,400	0	1,178,100	–	648,166	0	972,249
LTIP 2018/2020 (2018 tranche)	785,400	–	–	–	–	–	–	–
Total	**1,982,192**	**1,982,192**	**705,917**	**2,620,330**	–	**1,738,579**	**685,309**	**2,265,214**
Service costs	375,785	374,370	374,370	374,370	–	355,518	355,518	355,518
Overall compensation	**2,357,977**	**2,356,562**	**1,080,287**	**2,994,700**	–	**2,094,097**	**1,040,827**	**2,620,732**

	Gil Steyaert[3] Global Operations until February 26, 2019			
	2018	**2019**	**2019 (min.)**	**2019 (max.)**
Fixed compensation	687,225	114,538	114,538	114,538
Other benefits	20,904	15,146	15,146	15,146
Total	**708,129**	**129,683**	**129,683**	**129,683**
One-year variable compensation	490,875	–	–	–
Multi-year variable compensation	785,400	–	–	–
LTIP 2018/2020 (2019 tranche)	–	–	–	–
LTIP 2018/2020 (2018 tranche)	785,400	–	–	–
Total	**1,984,404**	**129,683**	**129,683**	**129,683**
Service costs	528,998	672,276	672,276	672,276
Overall compensation	**2,513,402**	**801,959**	**801,959**	**801,959**

1 Due to his departure, Eric Liedtke receives a contractually agreed severance payment in the amount of € 5,428,572 in addition to the overall compensation set out. This payment is set out in the Compensation Report in the overall payments to former Executive Board members.
2 Contractually agreed Performance Bonus target amount 2019 and LTIP bonus target amount 2018/2020 (2019 tranche) due to intra-year appointment of Martin Shankland (with effect from March 4, 2019) to the Executive Board. Service costs 2019 stated pro rata temporis.
3 Executive Board compensation stated pro rata temporis due to the intra-year termination of Gil Steyaert's Executive Board mandate. Gil Steyaert's service contract terminated with effect from February 28, 2019. Until that date, Gil Steyaert was paid his full monthly fixed salary. Due to his departure, Gil Steyaert additionally received a contractually agreed severance payment in the amount of € 3,422,316. This compensation also comprises the service costs stated herein and is set out in the Compensation Report in the overall payments to former Executive Board members. For Gil Steyaert, the service costs 2019 comprise the gross contribution contractually agreed due to his departure which was granted to Gil Steyaert as pension benefits payable until May 31, 2020 for early termination of the Executive Board mandate. Due to the adjustment of Gil Steyaert's pension commitment in the 2018 financial year, the service costs correspond to the gross contribution credited by adidas AG for the respective financial year to the special account opened for him.

ALLOCATION IN ACCORDANCE WITH THE CODE

Pursuant to the recommendations of the Code, the annual fixed compensation, other benefits, the Performance Bonus, the LTIP Bonus as well as the service costs are disclosed as an allocation for the financial year in which the compensation was granted, with the service costs not constituting an actual allocation to the Executive Board members. SEE TABLE 13

Allocation in € — 13

	Kasper Rorsted Chief Executive Officer		Roland Auschel Global Sales		Eric Liedtke[3] Global Brands until December 31, 2019	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Fixed compensation	2,000,000	2,000,000	920,000	920,000	1,000,000	1,000,000
Other benefits	26,417	19,314	19,165	17,943	26,935	24,475
Total	**2,026,417**	**2,019,314**	**939,165**	**937,943**	**1,026,935**	**1,024,475**
One-year variable compensation	1,200,000	1,685,714	492,857	624,286	642,857	707,143
Multi-year variable compensation[1]	3,154,285	3,405,714	1,450,972	1,566,629	1,577,143	1,702,857
LTIP 2018/2020 (2019 tranche)	3,154,285	–	1,450,972	–	1,577,143	–
LTIP 2018/2020 (2018 tranche)	–	3,405,714	–	1,566,629	–	1,702,857
Other	–	–	–	–	–	–
Total[2]	**6,380,702**	**7,110,741**	**2,882,994**	**3,128,858**	**3,246,935**	**3,434,476**
Service costs	856,807	1,052,993	321,247	402,742	345,945	447,154
Overall compensation	**7,237,509**	**8,163,734**	**3,204,241**	**3,531,600**	**3,592,880**	**3,881,630**

	Harm Ohlmeyer Chief Financial Officer		Karen Parkin Global Human Resources		Martin Shankland[4] Global Operations since March 4, 2019	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Fixed compensation	687,225	687,225	687,225	687,225	567,145	–
Other benefits	19,684	17,826	18,692	18,692	118,164	–
Total	**706,909**	**705,051**	**705,917**	**705,917**	**685,309**	–
One-year variable compensation	373,065	559,598	525,236	525,236	340,287	–
Multi-year variable compensation[1]	1,083,852	1,170,246	1,083,852	1,170,246	894,469	–
LTIP 2018/2020 (2019 tranche)	1,083,852	–	1,083,852	–	894,469	–
LTIP 2018/2020 (2018 tranche)	–	1,170,246	–	1,170,246	–	–
Other	–	–	–	–	–	–
Total[2]	**2,163,826**	**2,434,895**	**2,315,005**	**2,401,399**	**1,920,065**	–
Service costs	395,186	386,523	374,370	375,785	355,518	–
Overall compensation	**2,559,012**	**2,821,418**	**2,689,375**	**2,777,184**	**2,275,583**	–

Allocation in € 13

	Gil Steyaert[5] Global Operations until February 26, 2019	
	2019	**2018**
Fixed compensation	114,538	687,225
Other benefits	15,146	20,904
Total	**129,683**	**708,129**
One-year variable compensation	–	328,886
Multi-year variable compensation[1]	–	1,170,246
LTIP 2018/2020 (2019 tranche)	–	–
LTIP 2018/2020 (2018 tranche)	–	1,170,246
Other	–	–
Total[2]	**129,683**	**2,207,261**
Service costs	672,276	528,998
Overall compensation	**801,959**	**2,736,259**

1 The Grant Amount which remains for the respective annual LTIP tranche after deduction of applicable taxes and social security contributions ('LTIP Payout Amount') must be invested in the acquisition of adidas AG shares. These shares are subject to a lock-up period which ends in the third financial year after the acquisition of the shares upon expiry of the month in which the Annual General Meeting of adidas AG takes place. The LTIP Payout Amount is considered earned only after expiry of the lock-up period and only then can the Executive Board members dispose of the shares at their own discretion. By contrast, the amount deducted for income tax and social security contributions is already fully earned at the time of payout following the adoption of the consolidated financial statements by the Supervisory Board.
2 The compensation components outlined above constitute the overall payments to be set out individually in accordance with commercial law both in the 2019 financial year and in the previous year.
3 Due to his departure, Eric Liedtke receives a contractually agreed severance payment in the amount of € 5,428,572 in addition to the overall compensation set out. This payment is set out in the Compensation Report in the overall payments to former Executive Board members.
4 Contractually agreed Performance Bonus target amount 2019 and LTIP bonus target amount 2018/2020 (2019 tranche) due to intra-year appointment of Martin Shankland (with effect from March 4, 2019) to the Executive Board. Service costs 2019 stated pro rata temporis.
5 Executive Board compensation stated pro rata temporis due to the intra-year termination of Gil Steyaert's Executive Board mandate. Gil Steyaert's service contract terminated with effect from February 28, 2019. Until that date, Gil Steyaert was paid his full monthly fixed salary. Due to his departure, Gil Steyaert additionally received a contractually agreed severance payment in the amount of € 3,422,316. This compensation also comprises the service costs stated herein and is set out in the Compensation Report in the overall payments to former Executive Board members. For Gil Steyaert, the service costs 2019 comprise the gross contribution contractually agreed due to his departure which was granted to Gil Steyaert as pension benefits payable until May 31, 2020 for early termination of the Executive Board mandate. Due to the adjustment of Gil Steyaert's pension commitment in the 2018 financial year, the service costs correspond to the gross contribution credited by adidas AG for the respective financial year to the special account opened for him.

COMMITMENTS TO EXECUTIVE BOARD MEMBERS UPON TERMINATION OF TENURE

Termination of Gil Steyaert's tenure effective February 26, 2019

In connection with the termination of his Executive Board mandate, Gil Steyaert received a severance payment of € 3,422,316.[4] Furthermore, it was contractually agreed to dispense with the obligation to invest the LTIP Bonus granted to Gil Steyaert for the 2018 financial year into adidas AG shares.

As regards the post-contractual competition prohibition, Gil Steyaert has received monthly compensation in the amount of € 28,634 since March 1, 2019, payable for a total period of 24 months. This corresponds to 50% of the last fixed monthly salary. If the compensation paid for the post-contractual competition prohibition and any potential income from other employment in total exceed the monthly fixed salary last received by Gil Steyaert before his departure, any income from other employment will be offset against the compensation paid for the post-contractual competition prohibition. The overall maximum compensation for the post-contractual competition prohibition payable to Gil Steyaert therefore amounts to € 687,225.

Termination of Eric Liedtke's tenure effective December 31, 2019

In connection with the termination of his Executive Board mandate at the end of December 31, 2019, Eric Liedtke was granted a severance payment of € 5,428,572.

As regards the post-contractual competition prohibition, Eric Liedtke will receive monthly compensation in the amount of € 41,667 for a period of 24 months from January 1, 2020. This corresponds to 50% of the last fixed monthly salary. If the compensation paid for the post-contractual competition prohibition and any potential income from other employment in total exceed the monthly fixed salary last received by Eric Liedtke before his departure, any income from other employment will be offset against the compensation paid for the post-contractual competition prohibition. The overall maximum compensation for the post-contractual competition prohibition payable to Eric Liedtke therefore amounts to € 1,000,000.

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

In the 2019 financial year, overall payments to former members of the Executive Board and their surviving dependents amounted to € 14.567 million (2018: € 3.746 million). The increase in the overall payments compared to the previous year is attributable to the severance payments granted to Eric Liedtke and Gil Steyaert due to their departure from the Executive Board in the year under review.

Provisions were created for pension entitlements for former members of the Executive Board who resigned on or before December 31, 2005 and their surviving dependents, amounting to € 46.326 million (2018: € 43.904 million) in total as at December 31, 2019. There are pension commitments toward six former Executive Board members who resigned after December 31, 2005, which are covered by a pension fund or a pension fund in combination with a reinsured pension trust fund. From this, indirect obligations amounting to € 46.216 million (2018: € 40.969 million) arise for adidas AG, for which no provisions were created due to financing through the pension fund and pension trust fund.

MISCELLANEOUS

The Executive Board members do not receive any additional compensation for mandates within adidas. The Executive Board members have not received any loans or advance payments from adidas AG. Furthermore, no Executive Board member received any payments or promises of payments from third parties with regard to their work at adidas.

4 Until the termination of his service contract on February 28, 2019, Gil Steyaert was paid his full monthly fixed compensation.

COMPENSATION OF THE SUPERVISORY BOARD MEMBERS

The compensation system which has been applicable for the members of the Supervisory Board since July 1, 2017 was adopted by the shareholders at the Annual General Meeting on May 11, 2017. The compensation system is set out in § 18 of the Articles of Association of adidas AG.

COMPENSATION SYSTEM

The compensation of the Supervisory Board members takes into account the responsibility and scope of activities of the Supervisory Board members and consists of two components: fixed compensation and additional compensation for membership in committees. The Supervisory Board members are not granted performance-related compensation. Furthermore, the Supervisory Board members receive attendance fees and are reimbursed for expenses they incur.

COMPENSATION FOR SUPERVISORY BOARD FUNCTION

Each member receives fixed compensation which is paid following the end of the respective financial year. The Chairman of the Supervisory Board and his two deputies receive higher fixed compensation. SEE TABLE 14

Compensation for Supervisory Board function 14

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

ADDITIONAL COMPENSATION FOR MEMBERSHIP IN A COMMITTEE

Furthermore, the Supervisory Board members receive additional compensation for membership in certain committees; in this regard, too, compensation is increased if the chairmanship of a committee is assumed. The amount of the respective additional compensation is based on the fixed compensation ('Base Amount') determined for the Supervisory Board members by the Annual General Meeting and depends on the tasks and responsibilities connected with the respective committee membership. SEE TABLE 15

Compensation for membership in a committee 15

General Committee		Audit Committee	
Member	Chairman	Member	Chairman
€ 40,000	€ 80,000	€ 80,000	€ 160,000
50% of the base amount	100% of the base amount	100% of the base amount	200% of the base amount

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

REDUCED COMPENSATION IN CASE OF MEMBERSHIP FOR PART OF FINANCIAL YEAR

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

ATTENDANCE FEE

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

EXPENSES

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

SUPERVISORY BOARD COMPENSATION 2019

FIXED COMPENSATION AND ATTENDANCE FEE

The total compensation paid to the Supervisory Board in the 2019 financial year amounted to € 2.20 million (2018: € 2.20 million). In addition, attendance fees totaling € 167,000 (2018: € 129,000) were paid. SEE TABLE 16

MISCELLANEOUS

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

Compensation of Supervisory Board members in € 16

	2019				2018			
	Fixed compensation	Compensation committee work	Attendance fee	Total	Fixed compensation	Compensation committee work	Attendance fee	Total
Supervisory Board members incumbent as at December 31, 2019								
Igor Landau, Chairman of the Supervisory Board	240,000	80,000	14,000	**334,000**	240,000	80,000	9,000	**329,000**
Udo Müller, Deputy Chairman of the Supervisory Board [1]	131,726	25,863	11,000	**168,589**	80,000	–	7,000	**87,000**
Thomas Rabe, Deputy Chairman of the Supervisory Board [2]	103,452	25,863	8,000	**137,315**	–	–	–	–
Petra Auerbacher [2]	51,726	–	6,000	**57,726**	–	–	–	–
Ian Gallienne	80,000	80,000	11,000	**171,000**	80,000	80,000	9,000	**169,000**
Roswitha Hermann [2]	51,726	–	3,000	**54,726**	–	–	–	–
Herbert Kauffmann	80,000	160,000	14,000	**254,000**	80,000	160,000	12,000	**252,000**
Kathrin Menges	80,000	–	8,000	**88,000**	80,000	–	6,000	**86,000**
Roland Nosko	80,000	40,000	14,000	**134,000**	80,000	40,000	9,000	**129,000**
Beate Rohrig [2]	51,726	–	5,000	**56,726**	–	–	–	–
Nassef Sawiris	80,000	–	9,000	**89,000**	80,000	–	7,000	**87,000**
Frank Scheiderer [2]	51,726	51,726	9,000	**112,452**	–	–	–	–
Michael Storl [2]	51,726	–	6,000	**57,726**	–	–	–	–
Bodo Uebber [2]	51,726	–	3,000	**54,726**	–	–	–	–
Jing Ulrich [2]	51,726	–	5,000	**56,726**	–	–	–	–
Günter Weigl [2]	51,726	51,726	9,000	**112,452**	–	–	–	–
Supervisory Board members until the end of the Annual General Meeting on May 9, 2019								
Sabine Bauer, Deputy Chairwoman of the Supervisory Board	56,548	14,137	5,000	**75,685**	160,000	40,000	9,000	**209,000**
Willi Schwerdtle, Deputy Chairman of the Supervisory Board	56,548	14,137	5,000	**75,685**	160,000	40,000	9,000	**209,000**
Dr. Frank Appel [3]	28,274	–	1,000	**29,274**	51,398	–	4,000	**55,398**
Dieter Hauenstein	28,274	–	3,000	**31,274**	80,000	–	6,000	**86,000**
Dr. Wolfgang Jäger	28,274	28,274	5,000	**61,548**	80,000	80,000	12,000	**172,000**
Katja Kraus	28,274	–	2,000	**30,274**	80,000	–	6,000	**86,000**
Hans Ruprecht	28,274	28,274	5,000	**61,548**	80,000	80,000	10,000	**170,000**
Heidi Thaler-Veh	28,274	–	3,000	**31,274**	80,000	–	5,000	**85,000**
Kurt Wittmann	28,274	–	3,000	**31,274**	80,000	–	6,000	**86,000**
Supervisory Board member until the end of the Annual General Meeting on May 9, 2018								
Dr. Stefan Jentzsch	–	–	–	–	28,602	–	3,000	**31,602**
Total	**1,600,000**	**600,000**	**167,000**	**2,367,000**	**1,600,000**	**600,000**	**129,000**	**2,329,000**

1 Deputy Chairman from the end of the Annual General Meeting on May 9, 2019.
2 Supervisory Board member from the end of the Annual General Meeting on May 9, 2019.
3 Supervisory Board member from the end of the Annual General Meeting on May 9, 2018 until the end of the Annual General Meeting on May 9, 2019.

OUR SHARE

Global stock markets were volatile throughout the year but ended 2019 on a positive note. The DAX-30 and the EURO STOXX 50 both increased by 25% while the MSCI World Textiles, Apparel & Luxury Goods Index was up 37%. The adidas AG share outperformed the broader stock market and ended 2019 with an increase of 59% compared to the prior year. As a result of the strong operational and financial performance in 2019 as well as Management's confidence in the strength of the company's financial position and long-term growth aspirations, we intend to propose a dividend per share of € 3.85 at our 2020 Annual General Meeting.

ADIDAS AG SHARE RISES AND OUTPERFORMS BROADER STOCK MARKET IN 2019

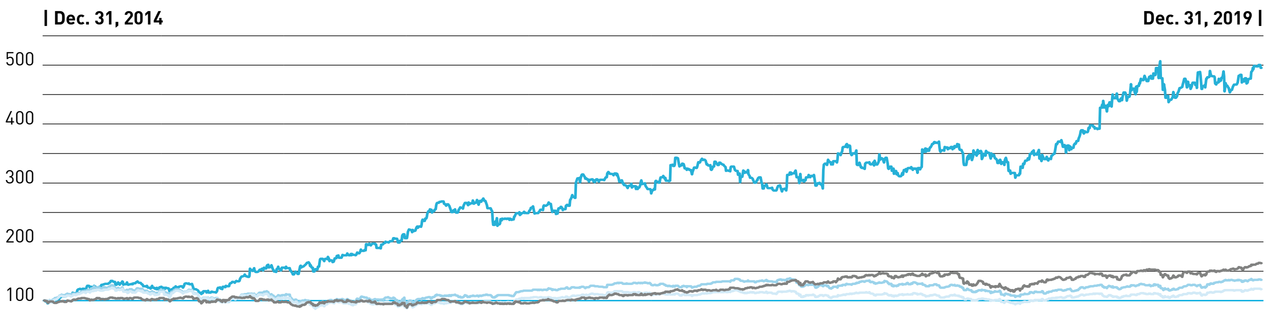
In 2019, global stock markets ended a volatile year on a positive note, as greater optimism regarding the US-China trade situation and low unemployment gave capital markets strong impetus. In addition, interest rate cuts by the Federal Reserve benefited markets further. As a result, the DAX-30 as well as the EURO STOXX 50 increased 25% in 2019. The MSCI World Textiles, Apparel & Luxury Goods Index closed the year with a 37% increase. SEE TABLE 17 Our financial results helped to further build investors' confidence in the successful execution of our strategic business plan 'Creating the New' and the company's ability to sustainably grow revenues and improve margins in the years to come. Consequently, the adidas AG share closed the year at € 289.80 and thus 59% above the prior year-end level, making it the second best performer in the DAX-30. SEE DIAGRAM 18

Performance of the adidas AG share and important indices at year-end 2019 in % 17

	1 year	3 years	5 years	10 years
adidas AG	59	93	403	667
DAX-30	25	15	35	122
EURO STOXX 50	25	14	19	26
MSCI World Textiles, Apparel & Luxury Goods	37	72	64	242

Source: Bloomberg.

Five-year share price development[1] 18



1 Index: December 31, 2014 = 100.
Source: Bloomberg.

LEVEL 1 ADR PERFORMS IN LINE WITH COMMON STOCK

Our Level 1 ADR closed 2019 at US $ 162.80, representing an increase of 56% versus the prior year level (2018: US $ 104.34). The slightly less pronounced increase of the Level 1 ADR price compared to the ordinary share price was due to the appreciation of the US dollar versus the euro in 2019. The number of Level 1 ADRs outstanding increased to 10.4 million at year-end 2019 compared to 9.0 million at the end of 2018. The average daily trading volume decreased to around 43,000 ADRs in 2019 (2018: around 51,400). Further information on our ADR program can be found on our website. ↗ ADIDAS-GROUP.COM/ADR

ADIDAS AG SHARE MEMBER OF IMPORTANT INDICES

The adidas AG share is included in a variety of high-quality indices around the world, most importantly the DAX-30, the EURO STOXX 50 Index as well as the MSCI World Textiles, Apparel & Luxury Goods Index, which comprises our major competitors. At December 31, 2019, our weighting in the DAX-30, which is calculated on the basis of free float market capitalization and twelve-month share turnover, improved to 4.99% (2018: 3.94%). Our higher weighting compared to the prior year was due to the increase in market capitalization of adidas AG. Within the DAX-30, we ranked 7 on market capitalization (2018: 9) and 9 on turnover (2018: 11) at year-end 2019. For the 20th consecutive time, adidas was selected to join the Dow Jones Sustainability Indices (DJSI), and was assessed to be among the global 10% best-performing companies in its industry in economic, environmental and social criteria. SEE TABLE 19

DIVIDEND PROPOSAL OF € 3.85 PER SHARE

As a result of the strong operational and financial performance in 2019, the company's robust financial position as well as Management's confidence in our long-term growth aspirations, the adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 3.85 per dividend-entitled share to shareholders at the Annual General Meeting (AGM) on May 14, 2020. This represents an increase of 15% compared to the prior year dividend (2018: € 3.35). Subject to the meeting's approval, the dividend will be paid on May 19, 2020. The total payout of € 752 million (2018: € 664 million) reflects a payout ratio of 39.2% of net income from continuing operations (2018: 38.9%), based on the number of shares outstanding as at the date of preparation of the consolidated financial statements. SEE TABLE 19 This is within the target range of between 30% and 50% of net income from continuing operations as defined in our dividend policy.

Dividend proposal

€ 3.85

SECOND TRANCHE OF SHARE BUYBACK PROGRAM COMPLETED

On March 13, 2018, adidas AG announced the launch of a multi-year share buyback program of up to € 3.0 billion in total until May 11, 2021. The program is executed by buying back shares via the stock exchange under the authorization granted by the Annual General Meeting on May 12, 2016. The authorization covers the repurchase of up to 10% of the company's share capital on the stock exchange. The vast majority of the share buyback program will be financed through the company's net cash position as well as the expected strong operating cash flow generation in the years ahead. Following the first tranche in 2018, in which the company bought back 5.1 million shares for a total consideration of € 1.0 billion, on January 7, 2019 adidas AG announced the commencement of the second tranche of the share buyback program. Between January 7, 2019, and December 18, 2019, the company bought back 3.2 million shares, corresponding to 1.6% of the company's stock capital, for a consideration of € 815 million. The average purchase price per share was € 252.80. A total of 8.8 million treasury shares have been canceled since the start of the current program, reducing the company's share count and stock capital correspondingly.

STRONG INTERNATIONAL INVESTOR BASE

Based on our share register, we estimate that adidas AG currently has more than 90,000 shareholders (2018: 80,000). In our latest ownership analysis conducted in January 2020, we identified almost 100% of our shares outstanding. Institutional investors represent the largest investor group, holding 89% of shares outstanding (2018: 92%). Private investors and undisclosed holdings account for 9% (2018: 8%). Lastly, adidas AG currently holds 2% of the company's shares as treasury shares (2018: 1%); this increase versus the prior year mainly reflects the shares resulting from our share buyback activities which have not been canceled yet. SEE DIAGRAM 21

In terms of geographical distribution, the North American market currently accounts for 43% of institutional shareholdings (2018: 43%), followed by the UK with 21% (2018: 21%). Identified German institutional investors hold 10% of

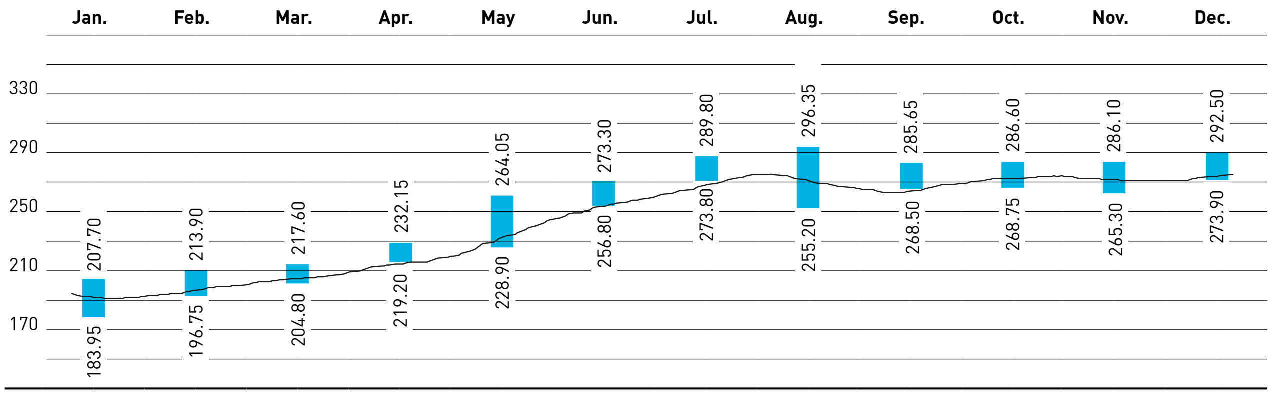
The adidas AG share **19**

		2019	2018[1]
Number of shares outstanding at year-end[2]	shares	195,969,387	199,171,345
Basic earnings per share[3]	€	9.70	8.46
Diluted earnings per share[3]	€	9.70	8.45
Year-end price	€	289.80	182.40
Year high	€	296.35	216.00
Year low	€	183.95	166.40
Market capitalization[4]	€ in millions	56,792	36,329
Dividend per share	€	3.85[5]	3.35
Dividend payout	€ in millions	752[6]	664
Dividend payout ratio[3]	%	39.2[6]	38.9
Dividend yield	%	1.3	1.8
Shareholders' equity per share[4]	€	34.68	32.02
Price-earnings ratio at year-end[7]	x	29.9	21.6
Average trading volume per trading day[8]	shares	638,854	824,045

Important indices
- DAX-30
- EURO STOXX 50
- MSCI World Textiles, Apparel & Luxury Goods
- Deutsche Börse Prime Consumer
- Dow Jones Sustainability Indices (World and Europe)
- FTSE4Good Index Series
- MSCI World ESG Leaders Index

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 All shares carry full dividend rights, excluding treasury shares.
3 Based on net income from continuing operations.
4 Based on number of shares outstanding at year-end, excluding treasury shares.
5 Subject to Annual General Meeting approval.
6 Based on the number of shares outstanding at the date of preparation of the Consolidated Financial Statements.
7 Based on basic EPS from continuing operations.
8 Based on number of shares traded on all German stock exchanges.

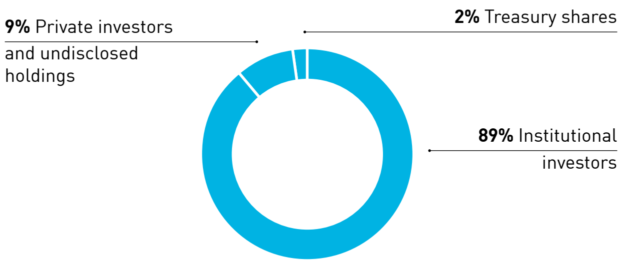
adidas AG high and low share prices per month[1] in € 20



30-day moving average High and low share prices Source: Bloomberg.

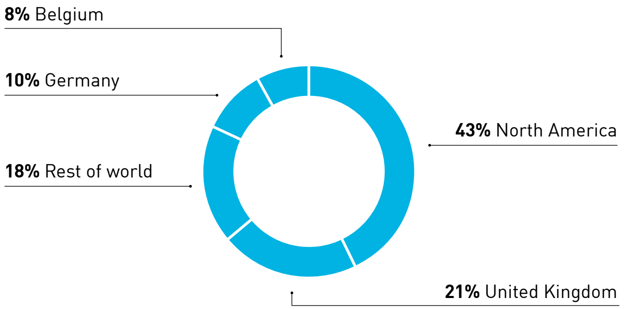
1 Based on daily Xetra closing prices.

Shareholder structure by investor group[1] 21



1 As of January 2020.

Shareholder structure by region[1,2] 22



1 As of January 2020.
2 Reflects institutional investors only.

shares outstanding (2018: 10%). Institutional investors from Belgium account for 8% (2018: 9%) and 18% of institutional shareholders were identified in other regions of the world (2018: 17%). SEE DIAGRAM 22

MAJORITY OF ANALYSTS WITH A NEUTRAL RATING OF ADIDAS AG SHARE

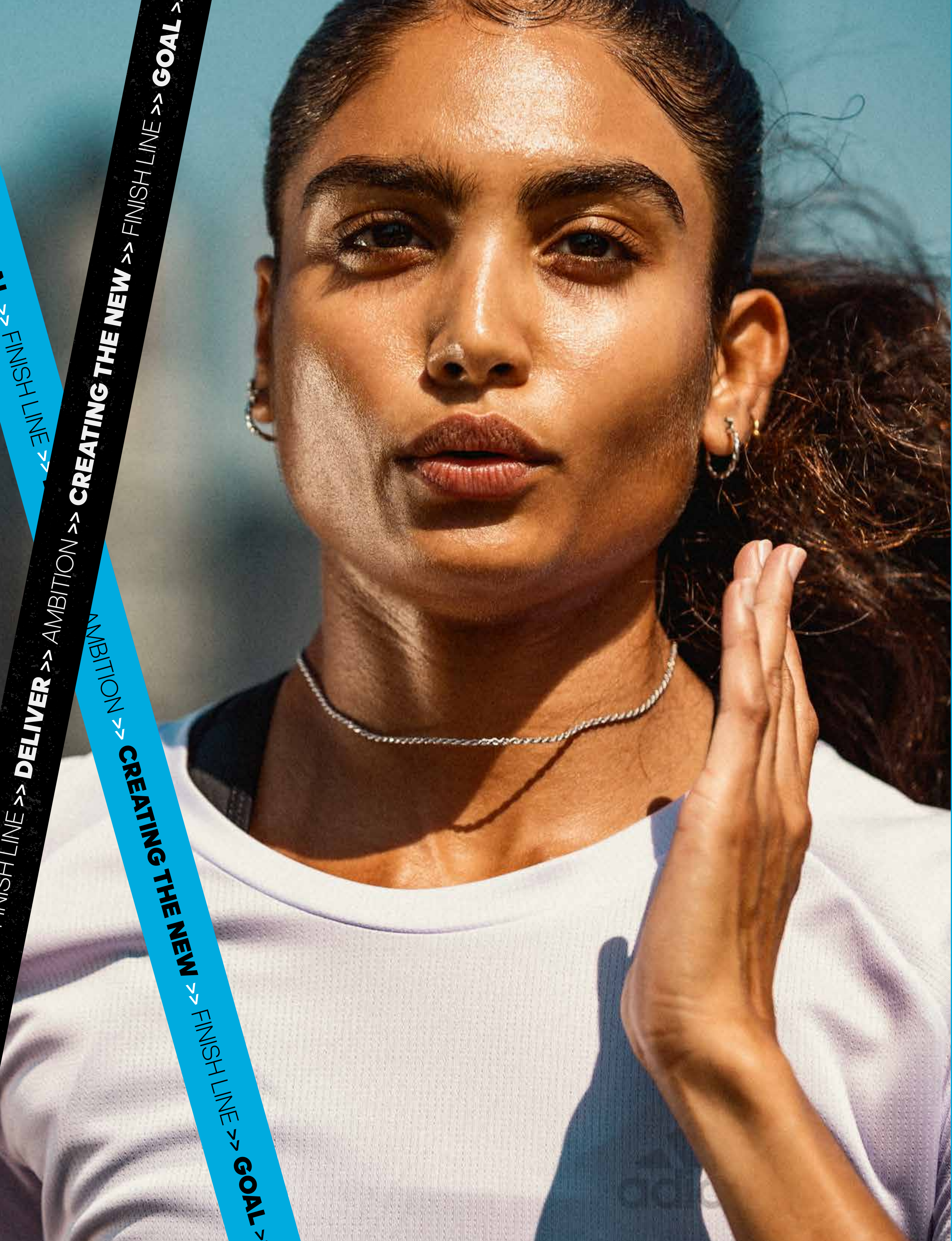
Around 40 analysts from investment banks and brokerage firms regularly publish research reports on adidas. Given the strong performance of the adidas AG share in 2019, the majority of analysts now have a neutral view on our share. This is reflected in the recommendation split for our share as at December 31, 2019. 33% of analysts recommended investors to 'buy' our share (2018: 59%). 57% advised to 'hold' our share (2018: 36%) and 10% of the analysts recommended to 'sell' our share (2018: 5%).

VOTING RIGHTS NOTIFICATIONS PUBLISHED

All voting rights notifications received in 2019 in accordance with §§ 33 et seq. of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) (§§ 21 et seq. German Securities Trading Act old version) are published on our corporate website. ADIDAS-GROUP.COM/S/VOTING_RIGHTS_NOTIFICATIONS Information on reportable shareholdings that currently exceed or fall below a certain threshold can also be found in the Notes section of this Annual Report. SEE NOTE 27, P. 171

MANAGERS' TRANSACTIONS REPORTED ON CORPORATE WEBSITE

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



2 GROUP MANAGEMENT REPORT OUR COMPANY

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

References to external sources, such as our website, in the Group Management Report were not part of the scope of KPMG's audit.

CORPORATE STRATEGY

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

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

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

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

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

STRATEGIC BUSINESS PLAN: 'CREATING THE NEW'

'Creating the New' is our strategic business plan until the year 2020. Our ambition to further drive top- and bottom-line growth by significantly increasing brand desirability builds the core of 'Creating the New'. The strategic business plan therefore focuses on our brands as they connect and engage with our consumers. This consumer-centric approach is driving significant improvements in the desirability of our brands and has increased our relevance with consumers around the globe. As a result, we have gained market share in those categories, markets and cities that we have identified as future growth drivers for our company. SEE DIAGRAM 23

STRATEGIC CHOICES

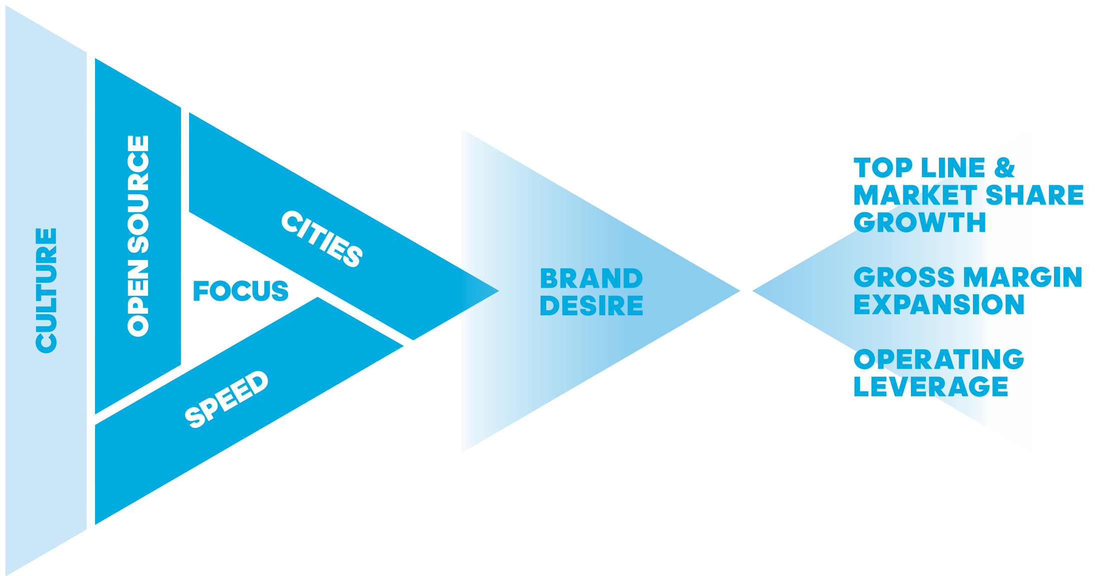
Our strategic business plan has a powerful foundation in our unique corporate culture and is built around three strategic choices that support us in intensifying our focus on our consumers and will drive brand desirability: Speed, Cities, and Open Source.

Culture

We have great talents in our organization who work with passion for sports and our brands. Our people bring our strategy to life and our culture makes the difference in achieving our long-term goals. We are convinced that a culture of Creativity, Collaboration and Confidence (the *3Cs* SEE GLOSSARY) is a key enabler for us to 'Create the New'.

Our leaders role-model this behavior. To enhance our leadership structure, we established the Core Leadership Group (CLG). This group of senior leaders, selected from the most critical roles across the company, are responsible for leading the execution of our strategic business plan, with a particular focus on improving cross-functional collaboration

Our strategic business plan: 'Creating the New' 23



and decision-making. We continued to sharpen our leadership structure by adding an Extended Leadership Group (ELG), which supports the Core Leadership Group in implementing our strategy. The Leadership Framework unites all leaders in our company through a clear definition of what strong leadership looks like at adidas and commitment to enhance performance and culture. In addition, the Global High Potential Group (GHIPO) was formed in 2018 to develop high potentials who have the ability to take on more complex, demanding and higher-level responsibilities at a global senior management level. In 2019, we launched a Local High Potential Group (LHIPO) who are being developed for more complex roles at a local senior management level. Each leadership group creates a succession pool to the one above it to ensure ongoing internal talent development, as well as being leadership role models across the organization.

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

As a company, we value diversity and promote inclusivity. Today, our employee base is already very diverse in terms of gender, generation and global representation. We are dedicated to continuously increasing the representation of female leadership across the organization. We have made further progress in this regard and representation of women globally in management positions across the company increased to 34% in 2019 compared to 29% in 2015. Our GHIPO and LHIPO leadership groups have an almost balanced gender splitto ensure greater female representation for succession into senior roles. Furthermore, we are offering gender intelligence training globally to promote a more inclusive workplace. SEE PEOPLE AND CULTURE, P. 70

Speed

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

We are using our industry-leading experience to further evolve our entire business model end-to-end, from range planning to product creation, sourcing, supply chain, go-to-market and sales. In 2019, we further developed and sharpened 'Speed'. With the revised approaches 'fast creation' and 'fast replenishment', we are able to increase the share of short lead-time ranges. Together with our customers, we define which of our product ranges qualify for these approaches. Through this, we are enabling our brands to ensure constant freshness in store for our consumers, resulting in higher-quality sales and more productive inventory.

Since the launch of the strategic priority Speed, we have steadily expanded its coverage. All categories and markets have now been fully onboarded and started to capitalize on the benefits of the Speed programs. Over the last years, the net sales share of speed-enabled products has continuously increased to a level of 47% in 2019, which is fully in line with our overall ambition to increase the share of speed-enabled products to at least 50% by 2020.

In addition to focusing on Speed in our existing supply chain and production processes, we also explore new, disruptive business models and technologies to make us faster. Together with Oechsler AG, adidas had opened two *Speedfactories* SEE GLOSSARY in 2017 to test new processes for faster production of athletic footwear and to develop new manufacturing technologies with the ultimate goal to transfer them to the company's global supply chain. In 2019, we decided to discontinue production at the two Speedfactories in Ansbach, Germany, and Atlanta, USA, by April 2020, and to deploy the Speedfactory technology at Asian suppliers. The company will continue to develop, improve and test manufacturing processes in the 'adiLab' at the adidas production site in Scheinfeld, Germany. SEE GLOBAL OPERATIONS, P. 63, SEE INNOVATION, P. 67

Cities

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

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

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

- **Activation:** Our global key cities offer our brands a unique platform. Over the year, we conducted individual city-led activations together with some of our most important assets such as Pharrell Williams in London, and James Harden at the 'Republic of Sports' event in Shanghai. On top, we continued to deliver day-to-day brand experiences for our communities such as the adidas Runners, Tango League and Versatile Female Athlete to engage with our consumers.
- **Products:** We continue to drive a multi-pronged strategy of product introductions, focused across all six cities, including global campaign launches and exclusive collections, for example when we launched Futurecraft Loop in New York City to the world's media. In 2019, we utilized our Speedfactory concept to create shoes with and for consumers in all six key cities, e.g. with e-gaming partner Team Vitality in Paris. SEE INNOVATION, P. 67
- **Experiences:** We are committed to providing premium retail experiences to our consumers with executions that connect, engage and inspire them. 2019 saw the opening of our new four-storied adidas brand flagship store on London's Oxford Street, which was created to be our most digital store ever. With more than 100 digital touchpoints, which are powered by green energy, and immersive fitting rooms, the entire experience is curated for our consumers through innovative digital storytelling tools and interactive experiences, such as the 'bring it to me' feature in the adidas app that personalizes the shopping experience.

The 2019 results for specific KPIs (NPS and market share) signal we are well on track to achieve our target to double revenues in our global key cities by the end of 2020 compared to 2015.

Open Source

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

We have defined three strategic initiatives for Open Source:

- **Athlete collaborations:** Through athlete collaborations we aim to build communities of athletes that help shape the future of their sport together with us. Such collaborations include relationships with the world's best athletes and teams, but they also take place on a local level. To directly engage and interact with a broader consumer community, we have expanded our efforts in digital and physical spaces. For instance, in 2019 our investment in running communities through grassroots activations of 'adidas Runners' covered more than 60 cities in 30 countries on all continents. Our adidas Running communities drove the surge for around 2.2 million runners to step up for the Run for the Oceans campaign with many events taking place across the globe. In total, participants logged over twelve million kilometers, tracking their runs on the adidas Running by Runtastic app (and Joyrun app for those based in China). SEE ADIDAS BRAND STRATEGY, P. 55
- **Creative collaborations:** Creative collaborations increase our creative capital through new tools, new environments and new perspectives from outside creative thinkers. They are intended to give creativity a platform and provide the right tools for ideas to blossom. The most notable addition to our Creator Network roster was our landmark collaboration with Beyoncé, as a brand ambassador and co-creator. In addition, we launched a partnership with the world's most influential gamer, Ninja, to broaden our reach into the expanding e-gaming world. Furthermore in 2019, we continued our collaborations with Kanye West, Pharrell Williams, Yohji Yamamoto, Stella McCartney, Raf Simons and Alexander Wang. SEE ADIDAS BRAND STRATEGY, P. 55
- **Partner collaborations:** The strategic initiatives in this area intend to open up our knowledge of sport by working with the best in other fields. By exchanging core competencies, we will create unique value for our brands and ultimately also for our consumers. Our partnership with *Parley for the Oceans* SEE GLOSSARY serves as a prime example. As a founding member of the organization, our support goes far beyond financial aid to fund beach clean-ups. In 2019, we expanded our efforts through partnerships with start-up incubators such as Fashion for Good, who will help us to accelerate sustainable innovation in the apparel industry, and Station F to create the best digital innovations in sport. SEE INNOVATION, P. 67, SEE SUSTAINABILITY, P. 78

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

'CREATING THE NEW' ACCELERATION PLAN

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

Portfolio

Every entity must contribute to the success of our company, be it a brand, a channel or a market. We constantly revisit the performance and strategic fit of our portfolio. After the completion of the sale of the TaylorMade, Adams Golf and Ashworth brands as well as our CCM Hockey business in 2017, we are now operating with a narrowed focus on our core strength areas of athletic footwear and apparel. This will allow us to reduce complexity and pursue our target consumer more aggressively with both the adidas and the Reebok brand. We have continued to execute upon Reebok's turnaround plan 'Muscle Up', aimed at accelerating top-line growth, particularly in North America, and improving the brand's overall profitability. After returning to profitability in 2018, Reebok achieved currency-neutral growth of 2% in 2019. SEE REEBOK BRAND STRATEGY, P. 59

adidas North America

North America represents the biggest market in the sporting goods industry with a total share of approximately 40%. At the same time, from a geographical perspective, North America represents the biggest opportunity for the adidas brand, given our relatively small market share here compared to other regions. To improve the adidas brand's overall positioning in the region, we have made North America a strategic priority and started to significantly increase our investments into North America in order to be more relevant and always visible to the consumer. In this context, over the last years, we have increased investments into our organizational set-up, including the further expansion of our US headquarters in Portland, elevated our marketing efforts and upgraded our distribution infrastructure with the opening of a new distribution center in Pennsylvania. We are pleased with the progress we have been making in recent years, as we have more than doubled our business in North America since the launch of 'Creating the New' in 2015. However, we are still not satisfied with our current position, which leaves significant upside for the years to come. Therefore, going forward, we will continue to execute our game plan for North America in order to continue to increase our market share and reach our target of € 5 billion in revenues for the adidas brand by 2020.

ONE adidas

We continuously strive for operational excellence. ONE adidas encompasses a set of initiatives that will enable our company to work smarter, more efficiently and in a more aligned way. After having successfully operationalized the initiatives under the *Brand Leadership* pillar SEE GLOSSARY in 2018, we are now focusing on the remaining two pillars – Operating and Marketing Efficiency. In order to create a more scalable business model, we will therefore focus on those opportunities that enable us to standardize and harmonize current processes and procedures. In this context, 2019 saw the continuation of several initiatives which are aimed at significantly improving our operating efficiency in the years to come. Our disciplined execution has already led to initial positive results in terms of generating incremental profits. We decided to use these benefits to reinvest into the business and continue our investment efforts into our scalable business model. In 2019, we focused on the expansion of Global Business Services, where we continue to work on the standardization and harmonization of processes in areas such as Accounting and HR Services. Furthermore, in the last year we saw the *Non-Trade Procurement* initiative SEE GLOSSARY deliver considerable savings as a result of successfully operationalizing the approach. These and other initiatives are designed to enable scalability and operating leverage. They are generating benefits already now and are expected to deliver further positive impact in the future.

Digital

The digital transformation is fundamentally changing the way our consumers behave and the way we work. Technology has enabled us to accelerate building direct relationships with our consumer. Improving digital capabilities along the entire value chain enables us not only to interact with the consumer, but also to become faster, better and more efficient in every part of the organization. We continue to make strong progress in multiple digital accelerators. After the initial launch in 2017, we expanded the reach of the adidas app to over 30 countries across all major markets. Our membership program *Creators Club* SEE GLOSSARY introduced in 2018 as well as the relaunch of the Runtastic app as 'adidas Running by Runtastic' and 'adidas Training by Runtastic', respectively, emphasize the importance of our investments in customer relationship management to allow a deeper consumer understanding. By providing consumers with a premium, connected and personalized shopping experience, we progress toward our 2020 own e-commerce revenue target of € 4 billion. In 2019, our own e-commerce platform was our fastest-growing channel with a currency-neutral revenue increase of 34%.

FINANCIAL AMBITION UNTIL 2020

Creating long-term value for our shareholders drives our overall decision-making process. Therefore, we are focused on rigorously managing those factors under our control, making strategic choices that will drive sustainable revenue and earnings growth and, ultimately, operating cash flow. We are committed to increasing returns to shareholders with above-industry-average share price performance and dividends.
SEE INTERNAL MANAGEMENT SYSTEM, P. 92

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

- **achieve top-line growth significantly above industry average:** We aim to increase currency-neutral revenues annually between 2015 and 2020 at a rate between 10% and 12% on average (initially, in March 2015: high-single-digit currency-neutral increase).
- **win significant market share across key categories and markets:** We have defined key categories within the adidas and Reebok brands that will spur our growth going forward. From a market perspective, we have defined clear roles for each of our markets, depending on macroeconomic trends, the competitive environment and our brand strength in the respective markets.
- **improve our profitability sustainably:** We plan to substantially improve the company's profitability, growing our net income from continuing operations by an average of between 22% and 24% per year between 2015 and 2020 (initially, in March 2015: increase of around 15%; updated in March 2017: increase between 20% and 22%).
- **deliver on our commitment to increase shareholder returns:** 'Creating the New' includes a strong commitment to generating increasing returns for our shareholders. Given our firm confidence in the strength of the company's financial position and future growth ambitions, we target a consistent dividend payout ratio in a range between 30% and 50% of net income from continuing operations. Our dividend policy is complemented by a multi-year share buyback program announced in March 2018. Under the current program, we plan to buy back own shares for up to € 3 billion in total until May 2021, of which € 1.8 billion was utilized by the end of 2019.

ADIDAS BRAND STRATEGY

MISSION: TO BE THE BEST SPORTS BRAND IN THE WORLD

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

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

CONSUMER OBSESSION: CREATING FOR THE CREATORS

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

- **Operating model:** To ensure long-term success, it is important that we continue to challenge ourselves to learn and grow. We must constantly iterate to become faster and stronger. Therefore, the adidas brand's operating model is directed by the guiding principles of *Brand Leadership.* SEE GLOSSARY The aim of Brand Leadership is to provide an organizational structure which enables a 'consumer-obsessed' culture that can act with speed, agility and empowerment.
- **Creator archetype:** Owing to the rapid evolution of sport and sports culture, the adidas brand targets key consumer groups and influencers to create brand desirability and momentum through a well-defined consumer segmentation strategy. The consumer grid comprises six key quadrants (Male Athlete, Female Athlete, Young Creator, Streetwear Hound, Amplifier, and Value Consumer), which are not mutually exclusive. Within this grid, it is key to win the most influential consumers, defined as the creator archetype. True to the brand's values, these influential consumers define themselves as a work in progress – are all doers and makers, first to adopt, focused on what's new and what's next. A large portion of creators live, play and work in the world's most influential and aspirational cities, a key reason for the company's Cities strategic choice.
- **Consumer centricity:** Companies that put the consumer's voice as a centerpiece of their decision-making process have higher levels of success in creating brand advocacy. Therefore, we implemented a global *Net Promoter Score (NPS)* SEE GLOSSARY ecosystem in order to drive brand momentum in a measurable and objective manner. NPS has become an important part of the adidas brand's advocacy program. Through this program, we strive to understand consumers' perception (positive and negative) of the brand and the key drivers which motivate them to recommend the brand to their friends. SEE INTERNAL MANAGEMENT SYSTEM, P. 92

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

We are convinced that footwear has the highest influence on brand perception among product categories. Footwear is also the most powerful driver of NPS, which in turn translates directly into consumer purchase intent and our potential to grow market share. The adidas brand is relentlessly focused on innovation and newness in footwear, delivering cutting-edge technologies that help athletes make a difference in their game, life and world. Unparalleled access to athlete data and an archive that is unrivaled in the industry provide deep insights and ample opportunity to add chapters to the brand's rich heritage. At the same time, the brand has a clear strategy to reduce the number of footwear models, putting a stronger focus on key franchises that can really make a difference for the brand. These footwear franchises are managed carefully and long term with the aim of shaping sport and influencing culture. They are built to create trends, rather than follow. Through uncompromised function, iconic design and unique stories, they directly root from and are targeted at the athlete, and have the potential to be iterated and expanded over time. Their lifecycles are tightly managed, to ensure longevity and relevance. In addition, franchises are prioritized throughout the value chain, building on the company's strategic choices of Speed, Cities and Open Source. The adidas brand expects its top footwear franchises to represent at least 30% of the brand's footwear business by 2020. In 2019, this included, amongst others, the adidas UltraBoost 19, Continental 80, Predator, and Nite Jogger. On the apparel side, the brand continued to build out franchises on the success of the Tiro Pant, Z.N.E. Hoodie and, more recently, the MyShelter Jacket and VRCT Jacket.

WOMEN'S: A NEW DIMENSION TO DRIVE GROWTH

Winning the female consumer continues to be a key focus as it offers one of the largest business opportunities for the adidas brand, with the women's category leading the growth in the sportswear industry. In 2019, the adidas brand further invested resources in expanding a cross-functional women's organization and support infrastructure to set direction for creative, ranging, merchandising and marketing as well as to steer cross-category planning. When it comes to winning the female consumer, the brand has focused its initiatives across product, retail, and activation. Highlights from these initiatives include:

- **Product:** adidas has been investing in key product areas that are critical to winning the trust of the female consumer, including bras, tights and running footwear, as well as improving overall apparel fit for the female consumer. In 2019, the adidas brand introduced its first inclusive sizing collection that spans from sizes XXS-4X in partnership with Universal Standard. Additionally, adidas and Stella McCartney created a post-mastectomy sports bra designed to help women who have undergone surgery for breast cancer bring sport and fitness back into their lives. Two adidas by Stella McCartney proof-of-concepts were unveiled as the latest step in adidas' continued long-standing commitment to reducing the industry's environmental impact – a 100% recyclable hoodie and a tennis dress created with Microsilk and cellulose blended yarn.
- **Retail:** adidas has taken steps toward enhanced merchandising and storytelling across the brand, building off female consumer shopping insights, to enable a seamless shopping experience for her to mix and match product. The brand has also rolled out a bra fitting program in adidas own-retail stores across the globe, covering our key cities and important commercial trade zones, with continued investment planned. In this context, we are training our retail staff to help customers to find the right product.
- **Activation:** One of the cornerstones of the adidas Women's approach continues to be the Creator Network: powered by sport, fueled by culture, and fostered by collaboration. The most notable addition to the Creator Network was the announcement of a landmark collaboration with Beyoncé as a brand ambassador and co-creator. Additionally, the brand expanded the Creator Network in 2019 by adding new athletes and influencers, including Mikaela Shiffrin, Jessamyn Stanley and Nadya Okamoto. The brand also continued the She Breaks Barriers initiative focused on removing barriers to sport for girls and elevating the conversation around equality in sport across genders.

MARKETING INVESTMENTS: MEAN MORE BY DOING LESS

adidas is focused on creating inspirational and innovative marketing concepts that drive consumer advocacy and build brand equity. While the brand historically spent almost half of its marketing investments on partnership assets, with the remainder on brand marketing activities such as digital, advertising, point-of-sale and grassroots activations, we will decrease the ratio of marketing investments spent on *promotion partnerships*. SEE GLOSSARY In addition, the brand will consolidate and focus resources to achieve a great focus and impact on the Creator and the brand's key franchises. This will be achieved by focusing on three priorities:

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

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

- **Events with global reach:** such as the FIFA Women's World Cup, the Rugby World Cup, the UEFA Champions League, and the Boston and Berlin Marathons.
- **High-profile teams:** such as the national association football teams of Germany, Spain, Argentina, Mexico, Colombia, Belgium and Japan, as well as top clubs such as Manchester United, Real Madrid, Bayern Munich, Juventus, and Flamengo Rio de Janeiro in football, the New Zealand All Blacks in rugby, and American universities such as Miami, Arizona State and Texas A&M. In 2019, the brand celebrated its new partnership with one of the most globally recognized football clubs in the world: Arsenal Football Club.
- **High-profile individuals:** such as football stars Lionel Messi, Toni Kroos, Mohamed Salah, Paul Pogba, Paulo Dybala, Son Heung-min, Vivianne Miedema and Wendie Renard, basketball stars James Harden, Candace Parker, Damian Lillard, Liz Cambage and Donovan Mitchell, American football players Aaron Rodgers, Patrick Mahomes and JuJu Smith-Schuster, baseball athletes Aaron Judge and Carlos Correa, as well as tennis stars

Garbiñe Muguruza, Angelique Kerber, Stefanos Tsitsipas, Alexander Zverev and Dominic Thiem as well as alpine skier Mikaela Shiffrin.

In addition, the adidas brand also has a number of strategic partnerships and creative collaborations in place. The strategic partnership with Kanye West is the most significant one ever created between the adidas brand and a non-athlete, while the collaboration between adidas Originals and Pharrell Williams remains highly influential. Top designers and design studios the brand works with include Yohji Yamamoto, Stella McCartney, Raf Simons and Alexander Wang. In 2019, the adidas brand entered new partnerships with Beyoncé, Ninja, the International Space Station ISS and Prada.

SUSTAINABILITY

The adidas brand is committed to sustainability and aspires to create lasting change in our industry through eco-innovation, eco-activation, and by scaling its actions to end plastic waste. SEE SUSTAINABILITY, P. 78

The brand's innovations aim to reduce the amount of virgin plastic added to the world and clean up the already existing plastic. As such, the adidas brand more than doubled the number of products made with recycled ocean plastic from seven million in 2018 to more than 14 million in 2019. The brand also created fully recyclable products such as the Futurecraft Loop performance footwear and the adidas by Stella McCartney Infinite Hoodie, in line with its ambition to move toward circular business models. SEE INNOVATION, P. 67
The adidas brand has a wide reach, and believes it is essential to drive eco-activation through its employees and with its consumers. The brand's global movement, Run For The Oceans, in its third year doubled in size, with around 2.2 million participants logging over twelve million kilometers for Parley Ocean Schools. In its direct-to-consumer business, the adidas brand installed dedicated spaces for sustainability, which are best exemplified in its flagship stores and on adidas.com/sustainability. In addition, the brand launched the Infinite Play program in the UK, to reward adidas Creators Club members for turning in their used adidas gear and helping give it a second life.

We continue to push our industry forward, both as a leader and alongside key partners who help us to become better. May it be as one of the founding signatories of the UN Fashion Industry Charter for Climate Action or through our open source partnerships with start-up incubators such as Fashion for Good and Station F. SEE INNOVATION, P. 67, SEE SUSTAINABILITY, P. 78

ROLE OF CATEGORIES

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

Lead

- To lead in the sporting goods industry, we believe it is a must to lead in the world's most popular sport, football. As such, the adidas brand aspires to be the number one football brand in every market by 2020. This will be driven by focusing on winning the football creator in key cities as well as investing in the brand's football footwear franchises. In 2019, the adidas brand implemented innovations across its football footwear business with the continued focus on the Predator, 'X', Nemeziz and Copa franchises. Endorsement by a globally renowned portfolio of player partners and further amplification via a wider portfolio of partners, such as the FIFA Women's World Cup, ensured global reach and exceptional engagement from creators, especially during key consumption periods. In addition, 2019 marked the launch of the Arsenal Football Club partnership. Reinterpreting the brand's shared history for today's creator, the club represents a key partnership within the key city London approach.
- The adidas brand also strives for leadership in lifestyle in every market with Originals. Not only is adidas the original sports brand, it also was the first brand to bring sport to the street. Brand credibility and heritage is an important prerequisite to win the discerning streetwear hound consumer. These consumers are looking for substance and craft and are inspired by stories and design.
- The brand continued to actively manage the lifecycles of existing classic franchises such as Superstar and Stan Smith while also launching and incubating future icons like Ozweego and Supercourt to create a balanced portfolio with healthy sell-through rates and inventory levels across footwear and apparel. In 2019, the adidas brand continued to pioneer the future of fashion and streetwear culture by partnering with influential brands such as Beyoncé's Ivy Park, as well as Prada and Palace.

Grow

- The running category has been one of the adidas brand's biggest growth opportunities across all genders and price points. The brand's goal is to double sales in the category by 2020 compared to the 2015 financial year. The brand has introduced breakthrough innovations in materials such as BOOST, pioneered new manufacturing processes through Speedfactory, and significantly scaled up 3D printing together with its partner Carbon. To spur growth, amongst other things, adidas Running has significantly refined and evolved its franchise strategy for the male and female athlete across price points. The category will also continue to increase its investment in running communities and grassroots activations through the adidas Runners communities in over 100 cities around the world, as well as drive the future of sport through digital experience and the relaunch of the Runtastic app as the 'adidas Running by Runtastic' app. It will also keep playing a major part in sustainability through the Run For the Oceans activation and the commitment to recycled polyester programs together with Parley. In 2019, the brand launched Futurecraft Loop, the first fully recyclable running shoe that was made to be remade.
- The second category where the adidas brand is focused on driving significant market share gains is adidas Core. adidas Core targets a value-minded consumer, offering entry-price-point styles across all categories. To ensure success, the adidas Core formula employs a 'fast fashion' business model. This means quick reaction to emerging trends through shorter lead times and excellence in retail execution.
- The Training category is the adidas brand's largest performance category and is also the apparel engine of the brand. Led by cutting-edge innovation in fabrics and materials, the adidas brand aims to significantly increase its apparel footprint through Training, which provides products for general training purposes as well as for specific sports, and through Athletics, which is geared to capturing the sports mindset of every athlete off the pitch. Given the high visibility of its products in all markets, this category plays a central role in amplifying the brand.

Authenticate

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

REEBOK BRAND STRATEGY

MISSION: TO BE THE BEST FITNESS BRAND IN THE WORLD

Reebok is an American-inspired global brand with a deep fitness heritage and the mission to be the best fitness brand in the world. To realize this mission, Reebok has gone through a transformation from traditional sports to a focus on the sport of fitness. On this journey, Reebok continues to merge its iconic past with the new technologies that revolutionize both performance and lifestyle products. Reebok is positioned at the intersection of fitness and fashion, meeting the consumer where they are, as the consumer continues to blur boundaries. Reebok established a 'Sport' unit in 2018 that started its work in 2019. This Sport category combines product divisions focused on specialized fitness activities and functional innovation with a focus on style innovation for these products. These products are at the forefront of fitness and true to the culture and communities that Reebok consumers train, run, and live in. Reebok's second category, Classics, reinforces the brand's deep roots in fitness and pop culture across multiple iconic silhouettes and trend-right lifestyle products.

ONE VOICE, ONE BRAND TO THE CONSUMER

In the fourth quarter of 2019, Reebok unified its brand under one logo and wordmark across both Classics and Sport. The vector and drop-R wordmark each represent Reebok unmistakably, connecting Reebok's rich legacy to its exciting future. The brand exudes pride in its rich brand heritage and the vector logo, introduced nearly 30 years ago. The logo remains the most recognizable and beloved symbol of the Reebok brand and is linked to some of Reebok's most iconic products, marketing and cultural moments. This evolution allows the brand to connect fitness, fashion and pop culture in one powerful Reebok voice across all products.

CONSUMER OBSESSION: THE GAME CHANGERS

Reebok's consumer obsession focuses on being distinctive, relevant, and authentic with its focus consumers – the Game Changers. For the Game Changers, fitness is the vehicle they use to explore life's edges. The Game Changers don't shy away from the unexpected. They are constantly evolving and looking to try new things – across all facets of their world in fitness and in life. They are truly changing the game and seeking to broaden their horizons. Reebok inspires and equips them to do just that.

The female consumer is at the forefront of Reebok's consumer obsession. Rooted in Reebok's heritage, this female-centric approach is reflected in content strategy, product creation, marketing activation and distribution. In 2019 alone, Reebok introduced extended sizing in its apparel as well as its first maternity collection to connect with women.

PRODUCT FRANCHISES: LEVERAGING THE BRAND'S FITNESS DNA

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

In footwear, Reebok is further growing its iconic models that have authenticated their position in fitness and in their respective communities, such as the Nano in the CrossFit community and the Forever Floatride Energy in running. In 2019, the new Nano 9 was co-created with the CrossFit community. In the running category, Reebok won its fourth consecutive Runner's World award, 'Gear of the Year'. 2019 was also an exciting year for the Instapump Fury silhouette, as it celebrated its 25th anniversary with activations throughout the Asia-Pacific region and the release of the Fury Boost, a collaboration with the adidas brand. In addition, Reebok leverages its unique fitness DNA through iconic styles such as the Classic Leather and the Club C.

In 2019, Reebok set out to integrate footwear and apparel, leveraging the brand DNA, blending fitness and lifestyle looks to create the new uniform of fitness for consumers. In addition to innovative performance products, such as the award-winning PureMove Bra and the LuxTight 2.0, Reebok expanded the offering, creating apparel to support consumers at all stages of their fitness journey.

Reebok also puts a strong emphasis on innovation. The brand is committed to maintaining a full and innovative product pipeline, bringing new technologies, styles and processes to life. In this context, 2019 saw the launch of Zig, one-of-its-kind footwear built with a distinct zig-zag-shaped midsole, which provides maximum energy return to the consumer. At the end of 2019, Reebok announced Forever Floatride Grow – the brand's first plant-based performance running shoe and latest example of sustainability innovation. The shoe is made with castor beans, algae, eucalyptus trees and natural rubber and thus builds on Reebok's Cotton + Corn lifestyle collection of footwear. SEE INNOVATION, P. 67

MARKETING INVESTMENTS: SPORT THE UNEXPECTED

In the industry, Reebok finds its strength in being a challenger brand. Reebok has always separated from the pack with bold product, personalities and moments. Through the new unified branding, Reebok can reach its consumer with a brand presence that is consistent across the products and the stories it tells. The Reebok brand is focused on connecting with the consumer in an authentic and unique way, creating inspirational marketing capabilities that build brand equity and consumer advocacy, while unleashing powerful brand messages. Reebok has always done things differently, and by combining the Digital and Marketing divisions in 2019, Reebok has been able to create award-winning breakthroughs.

- **Sport the Unexpected campaign:** Launched in 2019, Reebok's 'Sport the Unexpected' campaign is one of the most recognized marketing campaigns Reebok has executed in recent years. The campaign celebrates Reebok as a historically known challenger brand, one that has always done the unexpected. Reebok's short film 'Storm the Court' showed just how Reebok's truly unexpected and witty nature can connect to consumers by winning 15 awards from Clio, Hatch (including a 2019 Best in Show Hatch Award), and a Cannes Lion. The campaign also featured one of the most high-profile personalities in the rap industry – Cardi B. In the short film 'Nails', Reebok broke convention and put the star in an everyday-type situation that shifts in an unexpected manner, spotlighting the iconic Reebok Club C in a completely unique way.
- **Winning through digital:** In 2019, Reebok sharpened its focus on the storytelling and product experience by completely re-designing reebok.com to resonate better with consumers. The tighter integration of marketing and digital drove some unexpected consumer moments – such as being the first brand to drop a new sneaker on Amazon Alexa or launching Reebok Unlocked, a first-of-its-kind membership program on reebok.com. Reebok is focused on continuing to optimize the digital customer experience, driving commercial results and delivering unexpected stories for the consumer.
- **Authentic and influential fitness and fashion assets:** To amplify the brand and increase its authentic connection with the Game Changer consumer, Reebok has partnered with some of the world's most influential validators in the lifestyle and fitness space: fashion partners such as fashion icon Victoria Beckham and up-and-coming designer Kerby Jean-Raymond of Pyer Moss, artists such as female rapper Cardi B., and rapper and songwriter Future, and athletes such as American football pro bowler J. J. Watt and UFC superstar Conor McGregor. Partnering with powerful women such as Gal Gadot, Gigi Hadid and Nathalie Emmanuel rounds out Reebok's strong roster of brand ambassadors. In addition, to validate its authenticity as the best fitness brand in the world, Reebok continues its partnerships with some of the fastest-growing and most innovative organizations in the fitness world, such as CrossFit, Les Mills, and Midnight Runners. Reebok continues to invest in the Boston Track Club, a professional running club with elite runners. Finally, continuing to build relationships with fitness instructors remains a crucial component of Reebok's goal of connecting with the global fitness community. With over 220,000 fitness instructors currently being part of its global network, Reebok has made major progress toward its goal to be the brand of choice for instructors around the world.

MUSCLE UP: REEBOK TRANSFORMATION STRENGTHENS BRAND FUNDAMENTALS

Reebok announced a turnaround plan called 'Muscle Up' in 2016 aimed at accelerating Reebok's top-line growth, particularly in North America, and improving the brand's overall profitability. With efficient and effective distribution being key to Reebok's future success in the all-important North American market, the company has significantly reduced its store base in the market. The company has closed nearly 50% of its own stores in the US market – both concept stores and factory outlets – since the introduction of Muscle Up. In addition, the brand has also streamlined its wholesale business, putting a clear focus on elevating brand equity and driving profitable growth.

In addition to progressing on the brand's turnaround efforts in its home market, Reebok continues to execute on several transformational Muscle Up projects to enhance the profitability of the brand. Initiatives span marketing effectiveness, organizational efficiency and measures to improve product margins. Consequently, Reebok returned to profitability in 2018. In 2019, new initiatives were launched to further accelerate the transformation. They include re-branding and driving clarity with Reebok's consumer on the brand's positioning, shortening go-to-market timelines, strengthening go-to-market readiness, and building new platforms to drive e-commerce growth. In 2020, there will be enhanced focus on reducing complexity, increasing sales efficiency, and digital creation.

Through Muscle Up, Reebok will continue to drive relentless execution and discipline, build organizational capabilities, and accelerate the pace of change in order to drive sustainable profitable growth by the end of 2020.

SALES AND DISTRIBUTION STRATEGY

TRANSFORMING THE MARKETPLACE

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

DRIVING OPERATIONAL EXCELLENCE ACROSS OUR GLOBAL MARKETS

Our sales strategy is crafted by a centralized and integrated marketplace team which supports the flawless execution of our brand strategies and drives operational excellence across the globe. In this context, we continued to execute our strategic business plan, 'Creating the New', across our six global markets during 2019. In a changing global landscape, our diverse market portfolio is an important asset in maximizing the business, elevating our competitiveness and achieving our ambitions for 2020.

SEAMLESS CONSUMER JOURNEY ACROSS OUR CHANNELS

With more than 2,500 own-retail stores, more than 15,000 mono-branded franchise stores and more than 150,000 wholesale doors, we have an unrivaled network of consumer touchpoints within our industry. In addition, through our own e-commerce channel, our single biggest store available to consumers in over 40 countries, we are leveraging a consistent global framework.

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

In 2019, we advanced our sales strategy with several initiatives focused, amongst others, on premium consumer experiences, digital, marketplace transformation, cities and trade zones as well as productivity and efficiency of the sales platform.

Premium consumer experiences

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

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

Digital focus

In 2019, we continued our focus on and investments into digital partners. As part of our Partner Program initiative that was launched in 2016, we successfully onboarded partners across Europe, North America, Emerging Markets and Asia-Pacific, allowing us to deliver incremental sales growth and learnings that will be leveraged to evolve and further grow the program in the future.

In addition, 2019 saw a further expansion of the adidas app, currently reaching over 30 countries across all major markets, thereby becoming an important new consumer touchpoint in the adidas digital ecosystem. The app is directly linked to the adidas e-commerce store and provides consumers with personal conversations, the chance to buy our most exclusive products, a frictionless checkout, seamless order tracking as well as personalized content and access to our membership program – the *Creators Club*. SEE GLOSSARY The success of the app is significantly enhanced by continued investments in Customer Relationship Management (CRM), which will enable us to develop an even deeper consumer understanding and connection.

Furthermore, we drove forward development and roll-out of our B2B order platform Click to allow for impactful and efficient interaction with our wholesale customers. Click is now live in 41 countries. Latest feature additions include improved orderbook management, *Net Promoter Score (NPS)* SEE GLOSSARY measurement and digital customer service capabilities such as web chat to digitalize customer touchpoints.

Marketplace transformation

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

For us, own retail acts as a catalyst to our controlled space ambition. We amplify our success by translating key learnings from own retail to franchise stores and expanding franchising as a business model in existing as well as into new geographies. In 2019, we made significant investments in remodeling our stores and sharpening the top of the pyramid of our store fleet. By doing so, we have strengthened our own-retail presence in key cities and key trade zones. We extended our flagship fleet by opening flagship stores on Champs-Élysées in Paris and on London's Oxford Street, which is our most digital store with more than 100 digital touchpoints. We expect these flagships to set new standards in terms of product presentation, execution and service that will be replicated across all other channels. We expect e-commerce to continue to be the fastest-growing channel that we operate, with revenues targeted to grow to € 4 billion in 2020. In wholesale, we will continue to expand our footprint with a focus on prioritized key accounts, targeting important consumer hotspots and trade zones, especially those that are part of our Cities initiative. Strategic partnerships to operate controlled space remain an important thrust of this expansion. In that regard, we will continue to support our key wholesale partners, ensuring that we have premium space in their new flagship stores.

Cities and trade zones

In the last couple of years, we saw continued success in our key cities New York, Los Angeles, Paris, London, Shanghai and Tokyo. Our collective market share further improved year on year in our key cities during 2019. We are on track to achieve our target to double revenues in our key cities by 2020 compared to the 2015 level. We will continue to focus on trade zones within the cities, specifically on how we deploy product, retail and activation initiatives. Our intention is to create one holistic brand experience for our consumers within these key commercial areas across all shopping channels and platforms.

Productivity and efficiency of sales platform

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

- **Premium presentation:** Our physical selling spaces are an important factor in driving *Net Promoter Score (NPS)* SEE GLOSSARY and full-price sell-through. We further evolved the brand experience through the launch and expansion of premium store concepts such as *Stadium* SEE GLOSSARY, *Originals the Collection* SEE GLOSSARY and *Neighbourhood* SEE GLOSSARY for the adidas brand as well as *FitHub* SEE GLOSSARY and *Vector Style* SEE GLOSSARY for the Reebok brand. Our own-retail concepts are designed for scalability. Consequently, we will continue to roll them out across our store base, which yields benefits across channels.
- **Consumer service excellence:** Our Sales Academy program continues to help us to transform the culture and effectiveness of our sales teams. As a result, consumers enjoy significantly elevated service levels which have proven commercially rewarding through higher *conversion rates* SEE GLOSSARY and net sales.
- **Personalized interaction:** Our commitment to deliver a premium shopping experience is reflected online through our digital brand flagship stores, adidas.com and reebok.com, as well as our adidas app. E-commerce and digital communication are powerful tools for our brands to engage with consumers.
- **Insight-driven decision-making:** We continue to invest in our analytical capabilities and technical infrastructure to become faster and more insight-driven in decision-making. Leveraging data such as cross-channel product sell-through and consumer purchasing behaviors delivers actionable insights in areas such as assortment planning and product life cycle management.
- **Distribution channel mix:** Based on a thorough analysis of the profitability of our distribution channels in each of our markets, in 2019 we continued with our optimization program to shift focus and resources to our most profitable channels. By doing so, we have improved the distribution mix of our company and consequently increased our profitability.

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

SEE INTERNAL MANAGEMENT SYSTEM, P. 92

GLOBAL OPERATIONS

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

CLEARLY DEFINED PRIORITIES FOR GLOBAL OPERATIONS

Global Operations delivers upon our company's mission to be the best sports company in the world. First, the function creates the best products by establishing state-of-the-art infrastructure, processes, and systems that enable us to focus on innovative materials and manufacturing capabilities. Second, Global Operations is focused on delivering best services through innovative distribution capabilities by enabling product availability through the omni-channel approach to supply chain agility. Third, Global Operations strives to deliver the best experience to our customers and consumers in a sustainable way. SEE DIAGRAM 24

Best product: Global Operations is driving innovation in new materials, such as recycled polyester, Parley materials derived from ocean plastic, or PFC-free materials, as well as new product constructions, and new ways of manufacturing (e.g. 3D technology, or *direct-to-textile digital printing* SEE GLOSSARY) that deliver consumer value and enable competitive advantage. By investing in tools that more directly connect design and factory production, Global Operations is changing traditional models of development to deliver constant newness and increased speed-to-market capabilities. The function also plays a critical role in driving operational efficiency to support the company's growth ambition. To mitigate material and labor costs for the company, Global Operations is continuously reducing complexity through process improvements and consolidation of legacy structures.

Best service: Global Operations strives to develop, produce, source, and distribute ordered articles on time and in full. Therefore, a non-financial KPI 'On-Time In-Full' (OTIF) measures on-time delivery of our products to wholesale and franchise customers as well as own-retail stores toward the desired customer date. SEE INTERNAL MANAGEMENT SYSTEM, P. 92 In 2019, adidas delivered 79% of its adidas and Reebok brand products on time and in full (2018: 78%), which is broadly in line with the overall target of 80%. In Greater China and Russia/CIS, OTIF levels reached again above 90% of our order quantities.

OTIF 2019
79%

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

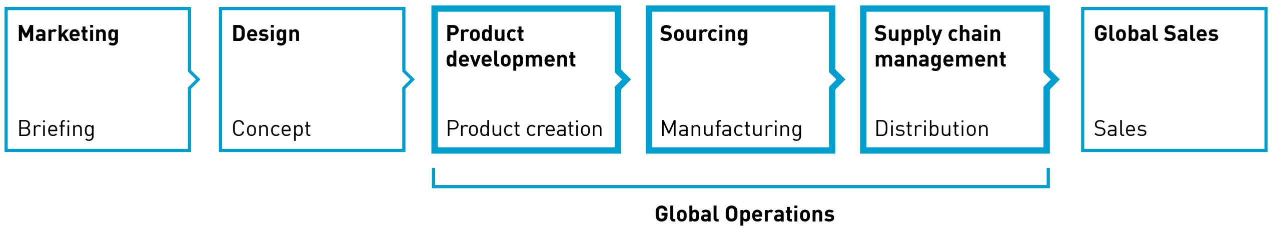
STRATEGIC COMPANY PRIORITY 'SPEED'

'Speed' is a strategic priority for the company. Our ambition is to be the first fast sports company in the sporting goods industry. We are consumer obsessed; thus, we want to respond quicker to consumer demand. We want to make our products available when and where they are wanted across our wholesale, retail, and e-commerce channels. Our aim is to always be on trend and always in stock. In 2019, we made further progress around our strategic priority with fast creation and fast replenishment, increasing the share of customer-defined short lead-time ranges, which allows fulfillment of an increasingly large share of quarterly business.

Fast creation: We are moving away from predominantly developing products in advance of seasonal merchandising calendars and are getting closer to responding quickly to consumer demands with in-season development and rapid replenishment manufacturing. We aim to ensure creation timelines of eight months or less. Bringing products to market faster allows our customers and direct-to-consumer channel to place orders closer to the actual time of sale, facilitating buying decisions that are based on better market knowledge.

Fast replenishment: To increase 'Speed' also on production timelines, in 2019 Global Operations continued to expand its

Global Operations in go-to-market process 24



efforts to enable later ordering and further reduced production lead times. The function succeeded in providing 60 days or less production lead times for the vast majority of our footwear, apparel and hardware products. In addition to shortening our overall production lead times, Global Operations has scaled its fast replenishment capabilities of best-selling articles and established 30-day production lead times for 20% of all articles across our product categories. Through this, we are enabling our brands to ensure constant freshness in store for our consumers, resulting in higher-quality sales and more productive inventory. SEE CORPORATE STRATEGY, P. 50

Speedfactory: Together with Oechsler AG, adidas had opened two *Speedfactories* SEE GLOSSARY in 2017 to test new processes for faster production of athletic footwear and to develop new manufacturing technologies with the ultimate goal to transfer them to the company's global supply chain. In the future, adidas will focus its resources and capacities even more on the modernization of its other suppliers and the use of 3D technology in footwear production. Production at the two Speedfactories in Ansbach, Germany, and Atlanta, USA, will be discontinued by April 2020. However, the Speedfactory technology will be deployed at Asian suppliers going forward. This will enable adidas to continue to respond to short-term trends in demand while using production capacities more flexibly and economically, and expanding the range of products with short production times faster. The company will continue to develop, improve and test manufacturing processes in the 'adiLab' at the adidas production site in Scheinfeld, Germany. SEE CORPORATE STRATEGY, P. 50, SEE INNOVATION, P. 67

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

In recent years Global Operations has focused on digitalizing the product creation process, leveraging digital capabilities and technologies across design and development teams. In 2019, we further expanded these efforts toward digitalizing the end-to-end creation-to-shelf value chain. Within a defined scope, the first two seasons of footwear and apparel products have been digitally designed, developed, sourced and sold into key accounts. End-to-end digital creation is a key strategic initiative of the digital pillar of our 'Creating the New' Acceleration Plan.

We aim to scale up our new way of working with one of our business units by the end of 2020. With digitally created products we support a more efficient creation process internally enabling a 'right first-time' approach. Externally, digital products will become more prominent in the interaction and communication with our partners, allowing us to make faster product iterations and take better decisions earlier in the process. This new way of working will enable a faster time-to-market and create a holistic and immersive digital sell-in experience for our key customers. Our ambition is to continue building the digital infrastructure for the future, gradually rolling out the new capabilities, broadening the involved supply base and working closer with our key customers during the product creation process.

FUTURE OF MATERIAL SOURCING

Global Operations constantly looks for the next generation of materials by focusing, amongst others, on knitted footwear, direct-to-textile digital printing, and sustainable materials. Building on our partnership with *Parley for the Oceans* SEE GLOSSARY, in 2019, we continued to roll out *Parley Ocean Plastic* SEE GLOSSARY across our key categories. The demand for Parley Ocean Plastic and other sustainable materials continues to increase. Therefore, our dedicated sourcing operation working together with Parley for the Oceans ensures a steady and transparent supply chain. In 2019, we added the Philippines to the group of countries where we source ocean plastic to produce yarns. We also continued to expand sourcing from Small Island Developing States by onboarding the Dominican Republic. SEE SUSTAINABILITY, P. 78

AUTOMATION TO IMPROVE PRODUCTION EFFICIENCY

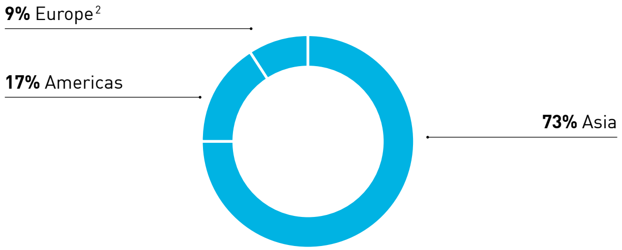
Driving the level of automation in our supply chain remains of overriding importance for Global Operations. In this context, automation technologies such as auto cutting, computerized stitching, robotic adhesive spray system, and auto-packing solutions are important focus areas, as they allow us to reduce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

MAJORITY OF PRODUCTION THROUGH INDEPENDENT MANUFACTURING PARTNERS

To keep our production costs competitive, we outsource almost 100% of production to *independent manufacturing partners.* SEE GLOSSARY In 2019, we worked with 138 independent manufacturing partners (2018: 130) that were producing in 336 manufacturing facilities (2018: 289).

The majority (73%) of our independent manufacturing partners are located in Asia (2018: 71%). SEE DIAGRAM 25 While we provide our manufacturing partners with detailed specifications for production and delivery, they possess excellent expertise in cost-efficient, high-volume production of footwear, apparel, and *hardware.* SEE GLOSSARY

Independent manufacturing partners by region[1] 25



1 Figures include independent manufacturing partners of the adidas and Reebok brands, but exclude local sourcing partners, sourcing agents, subcontractors, second-tier suppliers and licensee factories.
2 Includes Middle East and Africa.

Key strategic partner relationships 26

	Total	Footwear	Apparel	Hardware
Number of key strategic partners	45	11	22	12
Average years as key strategic partner	17.0	16.8	16.2	18.6
Share of all production volume	90%	92%	88%	93%
Share of all production value	89%	90%	88%	93%
Strategic relationships < 10 years	16%	27%	14%	8%
Strategic relationships 10 – 20 years	49%	36%	59%	42%
Strategic relationships > 20 years	36%	36%	27%	50%

Key strategic partner relationships > 20 years

36%

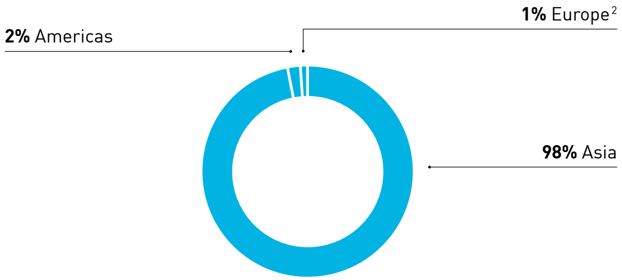
In 2019, 45 of the 138 independent manufacturing partners (2018: 26 of 130) were considered key strategic partners, producing the majority of our products in 156 manufacturing facilities worldwide (2018: 82). This increase was due to the addition of new apparel suppliers in order to create more capacity and better meet the demand for 2019. We value long-term relationships: 85% (2018: 84%) of our key strategic partners have worked with adidas for more than ten years and 36% (2018: 42%) have a tenure of more than 20 years. SEE TABLE 26

All our suppliers are subject to specific performance criteria which are regularly measured and reviewed by Global Operations. To ensure the high quality that consumers expect from our products, we enforce strict control and inspection procedures of our manufacturing partners and in our own factories. Effectiveness of product-related standards is constantly measured through quality and material claim procedures. In addition, we track social and environmental performance criteria of our suppliers through the C- and E-KPI tracking system. Adherence to social and environmental standards is promoted throughout our supply chain. SEE SUSTAINABILITY, P. 78 The current supplier lists can be found on our website. ADIDAS-GROUP.COM/SUSTAINABILITY/S/SUPPLY-CHAIN-APPROACH

VIETNAM REMAINS LARGEST FOOTWEAR SOURCING COUNTRY

98% of our total 2019 footwear volume was produced in Asia (2018: 97%). SEE DIAGRAM 27 Vietnam represents our largest sourcing country with 43% of the total volume (2018: 42%), followed by Indonesia with 28% (2018: 28%) and China with 16% (2018: 18%). In 2019, our footwear manufacturing partners produced approximately 448 million pairs of shoes (2018: 409 million pairs). SEE DIAGRAM 28 Our largest footwear factory located in Vietnam produced approximately 8% of the footwear sourcing volume (2018: 11%).

Footwear production by region[1] 27



1 Figures include the adidas and Reebok brands.
2 Includes Middle East and Africa.

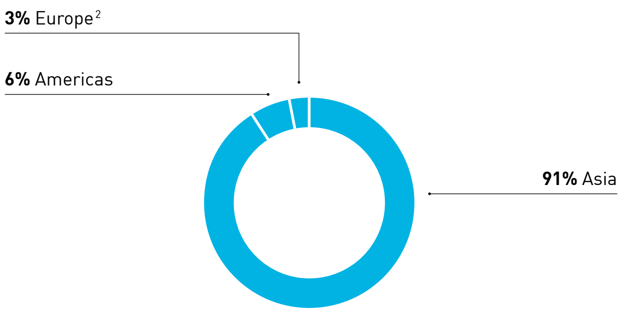
Footwear production[1] in million pairs 28

1 Figures include the adidas and Reebok brands.

CAMBODIA REMAINS LARGEST SOURCE COUNTRY FOR APPAREL

In 2019, we sourced 91% of the total apparel volume from Asia (2018: 91%). SEE DIAGRAM 29 Cambodia is the largest sourcing country, representing 23% of the produced volume (2018: 24%), followed by China with 19% (2018: 19%) and Vietnam with 19% (2018: 18%). In total, our manufacturing partners produced approximately 528 million units of apparel in 2019 (2018: 457 million units). SEE DIAGRAM 30 The largest apparel factory, which is located in China, produced approximately 9% of this apparel volume (2018: 9%).

Apparel production by region[1] 29



1 Figures include the adidas and Reebok brands.
2 Includes Middle East and Africa.

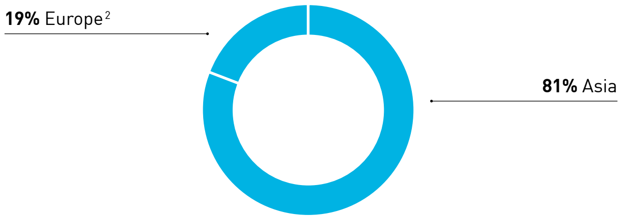
Apparel production[1] in million units 30

1 Figures include the adidas and Reebok brands.

CHINA REMAINS MAIN SOURCE OF HARDWARE PRODUCTS

In 2019, 81% of our hardware products, such as balls and bags, were produced in Asia (2018: 79%). SEE DIAGRAM 31 China remained our largest sourcing country, accounting for 37% of the sourced volume (2018: 38%), followed by Pakistan with 22% and Turkey with 18% (2018: 18% each). The total hardware sourcing volume was approximately 127 million units (2018: 113 million units), with the largest factory accounting for 16% of production (2018: 18%) located in Turkey. SEE DIAGRAM 32

Hardware production by region[1] 31



1 Figures include the adidas and Reebok brands.
2 Includes Middle East and Africa.

Hardware production[1] in million units 32

1 Figures include the adidas and Reebok brands.

OPTIMIZING DISTRIBUTION CENTER NETWORK AND SUPPLY CHAIN ORGANIZATION

By creating a higher specialization of our distribution center landscape focused on the specifics of our products across the various channels, Global Operations ensures higher flexibility at each consumer touchpoint. This, in turn, enables a broader range of products to be available at the point of sale, including online orders for pick-up in our own-retail stores. SEE SALES AND DISTRIBUTION STRATEGY, P. 61

In 2019, Global Operations focused on further optimizing its distribution center network, while at the same time preparing it for future consumer demand. In this context, we mainly focused on our distribution centers in the US. We built a new distribution center in Pennsylvania, and expanded our existing West Coast third-party facility, aimed at supporting our future growth expectations for North America, in particular around the company's e-commerce and own-retail businesses. Our new distribution center in Suzhou and the extension of our distribution center in Rieste have been successfully integrated. Our newly added e-commerce facility in the UK has been created to improve our consumer experience there and prepare us for Brexit scenarios.

In addition, in our continuous effort to operate a best-in-class supply chain that is responsive to the consumer needs of today and tomorrow, we consolidated and centralized our planning and trading teams in one location to ensure the highest level of alignment and operational efficiency.

INNOVATION

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

MEETING THE NEEDS AND EXPECTATIONS OF OUR CONSUMER

The modern innovation landscape extends beyond product and increasingly requires innovation teams to consider the development of experiences and services, as well as the provision of greater levels of transparency and direct integration of our consumer through co-creation.

In partnership with our trend and cultural insights teams, foresight and trend analysis are shared on an ongoing basis, documenting shifts in society and culture. This provides the starting point to build concepts of relevance.

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

INNOVATION APPROACH BASED ON OPEN SOURCE MINDSET

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

- **BASF:** Together with BASF, we manage and enhance BOOST, a cushioning technology designed to deliver maximum energy return, responsiveness and comfort to athletes.
- **Carbon:** Together with Carbon, a Silicon Valley-based tech company, we are revolutionizing product creation through hardware, software and molecular science, and have enabled mass production of additively manufactured components, coming to life with adidas 4D.
- **Fashion for Good:** Together with Fashion for Good, a global cross-brand initiative to make all fashion sustainable, we are accelerating sustainable innovation in the apparel industry through, among other things, mentorship of and collaboration with circular start-ups.
- **Oechsler:** Together with Oechsler, an expert in high-tech automated manufacturing of technical components and assemblies, we operated our Speedfactories in Ansbach, Germany, and Atlanta, USA. However, in 2019 we decided to deploy the Speedfactory technology at Asian suppliers. Our collaboration with Oechsler will continue in other manufacturing areas.
- **Parley for the Oceans:** Together with Parley for the Oceans, we are developing products partially created from upcycled plastic waste, intercepted before it reaches the ocean from beaches and coastal communities.
- **Platform A at Station F:** In January 2019, we launched our global sports accelerator program Platform A. Station F is the biggest start-up campus in the world, based in our key city Paris, France. The accelerator aims to use the innovative power of the global start-up scene to create the best digital innovations in sport. The first generation of start-ups started the program in January and presented their digital pilots in September 2019. In the meantime, adidas onboarded a second generation that will develop new concepts and identify opportunities in the areas of women empowerment, sustainability, retail and e-commerce.

FIVE PILLARS OF INNOVATION

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

Athlete innovation

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

Manufacturing innovation

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

Digital and experience innovation

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

Sustainability innovation

Our commitment to manage our business in a responsible way has long been one of the company's principles. To stay at the forefront of sustainable innovation, adidas is pursuing a proactive approach to establish internationally recognized best practices and achieve scalable improvements. As part of our sustainability roadmap, we have set ourselves the target for 2020 to invest in materials, processes and innovative machinery which will allow us to upcycle materials into products and reduce waste. In 2019, we further focused on taking responsibility for the entire product life cycle and established a clear game plan for moving toward a circular business model. SEE SUSTAINABILITY, P. 78

Female athlete innovation

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

COMMERCIALIZATION OF INNOVATIONS

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

- **Parley Ocean Plastic:** Products made of *Parley Ocean Plastic* SEE GLOSSARY focus both on the needs of our athletes, by living up to their performance promise, and on the needs of the world, by helping to protect our oceans from marine plastic pollution. We have taken sustainability to the product level and continue to roll it out across our product portfolio. In 2019, we made more than eleven million pairs of shoes containing Parley Ocean Plastic, across various footwear franchises in both Sport Performance and Sport Inspired. In addition, nearly three million pieces of our 2019 apparel offering featured Parley Ocean Plastic, including jerseys for high-profile teams such as Real Madrid, Bayern Munich, Juventus Turin and Manchester United.
- **Futurecraft Loop:** Futurecraft Loop is our first 100% recyclable performance shoe made entirely from one material (TPU), using no glue or solvent. The first generation of the shoe was rolled out in April 2019 as part of a global beta program with consumers from across the world's major cities. They were asked to test and return the shoes to start the recycling process. In November 2019, we introduced the second generation of Futurecraft Loop. We will take the learnings from the recycling process to further develop the concept and to prepare for the commercial release in 2021. Futurecraft Loop was recognized by Time Magazine as one of the 'Best Inventions 2019'.
- **adidas 4D:** The high-performance footwear produced under the adidas 4D concept features midsoles crafted with light and oxygen using Digital Light Synthesis, a unique technology developed by Carbon. The midsole pioneers a digital footwear component creation process that eliminates the necessity of traditional prototyping or molding. With the new technology, adidas brings additive manufacturing in the sports industry into a new dimension. After having produced more than 100,000 pairs of this high-performance footwear in 2018, we continued to increase volumes in 2019 and intend to further expand production in the future. In the past two years, adidas 4D has gone from a conceptual innovation to a running shoe that has been made available in larger quantities and multiple variations.
- **Creators Club:** This new digitally enabled membership program rewards loyal consumers with invitations to exclusive events and access to limited-edition products. In addition, it enhances the e-commerce shopping experience for members through an even faster checkout process and new order-tracking options. The program allows us to deepen the relationship with our consumers and to gain valuable insights into their expectations and needs. *Creators Club* SEE GLOSSARY launched in the US toward the end of 2018, and is now live in France, Germany, Japan, the UK and Singapore.
- **adidas by Stella McCartney Infinite Hoodie and Biofabric Tennis Dress:** With the adidas by Stella McCartney Infinite Hoodie, we presented the first commercially produced 100% recyclable performance garment made of 60% NuCycl lyocell and 40% organic cotton, which are completely recyclable fabrics. We have also already taken the first steps toward exploring solutions to create products that are made with nature, and can, at some point, also return to nature. The adidas by Stella McCartney Biofabric Tennis Dress is a prototype concept made with a cellulose blended yarn and certified Microsilk, a protein-based yarn that is made of completely renewable inputs, which has the ability to fully biodegrade at the end of its life. SEE SUSTAINABILITY, P. 78, SEE ADIDAS BRAND STRATEGY, P. 55
- **Forever Floatride Grow:** At the end of 2019, Reebok announced Forever Floatride Grow – the brand's first plant-based performance running shoe and latest example of sustainability innovation. The shoe is made with castor beans, algae, eucalyptus trees and natural rubber and

thus builds on Reebok's successful Cotton + Corn lifestyle collection of footwear.

- **Infinite Play:** Building on learnings from take-back pilots in Brazil, Canada, and some of our key cities in Europe and the US, adidas is exploring infrastructure for product bring-back and recycling, with partners, governments and regulatory bodies. 2019 saw the launch of 'Infinite Play' in the UK to extend the useful life of products by passing them on to new users, thus avoiding waste. The initiative engages consumers in returning used items by rewarding them with gift cards and Creators Club points.
- **AM4 Series:** The 'adidas made for' (AM4) products were created at the adidas Speedfactory facilities in Ansbach and Atlanta. In 2019, we continued to deliver launches jointly with creators supporting moments that matter for our consumers, e.g. limited editions around the Marvel universe and for Bayern Munich. The concept was included into the adidas offerings to Footlocker and exclusive launches with our Creators Club. Going forward, Speedfactory technologies will be used at two of our suppliers in Asia that will allow for more variations of Speedfactory footwear models in the future.

NEW PRODUCT LAUNCHES GENERATE THE MAJORITY OF SALES

As in prior years, the majority of sales were generated with products newly introduced in the course of 2019. New products tend to have a higher gross margin compared to products which have been in the market for more than one season.

In 2019, brand adidas and Reebok sales were again driven by the latest product offerings. At brand adidas, products launched during the course of the year accounted for 77% of brand sales (2018: 74%), while only 3% of sales were generated with products introduced three or more years ago (2018: 3%). At Reebok, 67% of footwear sales were generated by products launched in 2019 (2018: 67%), while 11% of footwear product sales relate to products introduced three or more years ago (2018: 11%).

R&D EXPENSES DECREASE 1%

Expenses for research and development (R&D) include expenses for personnel and administration, but exclude other costs, for example costs associated with the design aspect of the product creation process or the majority of costs related to company-wide Open Source initiatives. In 2019, as in prior years, all R&D costs were expensed as incurred. The company's R&D expenses decreased 1% to € 152 million from € 153 million in the prior year.

R&D expenses
€152m

In 2019, R&D expenses as a percentage of sales equated to 0.6% (2018: 0.7%). The number of people employed in R&D activities at December 31, 2019, was 1,007 (2018: 1,041). SEE TABLE 33

Key R&D metrics[1,2] 33

	2019	2018	2017	2016	2015
R&D expenses (€ in millions)	152	153	187	149	139
R&D expenses (in % of net sales)	0.6	0.7	0.9	0.8	0.8
R&D employees	1,007	1,041	1,062	1,021	993

1 2019, 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
2 2015 figures reflect continuing operations as a result of the divestiture of the Rockport business.

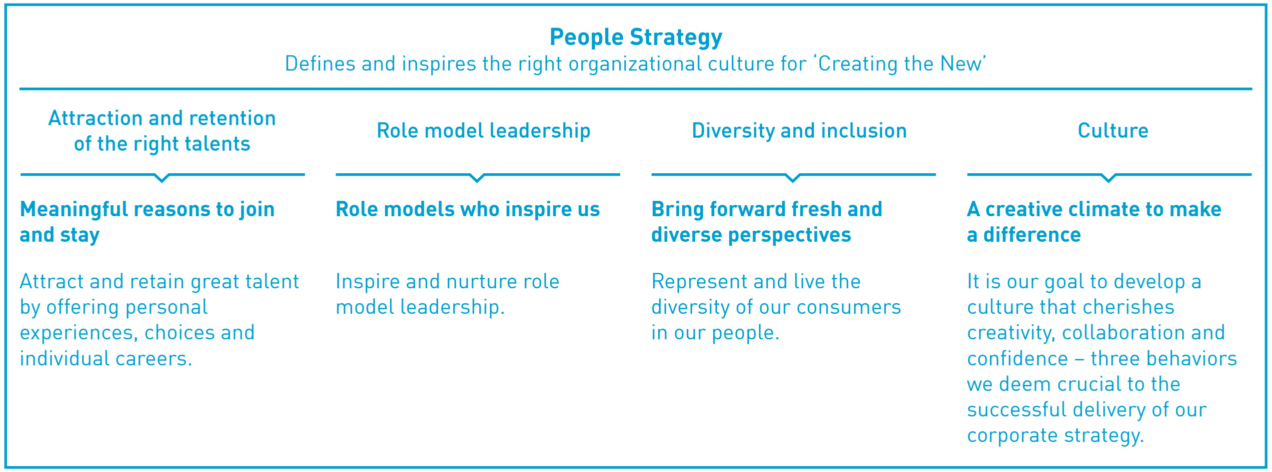
PEOPLE AND CULTURE

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

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

As an integral part of our corporate strategy 'Creating the New', the People Strategy is a testament to thinking that our strategic business plan can only be executed if we speak to our people on all levels and win both their hearts and minds. The People Strategy consists of four pillars that serve as a basis for creating the culture and environment for our people in order to successfully support 'Creating the New'. SEE DIAGRAM 34 These four pillars also serve as a tool for prioritization, sense-checking and measuring our HR actions and initiatives. The People Strategy is implemented through a portfolio of projects which will directly deliver into each of the four pillars. In 2019, we made good progress in all of these pillars.

The four pillars of our People Strategy 34



ATTRACTION AND RETENTION OF TALENTS

Our 'employer of choice' status continues to garner worldwide recognition and helps us to attract, retain and engage industry-leading talent to sustain the company's success and growth. In 2019, adidas locations around the world leveraged our employer value proposition for attraction, retention and engagement strategies. Amongst professionals, this work contributed to several top rankings worldwide, including the Glassdoor 'Best places to work' awarded for 2019, the LinkedIn 'Top companies to work for' as well as various Universum 'World's most attractive employers' rankings among business and IT students worldwide. adidas offices across Europe, Asia and the Emerging Markets qualified for the certification by Top Employer Institute for their efforts to provide an exceptional work environment for our people. Among others, the certification recognized the company's Learning and Development framework, which encourages different kinds of learning and the career management model.

We offer a range of programs at entry level to ensure future employees can have the best possible start, choose between a wide variety of learning opportunities, build on their strengths and improve their professional skills:

- **Apprenticeship and Dual Study Program:** The adidas Apprenticeship Program offers young pupils who want to join our company directly out of school the opportunity to gain business experience in a two- to three-year rotation program. It includes vocational training in retail, shoe technology, IT or other areas. In cooperation with various universities, the Dual Study Program for young school graduates offers theoretical and practical experience at adidas in fields such as digital commerce, finance or IT including at least one three- to six-month international rotation. At the end of 2019, we employed 50 apprentices in Germany (2018: 55) and 49 Dual Study Program students (2018: 45).
- **Global Trainee Program:** The Functional, Digital and Design Trainee Program is an 18- to 24-month program providing graduates with an international background and excellent educational credentials the opportunity to start a functional career within adidas. The program comprises assignments in various functional and cross-functional departments. At least one of these assignments takes place abroad. At year-end 2019, we employed 67 participants in our Global Trainee Program (2018: 61).

- **Internships:** Our global internship program offers students three to six months of work experience within adidas. In line with our ambition to optimize the experience for interns, we enhanced the overall recruiting process and added interactive collaborative exercises such as hackathons to the program in order to further enrich the cross-company experience. Consequently, we offered fewer but more focused internships in 2019, employing 216 interns in Germany (2018: 447).

ROLE MODEL LEADERSHIP

The quality of current and future talent and leadership is key to our success. We want to inspire and nurture role model leadership. With specifically designed talent management tools, we identify talents at all levels of our company who have the potential to become future leaders or key players within the organization. In order to prepare them for more complex future roles, they have tailored individual development plans and participate in targeted development programs. In 2019, we made further progress with this People Strategy pillar.

Leadership and development groups

We now have four active groups of selected leaders and talents within the company:

- The **Core Leadership Group** (CLG) is the most senior group, made up of around 20 members from our senior leadership population. Members of this group jointly represent critical positions and roles across our company worldwide. This group partners with the Executive Board in leading the execution of the 'Creating the New' strategy, accelerating its delivery across functions, as well as developing and inspiring the next generation of leaders. The CLG also serves as the succession pool for the Executive Board.
- The **Extended Leadership Group** (ELG) has around 120 members. The ELG collaborates across markets and functions to lead the execution of the strategic initiatives that form the 'Creating the New' portfolio and drives continuous improvement and consistency across the organization. The ELG also mentors and sponsors the Global High Potential Group and serves as a succession pool for the CLG.
- The **Global High Potential Group** (GHIPO) is composed of around 50 members and was formed in 2018 with a balanced gender split. It enables us to identify and develop high potentials who have the ability to take on more complex, demanding and higher-level responsibilities at a global senior management level. In 2019, the first GHIPO generation finished their 18-month development experience, with nearly three quarters having made positive career movements through either a promotion to the next level (more than 50%) or through lateral, cross-cultural or cross-functional moves. In 2019, we also launched the second generation of GHIPO with around 40 members and a balanced gender split, and have seen more than 40% already moving into new roles at the end of the year.
- The **Local High Potential Group** (LHIPO) was formed in 2019 and enables us to identify and develop high potentials who have the ability to take on more complex, demanding and higher-level responsibilities at a local senior management level in our regions. The program is designed to build peer relationships and to give participants cross-functional and cross-cultural exposure, amongst others through immersion in a different country and function. The diverse group consists of around 130 leaders of 32 different nationalities with an almost balanced gender split.

Together with the Executive Board, we hold two physical-presence CLG and ELG events per year to ensure these groups interact and align on the execution of 'Creating the New' as well as our People Strategy. The GHIPO group meets up to three times per year for an on-site learning experience in our key markets and the LHIPO group meets regionally once per year. Throughout the year, all groups remain in touch via virtual experiences, meetings, calls and cross-cultural immersions. SEE CORPORATE STRATEGY, P. 50

Leadership Framework and leadership development experiences

To drive clarity and accountability, leaders at adidas were engaged to further activate our global *Leadership Framework* SEE GLOSSARY in 2019. The Leadership Framework is based on the three company behaviors creativity, collaboration and confidence (the *'3Cs'* SEE GLOSSARY) and articulates the particular behaviors that are expected of leaders at adidas. The framework was developed jointly with employees worldwide who provided feedback on what great leadership within adidas looks like to them. It provides a global and universal language that is inclusive, reduces the need for local interpretations, and outlines concrete behaviors that serve as a measure of leadership effectiveness. It is built into the way we hire and promote as well as rate performance. The framework was first activated and cascaded to employees globally through the CLG and ELG groups.

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

- **Executive Development Experience:** We are partnering with Harvard Business School in delivering a tailored learning experience for our most senior population. In 2019, the CLG and ELG attended the in-residence Executive Development Experience at Harvard Business School.
- **Director Development Experience (DDE):** In 2019, we introduced the Director Development Experience which is based on the Leadership Framework at its core and allows a customizable learning experience for our middle management level employees. DDE is currently offered in 16 of our locations and we will continue to expand the offer. Since its launch, almost all places offered were taken up.
- **Manager Development Experience (MDE):** The Manager Development Experience supports the leadership skills and abilities of our lower management level employees. Just

like the DDE, MDE is designed to provide a customizable learning experience that uses the Leadership Framework as its foundation and drives the development of personal and team mastery. We currently offer MDE at almost 40 locations worldwide and also recorded for this program that almost all offered places were taken up.

- **Talent Carousel:** Our internal career development program Talent Carousel has entered its fifth and final year, with the third generation graduating in 2019. The program encouraged employees from all over the world to apply to take a cross-functional and international career step by starting a new role in a new location. The learnings from Talent Carousel helped design and launch LHIPO and now enable us to scale the experience toward a larger audience.

Succession management

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

DIVERSITY AND INCLUSION

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

As part of our global diversity approach, we proactively pursue a portfolio of internal and external activities that welcome diversity and champion inclusion. Throughout the company we continue to support and grow our Employee Resource Groups (ERG) – these are specific networks that give employees from various walks of life a voice, including networks for women, LGBTQ+, experienced generations, and North American people of color. Our global women's network in Germany counts almost 900 active participants, supported by 14 mentoring circles to foster the professional development of junior colleagues. In North America, we doubled the number of ERGs to ensure they represent the diversity of our employees and our consumer base. In 2019, we focused on education about different cultures and heritages by, among others, celebrating Black History Month, Lunar New Year, International Women's Day, Pride, Hispanic Heritage Month and Diwali internally across North America. In Europe, we activated on key moments in our main offices to raise awareness on the topics of female leadership, the LGBTQ+ community, and mental health. Globally, we aimed to ensure that our leadership development programs are a fair representation of employees in terms of gender, race, and nations.

To inspire action outside of our company, we are active members in both 'Charta der Vielfalt' ('Diversity Charter') and the Diversity and Inclusion in Asia Network (DIAN), that allow us to promote communication and the sharing of best practices and insights.

Diversity and inclusion training

Our gender intelligence training follows a holistic concept for the topic of diversity and inclusion. It upskills our employees on the importance of diversity and on the value of inclusion. By the end of 2019, a total of more than 4,300 employees across all markets participated in this training and were challenged to re-visit and think critically about their thoughts and beliefs around diversity, stereotyping, bias in the workplace, inclusion and belonging. In Europe, senior leadership teams started to participate in 2019 and will seek to further roll out the training within their areas of expertise. The extended roll-out of the gender intelligence training is a result of both the commitment of our leadership teams to creating an inclusive and diverse workplace as well as our effort to increase the number of internal trainers. In addition, we created a virtual version of the training to also reach employees in retail, distribution centers and remote locations, that was piloted in North America in 2019 and will be extended to all other regions in 2020.

Mixed leadership teams

We believe in mixed leadership teams as a competitive advantage and driver of success. A prerequisite for increasing the number of women at the highest levels of management is the general promotion of women within the company worldwide at all levels of management. We have various initiatives in place, e.g. with members of the Executive Board agreeing to mentor female talents as well as an equal gender split in our Global and Local High Potential programs to guarantee that our succession pipeline is balanced.

Already in 2011, adidas proactively set itself the goal of increasing the number of women in management positions globally. By the end of 2019, the company had recorded a total of 34% of women globally in management positions (2018: 33%), exceeding the 2020 target of 32%. ↗ ADIDAS-GROUP.COM/S/EMPLOYEES Pursuant to the German Law on Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector, the adidas AG Supervisory Board determined target figures for the percentage of female representation on the Executive Board, including corresponding deadlines for their achievement, and the Executive Board determined such target figures for the first two management levels below the Executive Board, including deadlines for their achievement, for adidas AG. SEE DECLARATION ON CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE REPORT, P. 24

Women in management positions
34%

CULTURE

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

Activating our Core Belief

Responding to an increasing desire of employees, consumers and partners to become directly involved in activating our core belief 'through sport, we have the power to change lives', and their asking for ways they can make a difference, we focus our activation efforts on three pillars: 'She Breaks Barriers', which is aimed at getting girls to join and stay in sport, 'One Starting Line', which is aimed at increasing inclusivity for all in sport and sports culture, and 'End Plastic Waste, which is aimed at protecting the world's oceans for future generations. SEE ADIDAS BRAND STRATEGY, P. 55 To maximize impact, we leverage brand moments to raise awareness for these topics and create opportunities for engagement. In 2019, these included opportunities for our employees to volunteer their time and expertise, and we collaborated with our athlete ambassadors at moments such as the Women's World Cup, the Super Bowl, as well as key cultural moments such as Earth Day, International Day of the Girl, Black History Month and Pride.

For the Women's World Cup, partnering with the NGO Equal Playing Field, adidas organized multiple football camps around the world and brought together over 3,500 women and girls from all across the globe to play football, share skills and make connections at the Festival of Football in Lyon, France. In partnership with Amazon, we sponsored Girls on the Run races with a distance of five kilometers and enabled 600 girls to have access who would otherwise not have been able to participate. Additional money raised will equip coaches to make program adaptations to better serve and include girls with disabilities. We also launched @3stripelive, which was the first-ever livestreamed high school girls' soccer and volleyball games on Twitter with over 14.5 million livestream views. This was done in partnership with the US Soccer Foundation and United for Girls, with the objective to double the number of girls who have access to soccer. Working with Up2Us Sports, we developed the digital coaching curriculum 'Keep Girls in Sport' to educate coaches on the specific training needs of young girls, aiming at removing the potential barriers they face. In Germany, adidas partnered with the network Impact Hub to host a series of initiatives to enable the next generation of female athletes, creators and leaders. Twelve venture teams were given access to peer networking, adidas mentors and business clinics on business strategy, finance and digital marketing with adidas experts over a period of three months. Three selected ventures can earn a monetary grant to scale their ideas further.

Work-life integration

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

- **Childcare:** In addition to providing flexible working opportunities such as teleworking and sabbaticals, we cater for a family-friendly environment and infrastructure. At our headquarters in Herzogenaurach, Germany, we extended the number of parent-child offices from two to four, and expanded our childcare facility 'World of Kids'. It now provides space for 270 children in two buildings. In 2019, we also introduced an ad-hoc childcare service to support parents in emergency situations or during transition phases and short-term assignments. At various locations across the globe, adidas offers a variety of holiday camps for children, with more than 450 participants benefiting in 2019. Other global locations also offer various forms of benefits and support services to ensure that our employees are able to access and secure quality childcare. With the ongoing expansion of our infrastructure and childcare offering, we as a company emphasize our commitment to a family-friendly environment to integrate work and private life – and enable balanced careers.
- **Parental leave:** For parental leave and re-entry, programs are in place to provide employees with advice early on and options for their return to work, also taking into consideration flexible working hours and work locations. In Germany, we guarantee our employees on parental leave their positions, which are only filled temporarily. In the US, in addition to regular parental leave for new parents (up to 10 weeks at home, 70% of their salary), adidas offers an extra two weeks' paid parental leave for parents. Furthermore, adidas' special parental bonding leave provides parents with the possibility to stay home

for up to six months within the first twelve months after the child's birth or placement. While unpaid, it offers parents the opportunity to stay home longer and take care of their new arrival and new life together. Latin America has made significant amendments to improve work-life integration across the market. This includes an extended parental leave approach where mothers will be provided 24 paid weeks in total to spend with their children, and fathers/partners will be provided 20 paid days in total. On top, mothers are allowed to work fewer hours one month before and after their maternity leave period.

- **Flexible work:** Continuing in Germany in 2019, every employee with an adidas AG contract whose working tasks can be carried out independently of campus facilities, campus equipment or personal interaction on-site is eligible to work 20% of their total working time off-campus. This policy and agreement is based on our belief that results can be achieved in the same quality and quantity, regardless of people's location. Positive feedback motivated us to roll out the approach globally. Our North America market implemented the concept in 2018, Latin America and partly Europe followed in 2019, to be continued in 2020.
- **Expansion of workplaces:** In line with the efforts to centralize all local employees at the headquarters campus 'World of Sports' in Herzogenaurach, in 2019 we opened a new main office building called 'Arena'. It has capacity for around 2,000 employees and applies an activity-based working concept in which employees no longer have assigned desks and instead choose from a variety of rooms and spaces, dependent on their needs. To make work-life balance as easy as possible for our employees on campus, we offer, in addition to two childcare facilities, other services such as dry-cleaning, grocery delivery and the possibility to receive private deliveries. In Asia, we moved our new Asia-Pacific and Greater China Head Office to the IFC tower in downtown Shanghai offering easy access to commercial facilities. It combines a comfortable and green working environment with an agile and convenient working experience, including a staff canteen, gym, showrooms as well as collaborative open areas. Lastly, we are also centralizing most of our workforce in Portland in one location. The ongoing expansion of adidas enables capacity for 2,800 employees with the build-out of two office buildings that include parking garages, an expansion of the on-site employee restaurant, and further extended employee services. With this expansion, we are also rolling out the activity-based working concept already in place at most of our local headquarter locations worldwide.

Health management

We support our employees by aiming to provide the best possible conditions to ensure that they feel good and stay healthy. Our holistic approach includes people's physical, mental and social well-being, and focuses on four pillars: mindset, nutrition, movement and medical services. In 2019, for example, we pursued global activations around World Mental Health Day in October, including information campaigns, prominent speakers who shared their personal story, an open dialogue with senior leaders as well as exercises for stress relief. We also saw great progress in providing employees access to sports facilities. Employees in Herzogenaurach, Portland, Boston, Moscow, Gurgaon and Manchester, and at other locations across the globe, have access to a corporate gym. In 2019, construction work started to extend the gym at our German headquarters, and with its completion in 2020 it will offer significantly more space and training opportunities for more than 3,000 members as well as integrate physiotherapy with extended offerings. Lockers and showers in office buildings allow people to run or cycle to work. In 2019, adidas UK received Britain's Healthiest Company Award in the category medium-sized company.

Learning

We believe a continuous focus on learning and development of our employees is a key enabler of driving a high-performance culture. To support this, we offer employees access to a wide range of in-person and digital opportunities. Our Learning Management System is now globally available to almost half of all employees, 75% of whom have accessed available training and development offers to support their current performance and future career development. In 2019, compared to 2018, we saw a more than 20% increase in the number of employees who participated in in-person learning activities. Within our online platform, we provide two digital offerings to all corporate employees: LinkedIn Learning and Leadership Library, a service which curates and summarizes industry articles, media and university courses based on company or learner needs. These offerings continue to provide employees access to content across subjects in business, creative and technology areas. In 2019, an average of more than 1,900 content pieces were consumed monthly within the Leadership Library, while the number of employees registering for LinkedIn Learning accounts more than doubled.

In 2019, we expanded our global core learning programs to ensure we continue to support strategic business initiatives, build capabilities connected to our 3Cs and support development of future cross-functional organizational capabilities. Input into the program offer is managed through a business needs assessment supported by our HR organization.

Performance management

#MYBEST is the global performance development approach in adidas and is a key enabler of a high-performance culture. The four elements encourage regular high-quality conversations between the employee and the line manager, provide a framework for regular upward and peer feedback exchange, and ensure goals are set and reviewed quarterly. Formal performance evaluation takes place twice a year[1],

1 Employees in Germany continue to have four evaluations based on the current company agreement.

development being in the focus of every monthly 'Touch Base' conversation. The voice of employees is critical in the evolution of #MYBEST. The global #MYBEST survey is run on an annual basis and is a key source of information when making decisions regarding improvements. In 2019, we made several improvements, including the simplification of quality and actionable peer and upward feedback, the reduction of performance evaluations from 4 to 2[1] to bring more simplicity and efficiency into the process as well as the clarification of various levels of performances, providing further clarity to all employees to identify their area of strength and development. The definitions also ensure that employee performance is evaluated consistently across the organization.

Wages, benefits and incentives

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

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

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

We are continuously improving our remuneration approach and are therefore investing in a number of projects and initiatives to increase the significance of our remuneration programs, as well as to ensure we are investing in the right people at the right level. One of the improvements we made was an overhaul of our benefits offer in Germany and the US throughout the last three years, which is designed to minimize salary differences and, more importantly, inequity of employees on the same positions and grades. It is based on a higher level of detail for external market data and addresses internal pay gaps – also helping to ensure that we pay fairly at the same level for female and male employees. Furthermore, we developed a monitoring approach to identify potential pay gaps and work continuously to improve and close these gaps on a country-by-country basis. To further enhance our efforts and transparency on this topic we support initiatives such as 'Lean In' and will also in 2020 put a strong emphasis on continuously closing potential gaps. The latest internal report regarding the Equal Pay Gap shows an overall balanced picture on pay between female and male employees, based on a weighted average calculation between the salary grade levels.

In addition, we further improved transparency and governance for senior management remuneration, and created higher transparency about remuneration as well as internal and external positioning of compensation and benefits packages. The aim was to ensure objective decision-making for management remuneration, and to continue standardizing our pay structures. We rolled out a global Long-Term Incentive Plan for senior management. This program provides Restricted Stock Units (RSUs), linked to our earnings per share (EPS) targets and to our share price performance. It closely links the goals of our senior management with those of our shareholders – sustainable success and long-term growth – and fosters a company ownership mentality. In 2019, we were able to complete the roll-out of the LTI Plan to the director level globally. SEE NOTE 28, P. 176

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

Stock Purchase Plan

Participation in the Stock Purchase Plan is provided to employees in Germany, the US, the Netherlands and Greater China (China mainland, Taiwan and Hong Kong), offering almost half of our employees globally (excluding retail) the possibility to participate. On average, around 5,000 employees participated in the program in 2019 (2018: 4,800).

MEASURING THE SUCCESS OF OUR PEOPLE STRATEGY

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

Employee engagement

We have set ourselves the goal of becoming the best sports company in the world by becoming a truly consumer-centric organization and putting our people at the heart of everything we do. When it comes to measuring whether we are living up to these ambitions, our consumers and people are the best data sources. We are convinced that our employees' feedback will play a crucial role in our pursuit of creating a desirable employee experience and continuing to attract and retain top talent. We can only tell if we are successful by asking our people and hence empower them to share their feedback on a regular basis. In support of this thinking, we launched 'People Pulse' – our approach and system platform for measuring the level of employee satisfaction with the experience adidas provides as an employer – for all office employees with an email account.

People Pulse allows for the measurement of employee Net Promoter Score (eNPS). SEE INTERNAL MANAGEMENT SYSTEM, P. 92 The calculation logic of the eNPS score is identical with brand NPS: Based on the main question 'On a scale of 0–10, how likely are you to recommend adidas as a place to work?', the total share of detractors (responses below 7) is deducted from the total share of promoters (responses scoring 9 and 10), producing the eNPS score. This approach as well as a focus on collecting open-comment feedback from employees on a regular basis allowed the reduction of the questionnaire to a short pulse check of seven questions maximum, with the eNPS question at the center.

The People Pulse cadence is made up of two components:

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

In 2019, we saw the quarterly People Pulse continue to be leveraged as an important feedback channel from corporate employees to the company. In March, we reached similar levels to the all-time high response rate of the previous year, with 67% of employees responding. On average, our eNPS remained stable in 2019 compared to the previous year. Reports with detailed results and scores were provided to the Executive Board and leaders down to Board –4 level. Employees have access to the overall company results via our global intranet. Result recipients continued to review, cascade and openly discuss the results and drive action on identified areas of improvement.

We not only leverage People Pulse for general feedback on the employee experience at adidas, but also as a tool to gather employee insights regarding important elements of our strategy, such as consumer obsession.

HR FOUNDATIONS FOR OUR PEOPLE STRATEGY

In 2019, we continued to roll out a new HR cloud-based system platform that aims to further enhance the HR system landscape by driving standardization, digitization and automation of currently potentially time-consuming processes across all HR areas. We are convinced that this will allow the HR function to pro-actively manage the workforce, improve the employee experience, and enable the entire organization to make more data-driven decisions.

After successful consolidation of our HR Shared Services in 2019 into a cross-functional global business service, Global Business Services (GBS), operation centers are currently set up in Porto, Dalian and Portland. All employee queries related to topics of an administrative nature, such as compensation, benefits, time management and HR systems, are centrally channeled and managed through GBS. As a result, our HR Partners are enabled to fully focus on their core business, supporting line managers and employees on strategic topics such as career counseling, people management and coaching.

GLOBAL EMPLOYEE POPULATION

On December 31, 2019, the company had 59,533 employees (2018: 57,016). SEE TABLE 35, SEE TEN-YEAR OVERVIEW, P. 222 Thereof, 7,703 were employed at adidas AG. On a full-time equivalent basis, our company had 53,218 employees (thereof 7,033 adidas AG) on December 31, 2019 (2018: 49,563). SEE TABLE 36 Personnel expenses increased to € 2.720 billion in 2019 (2018: € 2.481 billion), representing 12% of sales (2018: 11%). SEE NOTE 33, P. 196

Number of employees

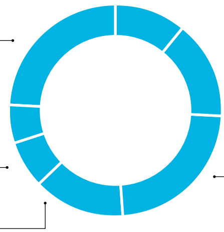
59,533

Employee statistics[1] 35

	2019	2018
Total number of employees[2]	59,533	57,016
Total employees		
Male	48%	51%
Female	52%	49%
Management positions		
Male	66%	67%
Female	34%	33%
Average age of employees (in years)	31	31
Average length of service (in years)	4	4

1 At year-end.
2 Number of employees on a headcount basis.

Employee split[1] 37



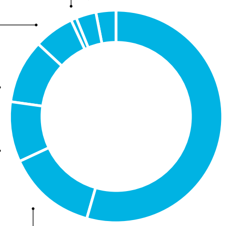
1 At year-end.

Number of employees by function[1] 36

	Employees[2]		Full-time equivalents	
	2019	2018	2019	2018
Own retail	32,948	32,297	27,654	25,880
Sales	3,680	3,857	3,586	3,742
Logistics	8,170	6,175	7,874	5,976
Marketing	5,945	5,764	5,737	5,565
Central administration	5,624	5,574	5,323	5,251
Production	621	888	608	803
Research and development	1,007	1,041	940	971
IT	1,538	1,420	1,496	1,377
Total	**59,533**	**57,016**	**53,218**	**49,563**

1 At year-end.
2 Number of employees on a headcount basis.

Employees by function[1] 38



1 At year-end.

SUSTAINABILITY

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

OUR APPROACH

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

MATERIAL TOPICS

We seek to ensure that we address the topics that are most salient to our business, our stakeholders as well as the challenges ahead. To identify these topics, we openly engage with our stakeholders and consider their views and opinions in decisions that shape our day-to-day-operations. In addition, we regularly conduct formal materiality exercises to confirm the selection of our material topics. We use insights gained from past assessments, categorize potential new topics and seek to validate these through in-depth discussions with experts across the entire business. Ultimately, we want to better understand the importance a topic has for our business performance and stakeholders but also gain more visibility about the impact we have on these topics. As a result of this ongoing exercise, employee diversity has emerged as an addition to this list of topics. SEE NON-FINANCIAL STATEMENT, P. 90 We also make use of external frameworks to help support the selection of material topics. One of these frameworks is the UN Sustainable Development Goals (SDGs) which represent a global call for action to promote prosperity for all while protecting the planet. Although our current roadmap and underlying targets were implemented prior to the adoption of the SDGs, we see a clear correlation between the SDGs and our own commitment to sustainable development. Consequently, we have been able to link prioritized SDGs with both the environmental priorities related to the selection of materials, manufacturing, use and disposal of our products, and the needs and concerns of people in the adidas value chain.

CORRELATION BETWEEN UN SDGS AND OUR SUSTAINABILITY ROADMAP

STAKEHOLDER DIALOGUE AND TRANSPARENCY

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

In this spirit of collaboration, we also established a Hackathon series together with our partner Zalando back in 2018. Motivated by the ambition to better understand stakeholders' expectations about supply chain transparency and find solutions using digital technologies, we support start-ups with our expertise so they can develop ideas and test their potential for scalability. In 2019 alone, we held three events supporting more than 30 ventures.

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

GOVERNANCE STRUCTURE

A robust governance structure ensures timely and direct execution of programs that drive achievement of our voluntarily set goals for 2020 and beyond. The Head of Sustainability is responsible for the development, coordination and execution of our sustainability strategy and reports to the member of the Executive Board responsible for Global Operations. He will also lead the sustainability Sponsor Board that is composed of senior representatives from Global Operations (GOPS), Social and Environmental Affairs (SEA), Global Brands, and other relevant functions across the company. The Sponsor Board ensures cross-functional alignment, transparent end-to-end management and execution of agreed sustainability goals within their functions. This includes the review and sign-off of policies as required.

EXTERNAL RECOGNITION

adidas continuously receives positive recognition from international institutions, rating agencies, NGOs and socially responsible investment analysts for its sustainability initiatives. In 2019, the company was again represented in a variety of high-profile sustainability indices and subject to comprehensive corporate sustainability assessments. SEE OUR SHARE, P. 46

For the 20th consecutive time, adidas was selected to join the Dow Jones Sustainability Indices (DJSI) in 2019, and was assessed to be among the global top 10% best-performing companies in its industry in economic, environmental and social criteria. In the annual assessment of the Carbon Disclosure Project, adidas was again awarded with a B score for its Climate Change approach (2018: B), and improved to a B score for its approach to water management (2018: B-). The company managed to improve its rating considerably in the annual Green Supply Chain Corporate Information Transparency Index (CITI), advancing from tenth to second place in 2019 in the textile industry. adidas further maintained its leadership position in the Corporate Human Rights Benchmark (CHRB) evaluation in 2019, coming in first overall across all industries assessed, and was placed in the Leader category in the first Children's Rights Benchmark conducted by the Global Child Forum in collaboration with the Boston Consulting Group. ADIDAS-GROUP.COM/S/RECOGNITION

OUR PROGRESS

Following its ambition to be transparent toward stakeholders, for years, adidas has regularly reported about its sustainability performance by measuring and disclosing the progress made toward its targets. The following presents the list of material topics within our programs and details the progress made and challenges faced in 2019.

PRODUCT SAFETY AND TRANSPARENCY

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

One of these policies is the Restricted Substances Policy ('A-01' Policy) that we pioneered in 1998. It covers the strictest applicable local requirements and includes best-practice standards as recommended by consumer organizations. The policy is updated and published internally and externally at least once a year based on findings in our ongoing dialogue with scientific organizations, and it is mandatory for all business partners. To ensure successful application of the policy across the business, we have established a Product Safety and Compliance workspace that serves as a platform for all employees involved in product creation by providing them with the necessary information and guidance to develop, produce and distribute products according to international regulations and best-practice standards. Both our own quality laboratories and external institutes are used to constantly monitor material samples for compliance with our requirements. Materials that do not meet our standards and specifications are rejected. As a result of our ongoing efforts, we did not record any product recalls in 2019.

Over the last years, we have substantially contributed to the AFIRM Restricted Substances List that harmonizes Restricted Substances Lists across the industry. In 2019, the list was further developed to include a corresponding test matrix that will help to establish the list as the globally accepted standard in our industry. We also continued our participation in several major public stakeholder consultation processes initiated by the European Commission (e.g. European Chemicals Agency) and US state legislative initiatives to inform governmental entities on implications and opportunities of drafted legislation.

ENVIRONMENTAL IMPACTS

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

Based on results from a pilot assessment of our environmental impacts along our value chain, we recently focused our attention on creating an internal tool to calculate our organizational footprint along the entire value chain and simulate reduction options on a more regular basis, using as much primary data as possible and breaking down results. We aim to use the results of this impact valuation tool for steering business decisions, tracking performance over the years and further driving integration of sustainability into the business.

Measuring and optimally managing our environmental footprint in our own operations and across our supply chain is only one way to respond to climate change. In addition, we are proactively addressing the impacts of climate change by supporting global initiatives that aim to drive change for our industry. adidas reiterated its commitment to mitigating climate change by signing the Fashion Pact presented at the G7 Summit in 2019. In the prior year, the company signed the UN Fashion Industry Charter for Climate Action and committed to reducing emissions in its supply chain by 30% by 2030 (baseline 2017), thus paving the way for climate neutrality by 2050. SEE TABLE 39 Back in 2015, adidas joined the UN Climate Neutral Now initiative and committed to the continued estimation and reduction of its emissions.

Reduction of CO_2 emissions by 2030

30%

Mitigating climate change: Impactful targets for 2020 and beyond — 39

2020	Own operations	3% absolute annual CO_2 reduction	(baseline 2015)
	Strategic supplier facilities	20% reduction in energy use	(baseline 2014)
2030	Value chain (from raw material production to own operations)	30% reduction of CO_2 emissions	(baseline 2017)
2050		Climate neutral	

Own operations

Back in 2008, adidas introduced a program called 'Green Company' to drive continuous improvement and savings in water, waste and energy at its own sites globally. The program covers administrative offices, production facilities and distribution centers, equaling more than 90% of our global employee base (excluding own retail) in 2019. In 2015, we presented targets to be achieved by 2020, including targets for carbon emissions reduction that were calculated considering a science-based methodology and context-based targets for water reduction.

One essential driver to achieve these targets is the implementation of environmental standards at our highest-consuming locations. adidas has successfully applied an Integrated Management System (IMS) which helps us to gain certification for key locations for their environmental management (ISO 14001), energy management (ISO 50001), as well as health and safety management (ISO 45001). Building on a group-wide IMS policy, adidas aims to further expand these certifications to key sites every year, through both external and internal audits. By the end of 2019, 37 sites globally held ISO 14001 certification, and 30 locations were recognized with ISO 45001 certification. After implementing IMS across key corporate locations in Europe, North America,

Own operations: Progress toward 2020 targets — 40

2020 Targets		2019	2018	2017	2016
Emissions	3% absolute annual reduction in CO_2 Scope 1 and Scope 2 net emissions[1] (baseline 2015)	(52%)	(24%)	(29%)	(11%)
Water	35% reduction in water consumption per employee (baseline 2008)	(37%)	(31%)	(27%)	(23%)

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

Asia-Pacific and Latin America, we will focus on Russia/CIS and the Emerging Markets in 2020.

In 2019, we achieved an accumulated reduction of more than half of all emissions (52%) compared to 2015 in combined carbon net emissions. SEE TABLE 40 Alongside energy efficiency initiatives, carbon offsetting for key locations and the implementation of a company-wide energy monitoring system, we equipped facilities with photovoltaic panels, including our biggest distribution center in Rieste and the new corporate office building at our German headquarters. This resulted in the production of green electricity that accounts for around 5% of the electricity usage of the distribution center, and for around 13% of the electricity usage of our German headquarters. Overall, we will continue to drive renewable energy projects at key sites over the next years. It is our ambition to continuously add more of our own retail stores to the scope of Green Company. We closely collaborated with our facilities to continue to drive water efficiency initiatives and raise employee awareness for the importance of their contribution. As a result, we achieved accumulated water savings of 37% per employee between 2008 and 2019. SEE TABLE 40

The progress toward all Green Company targets is tracked through an environmental data reporting system and is disclosed in detail in our annual Green Company Report that will be available on our corporate website as of April 2020. ADIDAS-GROUP.COM/S/ENVIRONMENTAL-APPROACH

Supply chain

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

In 2019, adidas strengthened its environmental supply chain program through ongoing efforts to advance suppliers' capacity for managing resource efficiency. After the release of the Environmental Good Practice Guideline and Toolkit in 2018, we updated and issued our Environmental Guidelines in 2019 for all strategic suppliers, along with an efficiency calculator so they can better understand their environmental impacts. We continued to support the Energy and Water Investment Plan and, by the end of 2019, we had mobilized more than 40 strategic suppliers located in five of our main sourcing locations (Cambodia, China, Indonesia, Vietnam and Taiwan) who successfully identified more than 400 saving opportunities that will be implemented with projected annual savings estimated at 350 million MJ of energy and four million m^3 of water.

We also support our suppliers to gradually increase the generation and use of renewable energy in our supply chain and help connect our suppliers with experienced solar companies so they can jointly work toward the development and implementation of projects. As of 2019, more than 20% of our strategic suppliers are already also adopting renewable energy, including rooftop solar photovoltaic and biomass. As an example, two of our major suppliers in Vietnam initiated rooftop solar projects with the potential for huge estimated savings of almost one million kg CO_2e annually.

We co-hosted a supplier training event with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and VITAS (Vietnam Textile and Apparel Association) for more than 180 participants, among them suppliers, in Vietnam. The aim was to upskill suppliers on the commitment to reduce our carbon footprint by 30% by 2030 in accordance with the United Nations Framework Convention on Climate Change (UN FCCC), how it relates to supplier production facilities, clean energy opportunities in Vietnam, incentives and financing options. As a result of our collective efforts, suppliers have already met most of the efficiency targets across all categories (footwear, apparel, and accessories and gear) ahead of time. SEE TABLE 41 A tool called 'E-KPI' helps us to measure suppliers' environmental compliance overall and assess their performance and progress toward the 2020 targets. We will

Supply chain: Progress toward 2020 targets 41

2020 Targets[1]		2019	2018	2017	2016
Water	20% reduction in water consumption at strategic Tier 1 supplier facilities	(29%)	(24%)	(15%)	(11%)
	35% reduction in water consumption at strategic Tier 2 apparel material supplier facilities	(34%)	(27%)	(24%)	(7%)
Energy	20% reduction in energy consumption at strategic Tier 1 supplier facilities and strategic Tier 2 apparel material supplier facilities	(22%)	(15%)	(7%)	(9%)
Waste	20% reduction in waste volume at strategic Tier 1 supplier facilities and strategic Tier 2 apparel material supplier facilities	(30%)	(22%)	(10%)	(4%)

1 Table shows aggregated reduction results for all categories (apparel, footwear and accessories and gear). Baseline year 2014. Results show externally verified data for the previous year.

continue to support suppliers to identify resource efficiency measures and roll-out in our supply chain.

An additional way we try to minimize our suppliers' environmental impacts at their manufacturing plants is by helping them establish sound environmental management systems. The majority of our footwear sourcing volume, 98% (2018: 98%), is produced in factories which are certified in accordance with the International Environmental Standards ISO 14001 and/or the Workplace Health and Safety Management Standards OHSAS 18001.

Volatile Organic Compounds (VOCs), which are typically found in solvents used in our manufacturing process, can – in high concentration – cause breathing difficulties and other health problems for production workers. By applying innovative as well as environmentally sound bonding and priming technologies while following the adidas guidelines on the use of chemicals, our athletic footwear suppliers have been able to significantly reduce the use of VOCs, from above 100 grams per pair in 1999 to around 11 grams in 2019. The share of VOC emissions has now remained stable at a very low level for the past three years.

Chemical management

The management of chemicals in multi-tiered supply chains is a complex challenge and requires many actors contributing to the achievement of effective and sustainable solutions. For years, adidas has been running leadership programs in chemical management within its area of direct influence. In consultation with external stakeholders including chemical experts, environmental organizations and industry federations, adidas has defined an end-to-end-approach spanning the management of chemical input, monitoring supplier progress and reporting supplier data publicly to controlling the finished end product. ↗ ADIDAS-GROUP.COM/S/CHEMICAL-FOOTPRINT

We further improved our chemical input management, recording 81% of auxiliaries and 91% of dyestuffs from our strategic apparel suppliers as bluesign-approved in 2019. We also continued to be 99% free of poly- and perfluorinated substances (PFCs) in our products for the fall/winter 2020 season. We contributed to the latest update of the ZDHC Manufacturing Restricted Substances List (MRSL) and made it part of the welcome kits with guidelines for our suppliers. As we believe that strengthening the monitoring approach in our supply chain will further contribute to the elimination of hazardous chemicals from the production process, we also contributed to the latest update of the ZDHC Wastewater Guidelines, an international wastewater standard for our industry. Using these guidelines, our strategic suppliers accounting for more than 80% of the wet processes have tested and publicly reported their wastewater test results twice a year since 2018. According to the latest results, the majority of our facilities meet the local legislation or the requirements of the wastewater treatment plant.

Transportation

We regularly track the environmental impact related to the transport of our goods. Compared to the previous year, performance remained relatively stable. The vast majority takes place via sea freight. In 2019, we recorded a slight increase in air freight due to the mitigation of the supply chain shortages. SEE DIAGRAM 42

Freight types used to ship adidas and Reebok products[1] in % of products shipped — 42

Apparel	2019	2018
Truck	8	7
Sea freight	84	87
Air freight	8	6
Footwear	**2019**	**2018**
Truck	1	1
Sea freight	92	97
Air freight	6	2
Hardware	**2019**	**2018**
Truck	18	19
Sea freight	80	78
Air freight	2	3

2019 2018

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

SUSTAINABLE MATERIALS AND PROCESSES

We are committed to steadily increasing the use of more sustainable materials in our production, products and stores. We push toward sustainable innovation and continue to drive toward closed-loop recycling systems.

Synthetic fibers are widely used in our industry due to their unique performance properties such as elasticity, light weight, and high durability. We are aware that products made out of synthetic fibers can cause negative environmental impact during their use phase and acknowledge microfiber pollution as a complex challenge for our industry – one we are proactively addressing. We have established a cross-functional working group and closely collaborate with our suppliers and research institutes to raise awareness for the issue and drive joint solutions toward a global testing standard. adidas is co-founder of the Microfibre Consortium (TMC), which is operational as of 2019, and among others develops tools to minimize shedding and release of microfibers into the environment, for example via a testing method that enables us to obtain results about the shedding potential of our materials. ↗ ADIDAS-GROUP.COM/S/PRODUCT-MATERIALS

Sustainable cotton

adidas has steadily increased the sourcing of cotton according to the Better Cotton Initiative (BCI) throughout the last years and already managed to source 100% *sustainable cotton* SEE GLOSSARY by the end of 2018. Also in 2019, we continued to source all cotton globally as sustainable cotton. The BCI aims to reduce the use of pesticides, promotes efficient water use, crop rotation and fair working conditions, and strives to transform cotton production worldwide by developing Better Cotton as a sustainable mainstream commodity.

Sustainable cotton sourced
100%

Recycled polyester

Using more recycled polyester is yet another way we seek to improve our environmental footprint while still making high-performance products for the athlete. Polyester is the most single-used material in adidas products and, by 2024, we aim to replace all virgin polyester with recycled polyester in all products where a solution exists. We set clear internal milestones for product creation teams and have seen great progress throughout the last seasons. In 2019, 50% of all polyester used for our apparel and footwear ranges was already recycled polyester. Moreover, almost two thirds of the polyester used for our apparel range for the spring/summer season 2020 was recycled polyester.

Share of recycled polyester
50%

Parley Ocean Plastic

Since 2015, adidas has partnered up with *Parley for the Oceans* SEE GLOSSARY, and uses *Parley Ocean Plastic* SEE GLOSSARY as an eco-innovative replacement for virgin plastic. We continued to roll out Parley Ocean Plastic across key categories and were able to exceed our target for 2019, with more than eleven million pairs of shoes and almost three million pieces of apparel made containing Parley Ocean Plastic. To facilitate the growing demand for Parley Ocean Plastic and other sustainable materials, we have built a dedicated sourcing operation with the aim to ensure a steady and transparent supply chain. We expanded our sourcing countries for ocean plastic and developed a code of conduct specific to the collection and processing of plastic that is now applied by our partners. In 2019, our focus was to further expand the audit scope to lower tiers of the plastic supply chain. In addition, we used our expertise to upskill Parley for the Oceans to optimize their own policies and procedures. SEE ADIDAS BRAND STRATEGY, P. 55, SEE GLOBAL OPERATIONS, P. 63, SEE INNOVATION, P. 67, ↗ ADIDAS-GROUP.COM/S/SUSTAINABILITY-INNOVATION

Shoes containing Parley Ocean Plastic
> 11m

Waste and packaging

We are committed to reducing our plastic footprint globally and are proud of the success we have seen in recent years, such as the phase-out of plastic bags in our own retail stores globally in 2016 and the elimination of single-use plastics across the majority of adidas locations worldwide as of 2018. Where the use of plastics – for example in transport packaging – is still unavoidable, adidas is relying on counterbalancing measures and promoting sustainable alternatives. For example, in 2018, the company supported the global innovation platform Fashion for Good with a donation of € 1.5 million which also enables us to explore innovative recycling processes for polybags as well as the development of infrastructure for used polybags. In addition, the company aims to reduce virgin plastic, with the goal to transition to the use of 100% *recycled LDPE polybags* SEE GLOSSARY by 2021.

Circular business solutions

adidas takes responsibility for the entire life cycle of a product and follows a clear game plan for moving toward a circular business model. Throughout 2019, we successfully showcased proof-of-concept products against circular and regenerative loops by presenting our first fully recyclable and biodegradable products. Futurecraft Loop is our first 100% recyclable performance shoe made entirely from one material (TPU), using no glue or solvent. Other prototype concepts include the adidas by Stella McCartney Infinite Hoodie and the adidas by Stella McCartney Biofabric Tennis Dress. In addition, adidas is exploring infrastructure for product bring-back and recycling, with partners and governmental bodies. SEE ADIDAS BRAND STRATEGY, P. 55, SEE INNOVATION, P. 67, ↗ ADIDAS-GROUP.COM/S/PRODUCT-END-OF-LIFE

APPROACH TO HUMAN RIGHTS

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

Throughout 2019, we engaged with a broad spectrum of human and labor rights advocacy groups, working collaboratively with the FLA and calling on the Cambodian government to address ongoing human rights topics, which ultimately triggered a review of the EU's trade preferences for the country. Together with other stakeholders, we have maintained a seat on FIFA's Independent Advisor Board on Human Rights, providing input and recommendations to FIFA on the hosting of the 2022 Qatar World Cup. We undertook investigations to address allegations of forced labor in the cotton supply chain in Xinjiang in Northwest China and have been working diligently, in partnership with other brands and the Better Cotton Initiative (BCI), to strengthen BCI's performance standard for forced labor. Finally, we have continued to support UNICEF in its effort to develop a practical tool for integrating child rights into a responsible sourcing framework and published our own approach to incorporating children's rights across our business operations.

↗ ADIDAS-GROUP.COM/S/HUMAN-RIGHTS

As part of its human rights efforts, back in 2016, adidas developed a modern slavery outreach program that particularly looks beyond strategic suppliers at a Tier 1 level to gain greater transparency in its supply chain. A set of policies, including a Modern Slavery Policy, a Responsible Recruitment Policy and a Responsible Sourcing and Purchasing Policy, drive our practices in this area. In 2019, we continued to address modern slavery risks at those suppliers that fall outside of our mainstream auditing activities and added Tier 2 suppliers in the United Kingdom, a country previously deemed low risk, to our audit coverage. We further supported multi-stakeholder initiatives aimed at uncovering potential threats in raw material sourcing, e.g. in cotton sourcing in Turkey or rubber sourcing in Vietnam. adidas has become a signatory to the American Apparel Footwear Association and FLA pledge on responsible recruitment and is testing current practices in high-risk migrant corridors, working closely with suppliers in receiving countries and recruitment agencies in sending countries. In 2019, adidas communicated its zero recruitment fee directive to all business partners globally. Lastly, our due-diligence efforts have expanded to include risk assessment training programs for our licensees.

WORKING CONDITIONS IN OUR SUPPLY CHAIN

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

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

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

At the end of 2019, adidas worked with 631 independent factories[1] (2018: 684) that manufacture products for our company in 52 countries (2018: 51). The decrease is due to our overall ambition to further consolidate our supply chain (mostly in Japan in 2019). Our intention is to work with fewer factories and provide them with more orders. 69% of our suppliers' factories are located in the Asia-Pacific region. The number of licensees we worked with remained relatively stable compared to 2018, with 62 licensees that manufactured products in 372 factories across 38 countries.

Onboarding

In 2019, we conducted initial assessments (IA), the first approval stage for new entry into our supply chain, in 189 factories (2018: 221), a decrease of 14% compared to 2018, mainly due to our decision to grow in existing factories rather than onboarding new ones. 49 factories (2018: 55 factories)

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

were either rejected directly after the initial assessment identified zero-tolerance issues, or were 'rejected with a second visit' due to identification of one or more threshold issues, which means they were rejected but given the chance to remediate the non-compliance issues within a specific timeframe. SEE TABLE 43 The vast majority (84%) of all initial assessments were undertaken in Asia (2018: 90%), with China accounting for 38% of these assessments (2018: 41%).

Worldwide rejections after initial assessment due to compliance problems **43**

	2019	2018
Total number of first-time rejections[1]	49	55
First-time rejection rate	34%	30%
Total number of final rejections[2]	6	5
Final rejection rate	4%	3%

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

Overall, at the end of 2019, the 'first-time rejection rate' of 34% of all new factories visited was slightly higher than in the previous year (2018: 30%), as was the 'final rejection rate', which increased to 4% in 2019. The latter was due to the rigor applied to the initial assessments. The remediation of factory issues is beneficial for workers as it raises the bar in terms of better and timelier pay, improved benefits, reduced hours, and the legal protection of formal employment contracts, and it results in significant improvements in basic health and safety within the workplace. Suppliers who have threshold issues are normally given three months to remediate those issues before being re-audited for final acceptance.

Factory visits and training sessions

During 2019, 426 factory visits (2018: 546) were undertaken. This represents a decrease of 22%, due in part to a reduction in the intake of new factories into the supply chain, which led to a decline in the number of fundamental or introductory training sessions. There was also a reduction in the number of advisory visits to individual factories, with a preference given to group learning through adidas hosted workshops. In total, we conducted 123 training sessions and workshops for suppliers, licensees, workers and adidas employees (2018: 143), reaching a total of 1,697 people (2018: 1,282). SEE TABLE 44

Number of training sessions by region and type[1] **44**

Region	Type and number of training sessions							
	Fundamental[2]		Performance[3]		Sustainability[4]		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Asia	33	31	16	13	17	15	66	59
Americas	37	55	3	2	7	10	47	67
EMEA	9	12	0	4	1	1	10	17
Total	**79**	**98**	**19**	**19**	**25**	**26**	**123**	**143**
In %	64	69	15	13	20	18	100	100

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

Worker empowerment

In parallel to our existing grievance systems such as anonymous local language-based worker hotlines, we implemented additional digital tools that enable workers to ask questions and raise concerns directly with their employers. Following the successful piloting of an 'SMS Worker Hotline' back in 2012, we have progressively improved the operational grievance mechanisms at our factories into an application-based 'Workers Voice' platform that was available and used at 98% of our strategic factories across eleven countries by the end of 2019. SEE TABLE 45 The top three types of complaints in 2019 were related to the categories of benefits, general facilities and communication. Responses received through this platform are carefully tracked and help us understand the main challenges and worker rights issues in the factories, ultimately allowing us to monitor how the factory management teams find solutions and communicate back to their workers.

Grievance application 45

2020 Target	2019	2018	2017
Implementation of 'Workers' Voice' grievance platform at strategic suppliers: 100%	98%	97%	63%

Complementing the various grievance channels, we measure the level of worker satisfaction through annual in-factory surveys. The survey results are shared with auditors and the factory management and offer insights into worker concerns, as well as potential areas for workplace improvement. Throughout 2019, we expanded this exercise, completing follow-up surveys but also adding newly onboarded factories to the scope. Upon completing the survey, factories are required to develop improvement plans for the top three issues and then track progress regularly. Since the start of these surveys in 2016, we have engaged and secured feedback from around 35,000 workers. In 2019, more than 8,500 workers in more than 50 factories across twelve countries participated in these surveys.

Alongside factory-led training, adidas has also offered tailored training for supervisors since 2016. Up until the end of 2019, more than 2,200 supervisors completed such training. In 2019 alone, more than 1,300 supervisors in almost 70 factories across six countries participated. Throughout 2019, we expanded the activities to also strengthen the ability of female supervisors to pass on their knowledge to their peers in dedicated sessions. We initiated a Women Supervisor Forum, a platform for female supervisors to upgrade their knowledge, learn best practices, get exposure to inspiring guest speakers and also gain support, information and guidance on a range of topics to improve their ability as a female supervisor. This forum has been established in Indonesia and Vietnam and will be rolled out to the remainder of countries in scope from 2020 onward. As part of our wider efforts to empower female workers in our supply chain, we initiated a Women's Empowerment Program in Pakistan to train women on how to secure better career opportunities in the workplace. Since its start in 2015, the program has benefited more than 420 on-job women and women workers who were laid off from jobs in the football manufacturing sector. Results were very positive, showing that the program helped redundant women to succeed in getting new jobs, and it supported women on the job to secure on-job promotions by improving their professional performance.

Monitoring

We audit our suppliers regularly against our Workplace Standards. In 2019, a total of 1,191 social compliance audits and environmental assessments (2018: 1,207) were conducted. This included 234 test assessments according to the ZDHC Wastewater Guidelines (2018: 233) as part of our environmental assessments. SEE TABLE 46 As in 2018, 102 self-governance audits and collaboration audits were conducted in 2019. When a factory reaches a compliance maturity level of 4C and above, we empower the supplier to conduct their own self-governance audits and develop appropriate remediation plans, which we periodically review. Collaboration audits are conducted in partnership with other brands, or as part of joint remediation exercises. The number of audits in factories manufacturing goods for licensees decreased slightly from 323 in 2018 to 317 in 2019, in line with the overall reduction in the number of licensee factories.

The number of audits using in-house technical staff decreased to 299 (2018: 354), while audits conducted by third-party monitors commissioned by suppliers and adidas business entities increased to 658 at the end of 2019 (2018: 620). The decline in internal audits shows the increased focus on additional advisory consultancy and empowerment projects that go beyond our regular audit routine.

- **Audit coverage:** A total of 49% (2018: 47%) of all direct and licensee facilities were audited in 2019. 'High-risk' locations[2] in Asia, which is the major sourcing region of adidas, again received extensive monitoring in 2019 with an audit coverage that was close to 75% (2018: 65%). As a general principle, factories located in high-risk countries are 100% covered in our auditing scope, which means they receive audits annually or every two years while low-risk countries (i.e. with strong government enforcement and

2 High-risk locations in Asia include China, Hong Kong, Macao, Vietnam, Bangladesh, Cambodia, India, Indonesia, Laos, Malaysia, Myanmar, Pakistan, Philippines, Singapore, Sri Lanka and Thailand.

inspectorate systems) are considered out of scope for our audit coverage.

— **Audit results:** In 2019, 68% of our strategic factories achieved a rating of 4C or better, compared to 37% in all direct factories, indicating that strategic factories have achieved much more advanced compliance levels. While this is yet again significant progress compared to 2018, it still falls short of our 2020 target to reach 4C or above in 80% of our strategic suppliers. For the first time, 12% of our strategic factories achieved a 5C rating, indicating that they have mature social compliance systems and practices in place. SEE DIAGRAM 47 Of our strategic licensee factories, 86% successfully embedded governance systems, supply chain management, purchasing practices and product safety compliance requirements into their business practices. 14% achieved a 'Sustainability Leadership' level, signaling that, in addition to achieving high scores in other sections, they also scored above 80% in the sustainability section of the Report Card, which measures the existence of policies and implementation, stakeholder engagement, public reporting and communication. SEE TABLE 48

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

Number of audits by region and type 46

Region	Initial assessment[1]		Performance audit[2]		Environmental assessment[3]		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Asia	159	198	511	479	384	379	1,054	1,056
Americas	20	14	38	64	19	16	77	94
EMEA	10	9	35	43	15	5	60	57
Total[4]	**189**	**221**	**584**	**586**	**418**	**400**	**1,191**	**1,207**

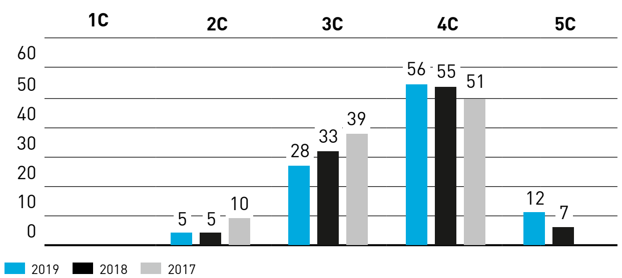
1 Every new factory has to pass an initial assessment to prove compliance with the Workplace Standards before an order is placed. The data includes both initial assessments and initial assessment follow-ups.
2 Audits conducted in approved factories that have passed the initial assessment.
3 Includes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

Supply chain: Progress toward 2020 targets 47

2020 Targets		2019	2018	2017
Strategic Tier 1 suppliers[1]	80% to reach at least 4C rating	68%	62%	50%
	10% to reach 5C rating	12%	7%	0%
Strategic licensees	80% to achieve 80% or above in Score Card reports	86%	80%	55%
	10% to achieve Sustainability Leadership	14%	20%	0%

1 Strategic factories are responsible for around 90% of our global production volume.

Social compliance performance rating of strategic supplier factories by C-KPI rating 48

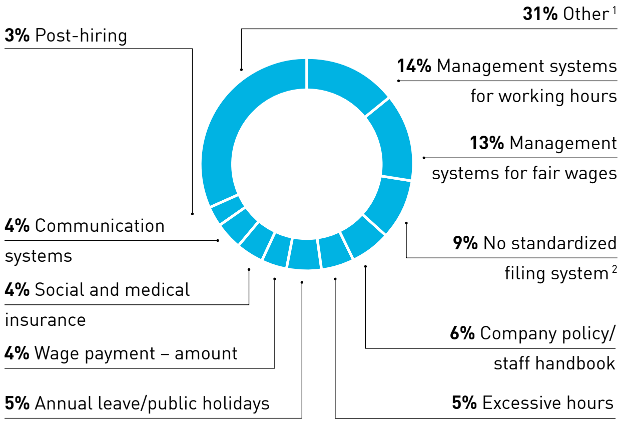


Shortcomings identified in active factories

Our suppliers' factories are evaluated against a number of critical compliance issues. While threshold issues are serious but correctable non-compliances that can be addressed in a specified timeframe through remedial action, zero-tolerance issues – such as forced labor, child labor practices and critical life-threatening health, safety and environment conditions – immediately trigger a warning and potential disqualification of a supplier. We report these non-compliance findings that were identified through performance audits, collaboration audits and self-governance assessments in 2019. We follow up on all cases of non-compliance and seek to remediate them within a given timeframe. As can be seen below, the identified issues in 2019 remained largely the same as those in 2018.

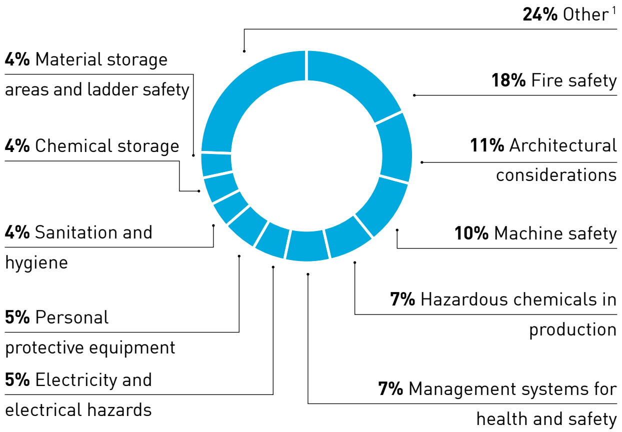
- **Shortcomings in the area of labor:** Besides identifying non-compliances with our Workplace Standards, the adidas compliance team focuses on the use and effectiveness of the factories' HR management systems and identifies any gaps in policies and procedures related to specific risk areas, such as forced labor, child labor, freedom of association or discrimination. As a result, the percentages shown indicate the systemic shortcomings of active factories, rather than the confirmed presence of a specific case of non-compliance. SEE DIAGRAM 49
- **Shortcomings in the area of health and safety:** Fire, electrical and machine safety are critical areas for existing factories and together accounted for 33% of the non-compliances identified in 2019. The way chemicals were stored and used, including the presence of banned chemicals, accounted for 11% of non-compliance findings reported. A further 7% of the findings related to management systems, policies and procedures, and specifically a lack of compliance with our Workplace Standards and expectation for effective health and safety systems, including the recruitment and retention of qualified safety staff. SEE DIAGRAM 50

Top 10 shortcomings in the area of labor identified during audits in 2019 49



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

Top 10 shortcomings in the area of health and safety identified during audits in 2019 50



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

Independent FLA audits

In 2019, the FLA deprioritized factory assessments and remediation verification under its Sustainable Compliance Initiative (SCI), in favor of other impact areas, including fair wage compensation and factory training[3]. Consequently, adidas received only one SCI verification, compared to three in 2018.

3 In 2019, FLA focused on: (1) improving its work toward the progressive realization of fair compensation, including a new online fair compensation dashboard to provide affiliates with the ability to compare wages and measure progress in wage increases over time; (2) improving the accreditation process by further aligning the FLA's program with international standards; (3) affiliates' disclosure practices; (4) developing responsible licensing principles; (5) responsible recruitment and forced labor trainings and the development of a forced labor toolkit; (6) audit coverage and capacity-building activities in partnership with brands and governments.

Enforcement

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

- **Warning letters**: In 2019, we had a total of 41 active warning letters (2018: 39) across 14 countries. The largest number of warning letters continues to be issued in Asia. Compared to the previous year, the overall number of active first warning letters decreased slightly; the total number of second warnings increased from one in 2018 to six in 2019. Factories that receive second warning letters are only one step away from being notified of possible termination of the manufacturing agreement and receive focused monitoring by the SEA team. The number of third warning letters issued to business partners (which result in factory terminations) remained stable in 2019 (2018: 1). SEE TABLE 51 It is difficult to generalize about the grounds for a warning letter as it may be issued for a single unresolved non-conformance or for multiple breaches of our standards. The range of issues that resulted in warning letters in 2019 due to non-compliance regarding fire safety practices, receipt of wages, social and medical insurance, hazardous chemicals management, overtime, deductions, transparency or safety controls in high-risk areas remained the same compared to the previous year.
- **Terminations:** In 2019, we terminated agreements with two suppliers for compliance reasons (2018: 1). In one case there was inadequate progress in remediating serious migrant labor issues and in the other the supplier refused to grant the SEA team access to audit the factory. SEE TABLE 52 While terminations happen at our existing factories, we pre-screen all new factories and if our initial assessments uncover zero-tolerance or threshold issues factories are rejected.

Number of warning letters by region[1] 51

Region	1st warning		2nd warning		3rd and final warning		Total warning letters	
	2019	2018	2019	2018	2019	2018	2019	2018
Asia	27	30	5	1	1	1	33	32
Americas	4	5	0	0	0	0	4	5
EMEA	3	2	1	0	0	0	4	2
Total	**34**	**37**	**6**	**1**	**1**	**1**	**41**	**39**

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

Number of business relationship terminations due to compliance problems 52

Region	2019	2018
Asia	2	1
Americas	0	0
EMEA	0	0
Global	2	1

NON-FINANCIAL STATEMENT

In accordance with §§ 315b, 315c HGB in combination with §§ 289b to 289e HGB, adidas publishes a combined non-financial statement for adidas AG and the Group in this combined Management Report. The content of the non-financial statement can be found throughout the entire combined Management Report, with relevant parts being indicated by this symbol ⌜ ⌟. These parts are not covered by the Audit of the Consolidated Financial Statements and of the Group Management Report, as they were subject to a separate limited assurance engagement of KPMG AG Wirtschafts-prüfungsgesellschaft. SEE LIMITED ASSURANCE REPORT, P. 219 Links and references are not part of the non-financial statement and have not been assessed.

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

Description of business model

SEE SALES AND DISTRIBUTION STRATEGY, P. 61
SEE GLOBAL OPERATIONS, P. 63

Environmental approach

— Sustainable materials and processes

SEE SUSTAINABILITY, P. 78

— Water consumption (supply chain)

SEE SUSTAINABILITY, P. 78

— Carbon footprint (supply chain)

SEE SUSTAINABILITY, P. 78

— Waste volume (supply chain)

SEE SUSTAINABILITY, P. 78

Product responsibility

— Product safety and transparency

SEE SUSTAINABILITY, P. 78

People and Culture

— Wages and benefits

SEE PEOPLE AND CULTURE, P. 70

— Development and training

SEE PEOPLE AND CULTURE, P. 70

— Employee engagement

SEE PEOPLE AND CULTURE, P. 70
SEE INTERNAL MANAGEMENT SYSTEM, P. 92
SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 130

— Diversity

SEE PEOPLE AND CULTURE, P. 70

Consumer matters

— Consumer satisfaction

SEE INTERNAL MANAGEMENT SYSTEM, P. 92
SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 130

Human Rights

— Fair labor conditions

SEE SUSTAINABILITY, P. 78

— Fair labor conditions (supply chain)

SEE SUSTAINABILITY, P. 78

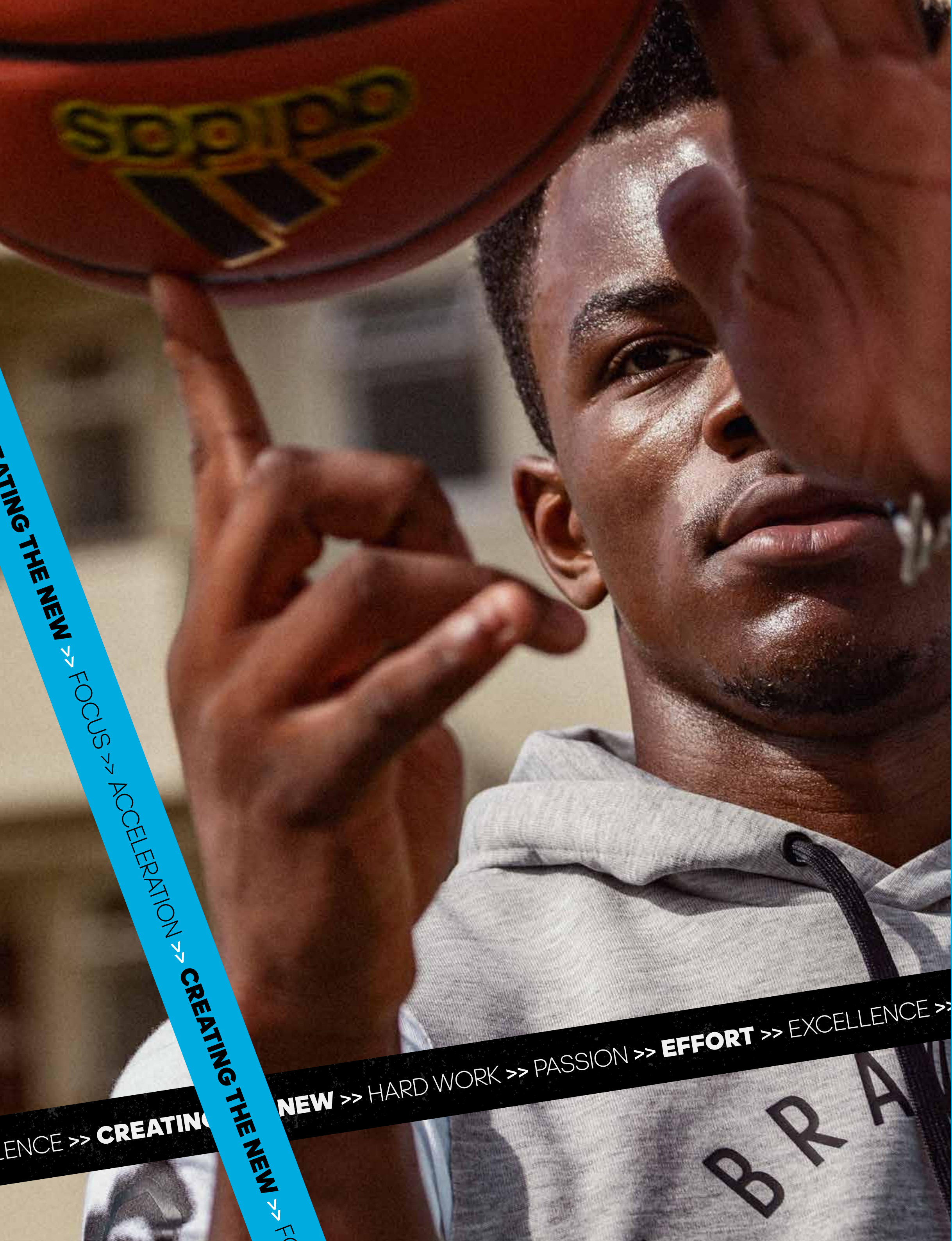
— Supplier relationships

SEE GLOBAL OPERATIONS, P. 63

Anti-bribery and corruption

— Ethical business practices

SEE RISK AND OPPORTUNITY REPORT, P. 120



3 GROUP MANAGEMENT REPORT FINANCIAL REVIEW

References to external sources, such as our website, in the Group Management Report were not part of the scope of KPMG's audit.

INTERNAL MANAGEMENT SYSTEM

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

INTERNAL MANAGEMENT SYSTEM DESIGNED TO DRIVE SHAREHOLDER VALUE

In order to drive and steer creation of shareholder value, the company's Management focuses on a set of major financial Key Performance Indicators (KPIs). Sales and operating profit growth, paired with a focus on management of operating working capital, are the main contributors to operating cash flow improvements. At the same time, value-enhancing capital expenditure benefits future operating profit and cash flow development. In addition, the development of the company's net income position, as well as earnings per share (EPS), is of high importance as it directly drives returns in the interest of our shareholders. SEE DIAGRAM 53 Our strong focus on shareholder value creation is reflected in the fact that our Management's variable compensation is closely linked to the company's growth in sales, profitability and net income. SEE COMPENSATION REPORT, P. 30

OPERATING MARGIN AS MAJOR KPI FOR OPERATIONAL PROGRESS

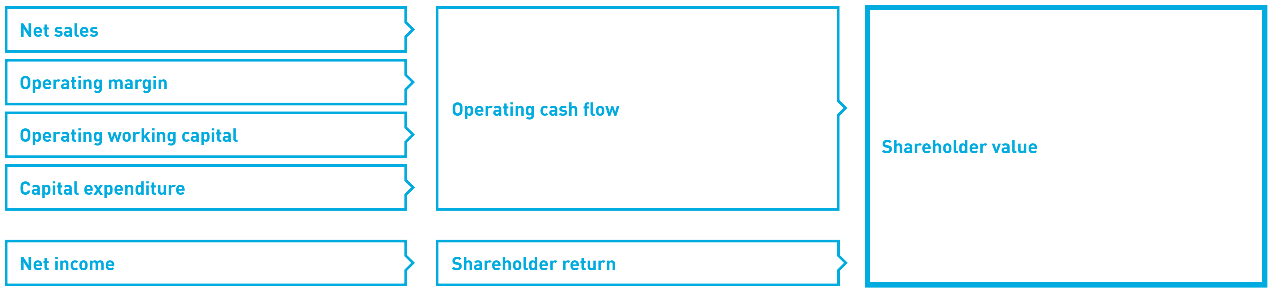
Operating margin (defined as operating profit as a percentage of net sales) is one of our company's major KPIs to drive and improve our operational performance. It highlights the quality of our top line and operational efficiency. The primary drivers to enhance operating margin are as follows:

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

TIGHT OPERATING WORKING CAPITAL MANAGEMENT

Due to a comparatively low level of fixed assets required in our business, the efficiency of the balance sheet depends to a large degree on our operating working capital management. Operating working capital comprises accounts receivable plus inventories minus accounts payable. SEE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS, P. 100

Major financial Key Performance Indicators (KPIs) 53



In this context, our key metric is average operating working capital as a percentage of net sales. Monitoring the development of this metric facilitates the measurement of our progress in improving the efficiency of our business cycle.

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

CAPITAL EXPENDITURE TARGETED TO MAXIMIZE FUTURE RETURNS

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

FOCUS ON NET INCOME IN THE INTEREST OF OUR SHAREHOLDERS

Beyond our ambition to maximize operating cash flow, we are committed to a continuous improvement in the company's bottom line. We are convinced that, by doing so, we place an even stronger focus on the interests of our shareholders. Consequently, Management closely monitors the development of both net income and earnings per share (EPS) and executes against these two KPIs. SEE DIAGRAM 53 Our strong focus on driving sustainable expansion to the company's bottom line is also reflected in the fact that, as part of the Long-Term Incentive Plan 2019/2020, the variable compensation for our Management is directly linked to the company's net income growth.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

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

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

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

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

Market share: To measure the operational performance of our brands relative to our major competitors, we continuously collect, on a market and category level, market share data. The findings provide detailed insights for our senior management team regarding in which markets and categories we have been able to gain market share relative to our peers, enabling us to leverage those insights across the organization.

SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 130 In addition, the results help us to define clear roles and responsibilities for each of our markets and categories within our long-term strategic aspirations, based on their overall positioning within the sporting goods industry.

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

On-Time In-Full (OTIF): OTIF measures the company's delivery performance toward customers and our own-retail stores. Managed by our Global Operations function, OTIF assesses to what degree customers received what they ordered and if they received it on time. SEE GLOBAL OPERATIONS, P. 63 It helps us to investigate improvement potential in the area of order book management and logistics processes. It therefore also helps us to improve our delivery performance, which is a major aspect when it comes to customer satisfaction. The OTIF assessment covers both the adidas and Reebok brands in most of our key markets.

Employee engagement: To measure the level of engagement and motivation of our employees, adidas carries out employee engagement surveys. These surveys aim to provide key insights into how well we, as an employer, are doing in engaging our employees. They thus enable us to develop the right focus and future people strategies across our organization, helping us to create a world-class employee experience and continue to attract and retain top talent. In 2019, we continued to fine-tune our approach and system platform for measuring the level of employee engagement that was implemented in 2017. SEE PEOPLE AND CULTURE, P. 70

Sustainability performance: We have a strong commitment to enhance the social and environmental performance of our company. By doing so, we firmly believe we will not only improve the company's overall reputation, but also increase its economic value. We therefore follow a comprehensive roadmap with clear targets and regularly track our progress toward these targets. SEE MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK, P. 130 A major focus lies on measuring the environmental footprint of our own sites globally as well as monitoring and rating our supplier factories with regard to social and environmental compliance with our Workplace Standards. SEE SUSTAINABILITY, P. 78 We have a strong track record in sustainability disclosure, providing regular updates about our sustainability performance in this Annual Report as well as on our corporate website.

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

STRUCTURED PERFORMANCE MEASUREMENT SYSTEM

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

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

BUSINESS PERFORMANCE

In 2019, adidas recorded strong operational and financial improvements. Revenues increased 6% on a currency-neutral basis, reflecting high-single-digit growth at the adidas brand and a low-single-digit sales increase at Reebok. All major market segments recorded currency-neutral sales increases. The gross margin increased 0.2 percentage points to 52.0%. Other operating expenses as a percentage of sales were down 0.2 percentage points to 41.6%, predominantly driven by lower marketing expenditure as a percentage of sales. The company's operating margin increased 0.4 percentage points to 11.3%, reflecting both the gross margin increase and the decrease in other operating expenses as a percentage of sales. Net income from continuing operations increased 12% to € 1.918 billion, including the negative impact from the first-time application of IFRS 16. This translates into basic EPS from continuing operations of € 9.70, representing an increase of 15% versus the prior year period.

ECONOMIC AND SECTOR DEVELOPMENT

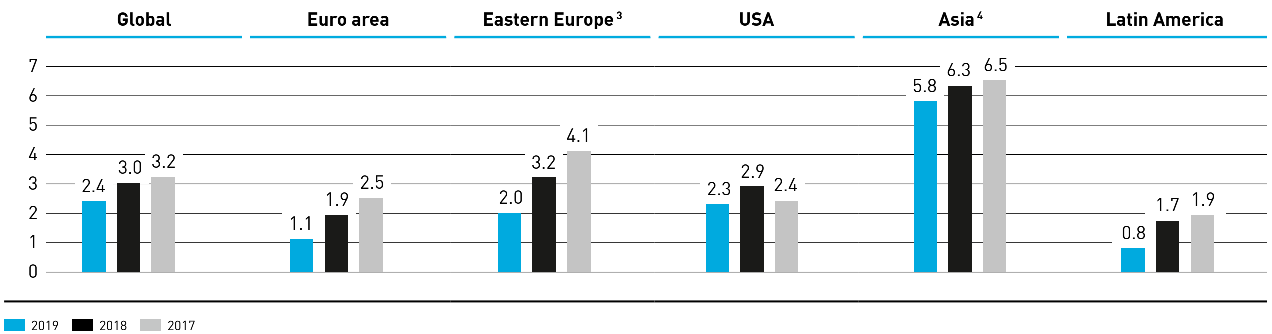
GLOBAL ECONOMIC GROWTH SLOWS IN 2019[1]

The global economy slowed down in 2019, with global gross domestic product (GDP) growing at 2.4%. Despite recent de-escalation, an overall increase in the level of tariffs and heightened policy uncertainty weakened both international trade and investment. Global manufacturing activity moderated, while monetary policy accommodation increased. Developed economies grew 1.6% in 2019, supported by robust labor markets and some remaining fiscal stimuli. Nevertheless, trade tensions and associated policy uncertainty such as the Brexit negotiations remained a political overhang and a drag on economic activity. Developing economies in aggregate grew 3.5%, as resilient consumption somewhat cushioned subdued productivity growth. Furthermore, growth in both commodity exporters and importers decelerated last year. Across the globe, risks of re-escalating geopolitical tensions, in particular around trade and tariffs, remain.

ROBUST GROWTH IN THE SPORTING GOODS INDUSTRY CONTINUES

The global sporting goods industry continued to grow at robust rates in 2019. China outgrew the global industry again, while North America posted robust growth rates. Europe maintained its moderate pace of expansion. Most other markets also grew, driven by continued global trends such as increasing penetration of sportswear ('*athleisure*' SEE GLOSSARY), increasing sports participation rates and rising awareness for health and wellness. Moreover, the evolution of digital offerings such as social fitness or membership programs with seamless personal experiences remained a predominant theme. Sustainability stayed in focus, as consumers showed increasing interest in sustainable companies and products. The e-commerce channel saw further expansion amid growing investments into consumer insights generation and brand building. From a category perspective, athletic footwear continued to be a significant growth driver for the industry in 2019, as various casual and running styles remained in high demand. Growth in athletic apparel remained robust, as consumers continued to purchase sports-inspired fashion. For the sporting goods industry, too, risks of re-escalating geopolitical tensions, in particular around trade and tariffs, remain.

Regional GDP development[1,2] in % **54**



1 Real change in percent versus prior year; 2018 and 2017 figures restated compared to prior year.
2 Source: World Bank.
3 Includes Emerging Europe and Central Asia.
4 Includes East Asia and Pacific.

1 Source: World Bank Global Economic Prospects.

INCOME STATEMENT

The income statement for the financial year 2019 reflects the first-time application of IFRS 16. Prior year figures are not restated, leading to limited comparability of certain items.

ADIDAS DELIVERS STRONG PERFORMANCE IN 2019

Net sales
+6% C.N.
€ 23.640 bn

In 2019, revenues increased 6% on a currency-neutral basis. In euro terms, revenues grew 8% to € 23.640 billion from € 21.915 billion in 2018. SEE DIAGRAM 55 From a market perspective, revenues increased in all segments. Currency-neutral sales were up at double-digit rates in Asia-Pacific and Emerging Markets, while increasing at high-single-digit rates in North America, Russia/CIS and Latin America. Currency-neutral sales in Europe grew at a low-single-digit rate. SEE BUSINESS PERFORMANCE BY SEGMENT, P. 114

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

adidas brand net sales
+7% C.N.
€ 21.505 bn

Currency-neutral revenues for the adidas brand increased 7%, with high-single-digit sales growth in *Sport Inspired* SEE GLOSSARY as well as a mid-single-digit gain in *Sport Performance*. SEE GLOSSARY In euro terms, adidas brand revenues grew 8% to € 21.505 billion compared to € 19.851 billion in 2018. Currency-neutral Reebok brand sales were up 2% versus the prior year, as a decline in Sport was more than offset by low-single-digit sales growth in Classics. In euro terms, Reebok sales increased 4% to € 1.748 billion (2018: € 1.687 billion).

Reebok brand net sales
+2% C.N.
€ 1.748 bn

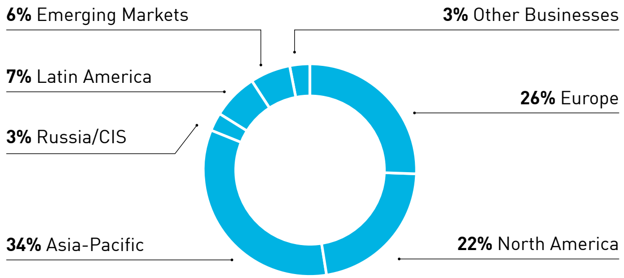
Net sales[1] € in millions — 55

1 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

Net sales by segment € in millions — 56

	2019	2018	Change	Change (currency-neutral)
Europe	6,071	5,885	3%	3%
North America	5,313	4,689	13%	8%
Asia-Pacific	8,032	7,141	12%	10%
Russia/CIS	658	595	11%	8%
Latin America	1,660	1,634	2%	7%
Emerging Markets	1,302	1,144	14%	13%
Other Businesses	605	829	(27%)	(28%)
Total	**23,640**	**21,915**	**8%**	**6%**

Net sales by segment in % of net sales — 57



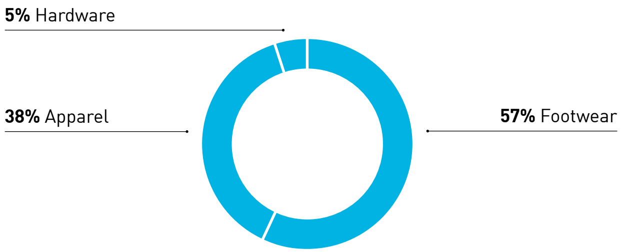
SALES GROW IN FOOTWEAR AND APPAREL

Currency-neutral footwear sales grew 4% in 2019 as a result of mid-single-digit sales growth in both Sport Inspired and Sport Performance. Apparel revenues grew 7% on a currency-neutral basis reflecting double-digit increases in Sport Inspired and high-single-digit sales growth in Sport Performance. Currency-neutral hardware sales were up 25%. SEE DIAGRAM 58

Net sales by product category € in millions **58**

	2019	2018	Change	Change (currency-neutral)
Footwear	13,521	12,783	6%	4%
Apparel	8,963	8,223	9%	7%
Hardware	1,156	910	27%	25%
Total	**23,640**	**21,915**	**8%**	**6%**

Net sales by product category in % of net sales **59**



COST OF SALES INCREASES IN LINE WITH NET SALES

Cost of sales is defined as the amount we pay to third parties for expenses associated with producing and delivering our products. In addition, own-production expenses are also included in the cost of sales. However, these expenses represent only a very small portion of total cost of sales. In 2019, cost of sales was € 11.347 billion, representing an increase of 8% compared to the prior year level of € 10.552 billion. This development mainly reflects the growth of our business.

GROSS MARGIN IMPROVES 0.2 PERCENTAGE POINTS

In 2019, gross profit increased 8% to € 12.293 billion from € 11.363 billion in 2018, representing a gross margin increase of 0.2 percentage points to 52.0% (2018: 51.8%). SEE DIAGRAM 60 Higher air freight costs to mitigate the supply chain shortages and a less favorable pricing mix were more than offset by positive effects from lower sourcing costs, positive currency developments as well as a better product and channel mix.

Gross margin[1,2] in % **60**

1 Gross margin = (gross profit / net sales) × 100.
2 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

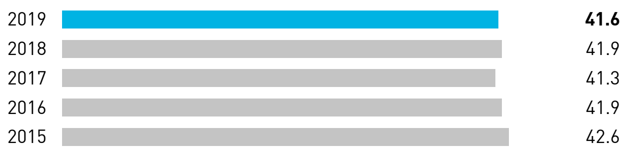
ROYALTY AND COMMISSION INCOME AND OTHER OPERATING INCOME INCREASE

In 2019, royalty and commission income increased 19% to € 154 million (2018: € 129 million). Other operating income was up 17% to € 56 million from € 48 million in 2018.

OTHER OPERATING EXPENSES AS A PERCENTAGE OF SALES DOWN 0.2 PERCENTAGE POINTS

Other operating expenses, including depreciation and amortization, mainly consist of marketing and point-of-sale, distribution and selling as well as general and administration expenses. In 2019, other operating expenses were up 7% to € 9.843 billion (2018: € 9.172 billion). SEE NOTE 32, P. 196 As a percentage of sales, other operating expenses decreased 0.2 percentage points to 41.6% from 41.9% in 2018. SEE DIAGRAM 61 Marketing and point-of-sale expenses amounted to € 3.042 billion in 2019 compared to € 3.001 billion in the prior year, representing an increase of 1% compared to the 2018 level. As a percentage of sales, marketing and point-of-sale expenses decreased 0.8 percentage points to 12.9% (2018: 13.7%). SEE DIAGRAM 62 Distribution and selling expenses increased 12% to € 4.997 billion in 2019 from € 4.450 billion in the prior year, driven by overproportionate growth in the direct-to-consumer channel. As a percentage of sales, distribution and selling expenses increased 0.8 percentage points to 21.1% from 20.3% in 2018. General and administration expenses were up 5% to € 1.652 billion (2018: € 1.576 billion), as the positive effects of overheads cost control were more than offset by continued investments into the scalability of the company's business model. As a percentage of sales, general and administration expenses decreased 0.2 percentage points to 7.0% (2018: 7.2%).

Other operating expenses[1,2] in % of net sales **61**



1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

Marketing and point-of-sale expenses [1,2] in % of net sales — 62

2019	**12.9**
2018	13.7
2017	12.8
2016	13.0
2015	13.9

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

EBITDA INCREASES 33%

Earnings before interest, taxes, depreciation and amortization as well as impairment losses/reversal of impairment losses on property, plant and equipment, right-of-use and intangible assets (EBITDA) increased 33% to € 3.845 billion in 2019 versus € 2.882 billion in 2018. SEE DIAGRAM 63 Total depreciation and amortization as well as impairment losses/reversal of impairment losses for tangible and intangible assets increased 142% to € 1.177 billion in 2019 (2018: € 486 million). This development is mainly due to the depreciation of right-of-use assets related to the first-time application of IFRS 16 in the amount of € 664 million.

EBITDA [1,2,3] € in millions — 63

2019	**3,845**
2018	2,882
2017	2,511
2016	1,953
2015	1,475

1 EBITDA = income before taxes (IBT) + net interest expenses + depreciation and amortization + impairment losses - reversal of impairment losses.
2 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
3 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

OPERATING MARGIN INCREASES TO 11.3%

Operating profit grew 12% to € 2.660 billion in 2019 versus € 2.368 billion in 2018. SEE DIAGRAM 64 The first-time application of IFRS 16 had a positive impact on operating profit of € 24 million. The operating margin increased 0.4 percentage points to 11.3% compared to the prior year level of 10.8%. SEE DIAGRAM 65 This development was due to the gross margin increase and the decrease in other operating expenses as a percentage of sales.

Operating margin
11.3%
+0.4 PP

Operating profit [1,2,3] € in millions — 64

2019	**2,660**
2018	2,368
2017	2,070
2016	1,582
2015	1,094

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.
3 2015 excluding goodwill impairment of € 34 million.

Operating margin [1,2,3,4] in % — 65

2019	**11.3**
2018	10.8
2017	9.8
2016	8.6
2015	6.5

1 Operating margin = (operating profit / net sales) × 100.
2 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
3 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.
4 2015 excluding goodwill impairment of € 34 million.

NET FINANCIAL RESULT DECREASES

Financial income increased 11% to € 64 million in 2019 (2018: € 57 million), while financial expenses were up 253% to € 166 million compared to € 47 million in 2018. This development was mainly due to higher interest expenses related to the first-time application of IFRS 16. As a result, the company recorded a net financial result of negative € 102 million, compared to positive € 10 million in 2018. SEE DIAGRAM 66, SEE NOTE 34, P. 197

Net financial result [1] € in millions — 66

2019	**(102)**
2018	10
2017	(47)
2016	(46)
2015	(21)

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.

TAX RATE DECREASES 3.1 PERCENTAGE POINTS TO 25.0%

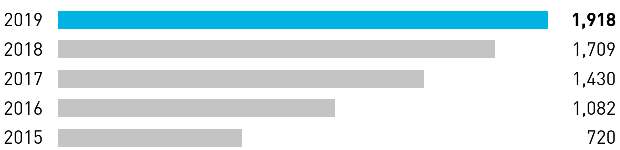
The company's tax rate decreased 3.1 percentage points to 25.0% in 2019 (2018: 28.1%). SEE NOTE 36, P. 197

NET INCOME FROM CONTINUING OPERATIONS UP 12% TO € 1.918 BILLION

Including the negative impact from the first-time application of IFRS 16 in the amount of € 54 million, net income from continuing operations increased 12% to € 1.918 billion versus € 1.709 billion in the prior year. SEE DIAGRAM 67 Basic earnings per share (EPS) from continuing operations increased 15% to € 9.70 from € 8.46 in 2018. SEE DIAGRAM 68 Diluted EPS from continuing operations was up 15% to € 9.70 in 2019 (2018: € 8.45). The adoption of IFRS 16 reduced year-over-year net income and EPS growth by approximately 3 percentage points in 2019.

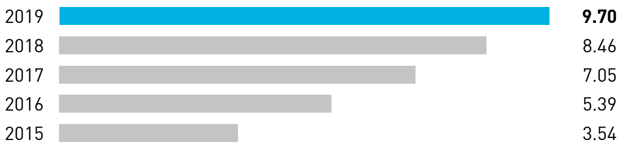
Net income from continuing operations
+12%
€ 1.918 bn

Net income from continuing operations[1,2,3] **67**
€ in millions



1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 2017 excluding negative one-time tax impact of € 76 million.
3 2015 excluding goodwill impairment of € 34 million.

Basic earnings per share[1,2,3,4] in € **68**



1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 Figures reflect continuing operations.
3 2017 excluding negative one-time tax impact of € 76 million.
4 2015 excluding goodwill impairment of € 34 million.

The total number of shares outstanding decreased by 3,201,958 shares to 195,969,387 at the end of 2019. This development was a result of shares repurchased as part of the company's share buyback program. SEE TABLE 'FINANCIAL HIGHLIGHTS', P. 4 Consequently, the average number of shares used in the calculation of basic earnings per share (EPS) was 197,606,107 (2018: 201,759,012).

GAINS FROM DISCONTINUED OPERATIONS AMOUNT TO € 59 MILLION

In 2019, adidas incurred gains from discontinued operations of € 59 million, net of tax, mainly related to the remeasurement of outstanding earn-out components in connection with the divestiture of the TaylorMade business in 2017 (2018: losses of € 5 million).

NET INCOME ATTRIBUTABLE TO SHAREHOLDERS INCREASES 16% TO € 1.976 BILLION

The company's net income attributable to shareholders, which in addition to net income from continuing operations includes the gains from discontinued operations, grew 16% to € 1.976 billion (2018: € 1.702 billion). As a result, basic EPS from continuing and discontinued operations increased 19% to € 10.00 versus € 8.44 in 2018. Diluted EPS from continuing and discontinued operations grew 19% to € 10.00 (2018: € 8.42).

STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

ASSETS

At the end of December 2019, total assets were up 32% to € 20.680 billion versus € 15.612 billion in the prior year, mainly driven by an increase in non-current assets due to the first-time application of IFRS 16. SEE TABLE 69

Structure of statement of financial position[1,2] in % of total assets — 69

	2019	2018
Assets (€ in millions)	**20,680**	**15,612**
Cash and cash equivalents	10.7%	16.8%
Accounts receivable	12.7%	15.5%
Inventories	19.8%	22.1%
Fixed assets[3]	39.2%	30.7%
Right-of-use assets (IFRS 16)[4]	36.2%	–
Other assets	17.7%	14.9%

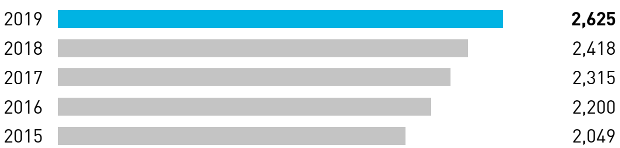
1 For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 134.
2 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
3 Fixed assets = property, plant and equipment + right-of-use assets + goodwill + trademarks + other intangible assets + long-term financial assets.
4 As a percentage of fixed assets.

Total current assets increased 11% to € 10.934 billion at the end of December 2019 compared to € 9.813 billion in 2018. Cash and cash equivalents were down 16% to € 2.220 billion at the end of December 2019 from € 2.629 billion in the prior year, as net cash generated from operating activities was more than offset by net cash used in investing and financing activities. Currency effects had a negative impact on cash and cash equivalents in an amount of € 30 million. Inventories increased 19% to € 4.085 billion at the end of December 2019 from € 3.445 billion in 2018. SEE NOTE 09, P. 157, SEE DIAGRAM 70

Inventories € in millions — 70

On a currency-neutral basis, inventories increased 18%, reflecting lower inventories in the prior year and the timing of inbound and outbound product deliveries. Accounts receivable increased 9% to € 2.625 billion at the end of December 2019 (2018: € 2.418 billion). SEE NOTE 07, P. 156, SEE DIAGRAM 71 On a currency-neutral basis, receivables were up 8%. Other current financial assets remained virtually unchanged at € 544 million (2018: € 542 million). SEE NOTE 08, P. 156 Other current assets were up 48% to € 1.076 billion at the end of December 2019 (2018: € 725 million), mainly due to an increase in tax receivables other than income taxes. SEE NOTE 36, P. 197

Accounts receivable € in millions — 71



Total non-current assets increased 68% to € 9.746 billion at the end of December 2019 from € 5.799 billion in 2018, mainly related to the first-time application of IFRS 16. Fixed assets increased 69% to € 8.100 billion at the end of December 2019 versus € 4.798 billion in 2018. The application of IFRS 16 led to the recognition of right-of-use assets in the amount of € 2.931 billion at the end of December 2019 (including already existing IAS 17 leases from the prior year in the amount of € 82 million). Furthermore, additions of € 711 million, primarily related to own-retail activities were only partly offset by depreciation and amortization, impairment losses/reversal of impairment losses of € 522 million. Other non-current financial assets increased 76% to € 450 million from € 256 million at the end of 2018. SEE NOTE 16, P. 164 This development was mainly due to an increase in derivatives used to fully hedge the economic exposure related to the equity-neutral convertible bond. Deferred tax assets were up 68% to € 1.093 billion from € 651 million in 2018, due to an increase in the tax base of non-current assets during 2019.

LIABILITIES AND EQUITY

Total current liabilities increased 28% to € 8.754 billion at the end of December 2019 from € 6.834 billion in 2018. Short-term borrowings declined 35% to € 43 million at the end of December 2019 (2018: € 66 million), mainly reflecting a decrease in bank loans. Accounts payable were up 18% to € 2.703 billion at the end of December 2019 versus € 2.300 billion in 2018, mainly reflecting improved payment terms with the company's vendors. SEE TABLE 72 On a currency-neutral basis, accounts payable increased 17%. Current lease liabilities amounted to € 733 million at the end of December 2019, due to the first-time application of IFRS 16. Other current financial liabilities were up 26% to € 235 million from € 186 million in 2018, mainly as a result of an increase in the fair value of financial instruments. SEE NOTE 08, P. 156 Other current provisions increased 17% to € 1.446 billion at the end of December 2019 versus € 1.232 billion in 2018, mainly due to an increase in the provision for returns. Current accrued liabilities grew 6% to € 2.437 billion at the end of December 2019 from € 2.305 billion in 2018, mainly as a result of an increase in accruals for customer discounts as well as accruals for invoices not yet received. Other current liabilities were up 13% to € 538 million at the end of December 2019 from € 477 million in 2018. SEE NOTE 23, P. 167

Structure of statement of financial position[1,2] in % of total liabilities and equity — 72

	2019	2018
Liabilities and equity (€ in millions)	**20,680**	**15,612**
Short-term borrowings	0.2%	0.4%
Accounts payable	13.1%	14.7%
Long-term borrowings	7.7%	10.3%
Other liabilities	44.9%	33.8%
Current and non-current lease liabilities (IFRS 16)[3]	33.8%	–
Total equity	34.1%	40.8%

1 For absolute figures see adidas AG Consolidated Statement of Financial Position, p. 134.
2 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
3 As a percentage of other liabilities.

Accounts payable € in millions — 73

Total non-current liabilities increased 102% to € 4.868 billion at the end of December 2019 from € 2.414 billion in the prior year, mainly related to the first-time application of IFRS 16. Long-term borrowings were down 1% to € 1.595 billion at the end of December 2019 from € 1.609 billion in the prior year. SEE NOTE 18, P. 164 Non-current lease liabilities amounted to € 2.399 billion at the end of December 2019, due to the first-time application of IFRS 16. Other non-current financial liabilities were down 10% to € 92 million at the end of December 2019 from € 103 million in the prior year (2018: thereof € 81 million for liabilities relating to finance leases). Other non-current provisions increased 100% to € 257 million at the end of December 2019 from € 128 million in the prior year, mainly as a result of an increase in provisions for personnel. Non-current accrued liabilities decreased 54% to € 9 million from € 19 million in 2018. SEE NOTE 22, P. 166

Shareholders' equity increased 7% to € 6.796 billion at the end of December 2019 versus € 6.377 billion in 2018, mainly driven by the net income generated during the year. This development was partly offset by the repurchase of adidas AG shares for a consideration of € 815 million, the dividend of € 664 million paid to shareholders for the 2018 financial year, and a decrease in hedging reserves of € 147 million. The equity ratio decreased to 32.9% compared to 40.8% in the prior year, as the increase in shareholders' equity was more than offset by the balance sheet extension due to the first-time application of IFRS 16. SEE NOTE 27, P. 171, SEE DIAGRAM 74

Equity ratio[1, 2] in % — 74

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 Based on shareholders' equity.

OPERATING WORKING CAPITAL

Operating working capital increased 12% to € 4.007 billion at the end of December 2019 compared to € 3.563 billion in 2018. On a currency-neutral basis, operating working capital was up 11%. Average operating working capital as a percentage of sales decreased 0.9 percentage points to 18.1% (2018: 19.0%). This development mainly reflects an increase in payables, which is a direct result of improved payment terms with our vendors. SEE DIAGRAM 75

Average operating working capital[1, 2] in % of net sales — 75

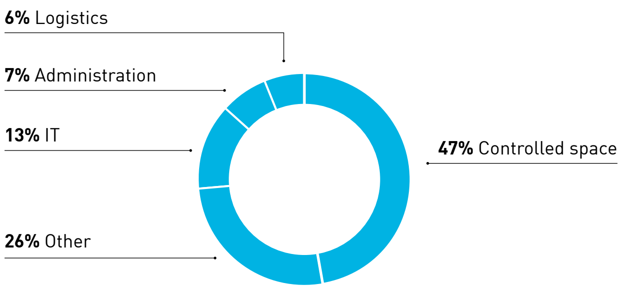
1 Average operating working capital = sum of operating working capital at quarter-end/4.
Operating working capital = accounts receivable + inventories – accounts payable.
2 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

INVESTMENT ANALYSIS

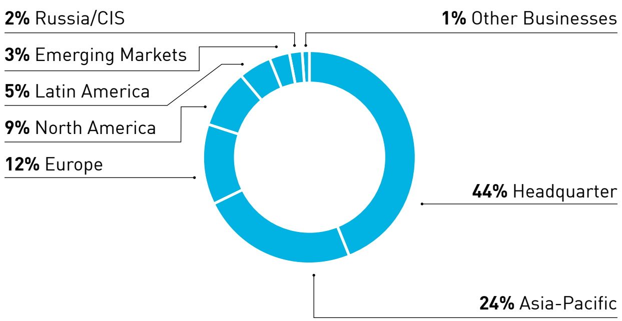
Capital expenditure is defined as the total cash expenditure for the purchase of tangible and intangible assets (excluding acquisitions and right-of-use assets according to IFRS 16). Capital expenditure decreased 11% to € 711 million (2018: € 794 million). Capital expenditure for property, plant and equipment was down 14% to € 599 million compared to € 699 million in the prior year. The company invested € 112 million in intangible assets, representing a 17% increase compared to the prior year (2018: € 96 million). Depreciation and amortization excluding impairment losses/reversal of impairment losses of tangible and intangible assets increased 9% to € 511 million in 2019 (2018: € 470 million).

Controlled space initiatives, which comprise investments in new or remodeled own-retail and franchise stores as well as in shop-in-shop presentations of our brands and products in our customers' stores, accounted for 47% of total capital expenditure (2018: 32%). Expenditure for IT and logistics represented 13% and 6%, respectively (2018: 13% and 12%, respectively). In addition, expenditure for administration accounted for 7% (2018: 7%). Other investments mainly reflected the further development of our major corporate facilities in Herzogenaurach, Portland and Shanghai. These represented 26% of total capital expenditure (2018: 36%). SEE DIAGRAM 76 From a segmental perspective, the majority of the capital expenditure was recorded centrally at headquarter level, which accounted for 44% (2018: 60%). In addition, capital expenditure in Asia-Pacific accounted for 24% (2018: 20%) of the total capital expenditure, followed by Europe with 12% (2018: 9%), North America with 9% (2018: 7%), Latin America and Emerging Markets with 5% and 3%, respectively (2018: 2% each) as well as Russia/CIS with 2% (2018: 1%). SEE DIAGRAM 77

Capital expenditure by type in % of total CAPEX 76



Capital expenditure by segments in % of total CAPEX 77



LIQUIDITY ANALYSIS

In 2019, net cash generated from operating activities increased to € 2.819 billion (2018: € 2.686 billion). SEE TABLE 'FINANCIAL HIGHLIGHTS', P. 4 Net cash generated from continuing operating activities rose to € 2.828 billion (2018: € 2.706 billion). This increase was driven by higher income before taxes and lower income taxes paid, and the different treatment of operating leases related to the first-time application of IFRS 16, partly offset by higher operating working capital requirements.

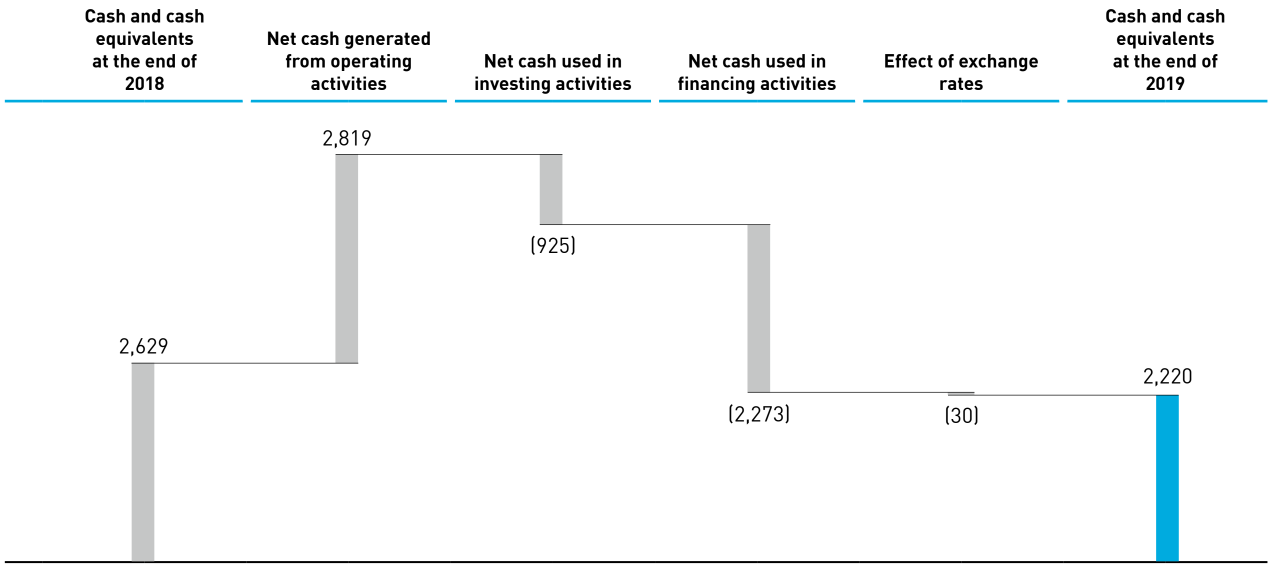
There was a change in the presentation of interest paid in the consolidated statement of cash flows in the financial year. Due to the first-time application of IFRS 16, adidas has applied the option to show the interest paid within the net cash used in financing activities instead of the net cash generated from operating activities and, to enhance comparability, figures for the prior year were also adjusted.

Net cash used in investing activities and net cash used in continuing investing activities increased to € 925 million each (2018: € 636 million). The majority of continuing investing activities in 2019 was related to expenditure for property, plant and equipment, such as investments in controlled space initiatives, and IT systems as well as the further development of our major corporate facilities in Herzogenaurach, Portland and Shanghai. Net cash used in financing activities and net cash used in continuing financing activities grew to € 2.273 billion each (2018: € 991 million each). This development was mainly due to the repurchase of adidas AG shares, the dividend paid to shareholders as well as repayments of lease liabilities and interest payments for lease liabilities related to the first-time application of IFRS 16.

Under IFRS 16, payments for operating leases formerly disclosed under IAS 17 are no longer recognized on a straight-line basis and also not reported as cash flow from operating activities. Instead, repayments and interest payments for the lease liabilities are recognized in the cash flow from financing activities. This resulted in a decline in cash flows from financing activities in the amount of € 692 million and an improvement in cash flows from operating activities in the amount of € 684 million. SEE NOTE 39, P. 204

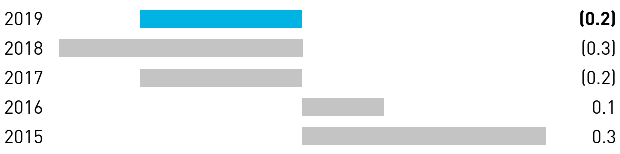
Exchange rate effects negatively impacted the company's cash position by € 30 million (2018: € 29 million). As a result of all these developments, cash and cash equivalents decreased by € 410 million to € 2.220 billion at the end of December 2019 compared to € 2.629 billion at the end of December 2018. SEE DIAGRAM 79

Change in cash and cash equivalents € in millions **79**



Net cash at December 31, 2019 amounted to € 873 million, compared to net cash of € 959 million in 2018, representing a decline of € 86 million compared to the prior year. The increase in cash generated from operating activities was more than offset by the utilization of cash for the purchase of fixed assets, the repurchase of adidas AG shares as well as the dividend paid to shareholders. SEE TREASURY, P. 104 The company's ratio of net borrowings over EBITDA amounted to –0.2 at the end of December 2019 (2018: –0.3). SEE DIAGRAM 78

Net borrowings/EBITDA[1,2] € in millions **78**



1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 2015 figure still includes the TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses, which have been reported as discontinued operations since 2016.

OFF-BALANCE-SHEET ITEMS

The company's most significant off-balance-sheet items are commitments for promotion and advertising as well as other contracts. These contracts are related to short-term leases as well as leases for offices and warehouses, which are not yet considered according to IFRS 16. Minimum future payments for other contracts were € 318 million at December 31, 2019, compared to € 2.984 billion at the end of December 2018, representing a decrease of 89%. This development is due to the first-time application of IFRS 16. SEE NOTE 21, P. 166 At the end of December 2019, financial commitments for promotion and advertising increased 17% to € 6.808 billion in 2019 (2018: € 5.828 billion). SEE NOTE 40, P. 205

TREASURY

CORPORATE FINANCING POLICY

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

TREASURY POLICY AND RESPONSIBILITIES

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

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

CENTRALIZED TREASURY FUNCTION

In accordance with our Treasury Policy, all worldwide credit lines are directly or indirectly managed by the Treasury department. Portions of those lines are allocated to our subsidiaries and sometimes backed by adidas AG guarantees. As a result of this centralized liquidity management, the company is well positioned to allocate resources efficiently throughout the organization. The company's debt is generally unsecured and may include standard covenants, which are reviewed on a quarterly basis. We maintain good relations with numerous partner banks, thereby avoiding a high dependency on any single financial institution. Banking partners of the company and our subsidiaries are required to have at least a BBB+ long-term investment grade rating by Standard & Poor's or an equivalent rating by another leading rating agency. SEE NOTE 02, P. 143 We authorize our companies to work with banks with a lower rating only in very exceptional cases. To ensure optimal allocation of the company's liquid financial resources, subsidiaries transfer excess cash to our headquarters in all instances where it is legally and economically feasible. In this regard, the standardization and consolidation of our global cash management and payment processes, including automated domestic and cross-border *cash pools* SEE GLOSSARY, is a key priority for our centrally managed Treasury department. Effective management of our currency exposure and interest rate risks are additional goals and responsibilities of the department.

STANDARD COVENANTS

In the case of our committed credit facilities, we have entered into various legal covenants. These legal covenants may include limits on the disposal of fixed assets, the amount of debt secured by liens, cross-default provisions and change of control. However, our financial arrangements do not contain any financial covenants. If we failed to meet any covenant and were unable to obtain a waiver, borrowings would become due and payable immediately. As at December 31, 2019, we were in full compliance with all our covenants. We are fully confident we will continue to be compliant with these covenants going forward. We believe that cash generated from operating activities, together with access to internal and external sources of funds, will be sufficient to meet our future operating and capital needs.

FINANCIAL FLEXIBILITY

The company's financial flexibility is ensured by the availability of credit facilities, consisting of committed and uncommitted bilateral credit lines at different banks with a remaining time to maturity of up to eight years. In addition, we have an unused multi-currency commercial paper program in the amount of € 2.0 billion available (2018: € 2.0 billion). At the end of 2019, committed and uncommitted bilateral credit lines amounted to € 2.105 billion (2018: € 2.215 billion), of which € 1.940 billion was unutilized (2018: € 2.008 billion). Committed and uncommitted credit lines represent approximately 46% and 54% of total short-term bilateral credit lines, respectively (2018: 45% and 55%, respectively). We monitor the ongoing need for available credit lines based on the current level of debt as well as future financing requirements. SEE DIAGRAM 80, SEE DIAGRAM 81, SEE DIAGRAM 82

Total credit facilities € in millions 80

	2019	2018
Bilateral credit lines	**2,105**	2,215
Eurobonds	**986**	984
Equity-neutral convertible bond	**487**	484
Total	**3,578**	3,683

2019 2018

Remaining time to maturity of available facilities € in millions 81

	2019	2018
< 1 year	**1,738**	1,475
1 to 3 years	**785**	980
3 to 5 years	**621**	771
> 5 years	**434**	457
Total	**3,578**	3,683

2019 2018

Bilateral credit lines € in millions 82

	2019	2018
Committed	**972**	987
Uncommitted	**1,133**	1,228
Total	**2,105**	2,215

2019 2018

OUTSTANDING BONDS

The company has two outstanding eurobonds, both issued in 2014, and one outstanding equity-neutral convertible bond, which was issued in 2018. The seven-year eurobond of € 600 million matures on October 8, 2021 and has a coupon of 1.25%. The twelve-year eurobond of € 400 million matures on October 8, 2026 and has a coupon of 2.25%. The equity-neutral convertible bond of € 500 million was issued on September 5, 2018, with a coupon of 0.05% and is due on September 12, 2023. SEE OUR SHARE, P. 46, SEE NOTE 18, P. 164, SEE TABLE 83

Issued bonds at a glance € in millions 83

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

GROSS BORROWINGS DECREASE

The company's gross borrowings, the vast majority of which are denominated in euro, are composed of bank borrowings as well as the outstanding eurobonds and the equity-neutral convertible bond. Gross borrowings decreased 2% to € 1.638 billion at the end of 2019 from € 1.676 billion in the prior year. The total amount of bonds outstanding at the end of 2019 was € 1.473 billion (2018: € 1.469 billion). Bank borrowings amounted to € 165 million compared to € 207 million in the prior year. SEE TABLE 84

Financing structure € in millions 84

	2019	2018
Cash and short-term financial assets	**2,511**	**2,635**
Bank borrowings	165	207
Eurobonds	986	984
Equity-neutral convertible bond	487	484
Gross total borrowings	**1,638**	**1,676**
Net cash	**873**	**959**

STABLE DEBT MATURITY PROFILE

Over the course of 2019, the company's financing maturity profile remained stable. In 2020, assuming unchanged maturities, debt instruments of € 43 million will mature. This compares to € 66 million which matured during the course of 2019. SEE DIAGRAM 85

Remaining time to maturity of gross borrowings € in millions — 85

	2019	2018
< 1 year	**43**	66
1 to 3 years	**636**	635
3 to 5 years	**525**	522
> 5 years	**434**	453
Total	**1,638**	1,676

2019 2018

NET CASH POSITION OF € 873 MILLION

Net cash at December 31, 2019 amounted to € 873 million, compared to net cash of € 959 million in 2018, representing a decrease of € 86 million versus the prior year. SEE DIAGRAM 86 The increase in cash generated from operating activities was more than offset by the utilization of cash for the purchase of fixed assets, the repurchase of adidas AG shares as well as the dividend paid to shareholders.

Net cash/(net borrowings)[1] € in millions — 86

2019	**873**
2018	959
2017	484
2016	(103)
2015	(460)

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

INTEREST RATE DECREASES

The weighted average interest rate on the company's gross borrowings decreased to 1.5% in 2019 (2018: 2.1%). SEE DIAGRAM 87 This development was mainly due to the € 500 million equity-neutral convertible bond with a coupon of 0.05% and a reduction of interest rates of short-term borrowings. Fixed-rate financing represented 99% of total gross borrowings at the end of 2019 (2018: 97%). Variable-rate financing accounted for 1% of total gross borrowings at the end of the year (2018: 3%).

Interest rate development[1] in % — 87

2019	**1.5**
2018	2.1
2017	2.7
2016	2.3
2015	2.4

1 Weighted average interest rate of gross borrowings.

EFFECTIVE FOREIGN EXCHANGE MANAGEMENT A KEY PRIORITY

As a globally operating company, adidas is exposed to currency risks. Therefore, effective currency management is a key focus of our Treasury department, with the aim of reducing the impact of currency fluctuations on non-euro-denominated net future cash flows. In this regard, hedging US dollars is a central part of our program. This is a direct result of our Asian-dominated sourcing, which is largely denominated in US dollars. SEE GLOBAL OPERATIONS, P. 63 In 2019, our Treasury department managed a net deficit of around US $ 7.1 billion related to operational activities (2018: US $ 6.0 billion). Thereof, around US $ 4.7 billion was against the euro (2018: US $ 3.8 billion). As governed by our Treasury Policy, we have established a hedging system on a rolling basis up to 24 months in advance, under which the vast majority of the anticipated seasonal hedging volume is secured approximately six months prior to the start of a season. In rare instances, hedges are contracted beyond the 24-month horizon. We had largely covered our anticipated hedging needs for 2020 as at year-end 2019. At the same time, we have already started hedging our exposure for 2021. The use or combination of different hedging instruments, such as forward exchange contracts, currency options and swaps, protects us against unfavorable currency movements. SEE NOTE 30, P. 180

FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF ADIDAS AG

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

OPERATING ACTIVITIES AND CAPITAL STRUCTURE OF ADIDAS AG

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

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

The opportunities and risks as well as the future development of adidas AG largely reflect those of the company as a whole. SEE OUTLOOK, P. 117, SEE RISK AND OPPORTUNITY REPORT, P. 120

The asset and capital structure of adidas AG is significantly impacted by its holding and financing function for the company. For example, 44% of total assets as at December 31, 2019 related to financial assets (2018: 46%), which primarily consist of shares in affiliated companies. Intercompany accounts, through which transactions between affiliated companies are settled, represent another 32% of total assets (2018: 26%) and 42% of total equity and liabilities as at December 31, 2019 (2018: 45%).

PREPARATION OF ACCOUNTS

Unlike the consolidated financial statements, which are in conformity with the International Financial Reporting Standards (IFRS), as adopted by the European Union as at December 31, 2019, the following financial statements of adidas AG have been prepared in accordance with the rules set out in the German Commercial Code (Handelsgesetzbuch – HGB).

INCOME STATEMENT

Statement of income in accordance with HGB (Condensed) € in millions — 88

	2019	2018
Net sales	4,444	4,128
Total output	**4,444**	**4,128**
Other operating income	590	516
Cost of materials	(1,611)	(1,538)
Personnel expenses	(796)	(731)
Depreciation and amortization	(120)	(98)
Other operating expenses	(2,337)	(2,282)
Operating profit	**170**	**(5)**
Financial result	1,938	1,542
Taxes	(161)	(113)
Net income	**1,947**	**1,424**
Retained earnings brought forward	41	45
Allocation to other revenue reserves	(750)	(400)
Allocation to capital reserves	0	(9)
Utilization for the repurchase of adidas AG shares	(410)	(355)
Retained earnings	**828**	**705**

adidas AG net sales € in millions — 89

	2019	2018
Royalty and commission income	2,209	1,900
adidas Germany	1,275	1,157
Foreign subsidiaries	48	60
Central distribution	191	319
Other revenues	721	692
Total	**4,444**	**4,128**

NET SALES INCREASE 8%

Sales of adidas AG comprise external revenues generated by adidas Germany with products of the adidas and Reebok brands as well as revenues from foreign subsidiaries. Revenues of adidas AG also include royalty and commission income, mainly from affiliated companies, revenues from central distribution, and other revenues. In 2019, adidas AG net sales grew 8% to € 4.444 billion compared to € 4.128 billion in the prior year. This growth was mainly due to higher royalty and commission income and an increase in revenues from adidas Germany. SEE TABLE 88, SEE TABLE 89

OTHER OPERATING INCOME UP 14%

In 2019, other operating income of adidas AG increased 14% to € 590 million (2018: € 516 million). This development was primarily due to positive currency effects.

OTHER OPERATING EXPENSES INCREASE 2%

In 2019, other operating expenses for adidas AG rose 2% to € 2.337 billion (2018: € 2.282 billion). SEE TABLE 88 This was largely attributable to higher currency losses as well as an increase in IT and maintenance costs, partly offset by a decrease in expenses for advertising and promotion and allowances for doubtful accounts.

DEPRECIATION AND AMORTIZATION UP 22%

Depreciation and amortization for adidas AG rose 22% to € 120 million in 2019 (2018: € 98 million), mainly as a result of an increase in depreciation and amortization of software and buildings.

OPERATING RESULT INCREASES

In 2019, adidas AG generated an operating profit of € 170 million due to higher sales (2018: operating loss of € 5 million). SEE TABLE 88

FINANCIAL RESULT IMPROVES

The financial result of adidas AG improved 26% to € 1.938 billion in 2019 (2018: € 1.542 billion). The increase was attributable to higher income from dividends, partly offset by lower profit transfers from affiliated companies under profit and loss transfer agreements.

NET INCOME INCREASES SIGNIFICANTLY

Net income, after taxes of € 161 million (2018: € 113 million), amounted to € 1.947 billion in 2019 and was thus 37% above the prior year level (2018: € 1.424 billion). SEE TABLE 88

BALANCE SHEET

Balance sheet in accordance with HGB (Condensed) € in millions — 90

	Dec. 31, 2019	Dec. 31, 2018
Assets		
Intangible assets	188	162
Property, plant and equipment	706	688
Financial assets	4,427	4,361
Fixed assets	**5,321**	**5,211**
Inventories	37	47
Receivables and other assets	3,365	2,655
Cash and cash equivalents, securities	1,197	1,478
Current assets	**4,599**	**4,180**
Prepaid expenses	150	100
Active difference from asset allocation	0	5
Total assets	**10,070**	**9,496**
Equity and liabilities		
Shareholders' equity	3,107	2,634
Provisions	728	699
Liabilities and other items	6,235	6,163
Total equity and liabilities	**10,070**	**9,496**

TOTAL ASSETS ABOVE PRIOR YEAR

At the end of December 2019, total assets grew 6% to € 10.070 billion compared to € 9.496 billion in the prior year. This development was mainly a result of increases in receivables and other assets as well as financial assets, partly offset by the decline in cash and cash equivalents as well as securities. SEE TABLE 90

SHAREHOLDERS' EQUITY UP 18%

Shareholders' equity rose 18% to € 3.107 billion at the end of 2019 (2018: € 2.634 billion). SEE TABLE 90 The equity ratio increased to 30.9% (2018: 27.7%).

PROVISIONS INCREASE 4%

Provisions were up 4% to € 728 million at the end of 2019 (2018: € 699 million). SEE TABLE 90 The increase primarily resulted from higher provisions for personnel.

LIABILITIES AND OTHER ITEMS UP 1%

At the end of December 2019, liabilities and other items remained virtually unchanged at € 6.235 billion, up 1% compared to the prior year (2018: € 6.163 billion). SEE TABLE 90

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

adidas AG generated a positive cash flow from operating activities of € 1.473 billion (2018: € 1.696 billion). The change versus the prior year was a result of the increase in net income, partly offset by higher receivables from affiliated companies. Net cash outflow from investment activities was € 233 million (2018: € 270 million). This was primarily attributable to capital expenditure for tangible fixed assets in an amount of € 167 million and capital expenditure for financial assets in an amount of € 66 million. Financing activities resulted in a net cash outflow of € 1.478 billion (2018: € 889 million). The net cash outflow from financing activities mainly relates to the repurchase of adidas AG shares in the amount of € 815 million (for which € 410 million was utilized from 2019 net income) and the dividend payment in an amount of € 664 million. As a result of all these developments, cash and cash equivalents of adidas AG decreased to € 636 million at the end of December 2019 compared to € 874 million at the end of the prior year.

adidas AG has bilateral credit lines of € 1.3 billion. In addition, the company has a multi-currency commercial paper program in an amount of € 2.0 billion. SEE TREASURY, P. 104

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

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

COMPOSITION OF SUBSCRIBED CAPITAL

The nominal capital of adidas AG amounts to € 200,416,186 (as at December 31, 2019) and is divided into the same number of registered no-par-value shares with a notional pro rata amount in the nominal capital of € 1 each ('shares'). The nominal capital and the number of shares did not change in the 2019 financial year. The shares are fully paid in. Any claim on the part of the shareholders to the issuance of individual share certificates is generally excluded pursuant to § 4 section 9 of the Articles of Association unless such issuance is required in accordance with the regulations applicable at a stock exchange where the shares are admitted. Pursuant to § 67 section 2 German Stock Corporation Act (Aktiengesetz – AktG), in relation to adidas AG, only a person who is registered as such in the share register shall be deemed a shareholder. Each share grants one vote at the Annual General Meeting and determines the shareholders' share in the company's profit. All shares carry the same rights and obligations. The shareholders' individual rights and obligations follow from the provisions of the German Stock Corporation Act, in particular from §§ 12, 53a et seq., 118 et seq. and 186 AktG. As at December 31, 2019, adidas AG held 4,446,799 treasury shares, which do not confer any rights to the company in accordance with § 71b AktG. SEE NOTE 27, P. 171

In the USA, adidas AG has issued American Depositary Receipts (ADRs). ADRs are deposit certificates of non-US shares that are traded instead of the original shares on US stock exchanges. Two ADRs equal one adidas AG share.
SEE OUR SHARE, P. 46

RESTRICTIONS ON VOTING RIGHTS OR TRANSFER OF SHARES

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

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

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

SHAREHOLDINGS IN SHARE CAPITAL EXCEEDING 10% OF VOTING RIGHTS

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

SHARES WITH SPECIAL RIGHTS

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

VOTING RIGHT CONTROL IF EMPLOYEES HAVE A SHARE IN THE CAPITAL

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

EXECUTIVE BOARD APPOINTMENT AND DISMISSAL

Pursuant to § 6 of the Articles of Association and § 84 AktG, the Supervisory Board is responsible for determining the exact number of members of the Executive Board, for their appointment and dismissal as well as for the appointment of the Chief Executive Officer (CEO). The adidas AG Executive Board, which, as a basic principle, comprises at least two members, currently consists of the CEO and five further members. Executive Board members may be appointed for a maximum period of five years. Such appointments may be renewed and the terms of office may be extended, provided that no term exceeds five years. SEE EXECUTIVE BOARD, P. 11

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

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

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

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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

AUTHORIZATIONS OF THE EXECUTIVE BOARD

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

AUTHORIZATION OF THE EXECUTIVE BOARD TO ISSUE SHARES

The authorization of the Executive Board to issue shares is regulated by § 4 of the Articles of Association and by statutory provisions:

Authorized Capital

- Until June 14, 2021, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 4,000,000 altogether (Authorized Capital 2016). Any repurchased treasury shares of the company which are used by the company for employee stock purchase plans during the term of this authorization shall be attributed to the maximum number of 4,000,000 shares. Shareholders' subscription rights shall be excluded. The new shares may only be issued to (current and former) employees of the company and its affiliated companies as well as to (current and former) members of management bodies of the company's affiliated companies ('eligible persons').

- Until June 7, 2022, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 50,000,000 altogether (Authorized Capital 2017/I). The Executive Board may, subject to Supervisory Board approval, exclude residual amounts from shareholders' subscription rights.
- Until June 7, 2022, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in cash once or several times by no more than € 20,000,000 altogether (Authorized Capital 2017/III). The Executive Board may, subject to Supervisory Board approval, exclude residual amounts from shareholders' subscription rights. Additionally, the Executive Board may, subject to Supervisory Board approval, exclude shareholders' subscription rights when issuing the new shares at a price not significantly below the stock market price of the company's shares already quoted on the stock exchange at the point in time when the issue price is ultimately determined, which should be as close as possible to the placement of the shares; this exclusion of subscription rights can also be associated with the listing of the company's shares on a foreign stock exchange. The authorization to exclude subscription rights pursuant to the previous sentence 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 at the respective date on which the resolution on utilization of the authorization is adopted. The overall volume of the shares issued based on this authorization with the exclusion of subscription rights – together with shares issued against contributions in kind with the exclusion of subscription rights from the Authorized Capital 2017/II – must not exceed 10% of the nominal capital existing at the date of the respective issuance. This deduction clause shall not apply if residual amounts of shares are excluded from subscription rights.
- Until June 13, 2024, the Executive Board is authorized to increase the nominal capital, subject to Supervisory Board approval, by issuing new shares against contributions in kind once or several times by no more than € 16,000,000 altogether (Authorized Capital 2019). The Executive Board may, subject to Supervisory Board approval, exclude shareholders' subscription rights. The overall volume of the shares issued with the exclusion of subscription rights based on this authorization must not exceed 10% of the nominal capital existing at the point in time when this authorization becomes effective or, in case this amount is lower, at the date of the respective issuance. The nominal capital which is attributed to the shares to be issued to service option or conversion rights or option or conversion obligations from bonds, debt securities or participation rights to the extent that they are issued during the term of the authorization until the date of the respective exercise of this authorization with the exclusion of subscription rights, or which is attributed to shares which are issued or sold during the term of the authorization until the date of the respective exercise of this authorization with the exclusion of subscription rights, has to be included in the aforementioned limit of 10%. This deduction clause shall not apply if residual amounts of shares are excluded from subscription rights. The Authorized Capital 2019 must not be used to issue shares within the scope of compensation or participation programs for Executive Board members or employees or for members of the management bodies or employees of subsidiaries. SEE NOTE 27, P. 171

Contingent Capital

The nominal capital of the company is conditionally increased by up to € 12,500,000 (Contingent Capital 2018). The Contingent Capital serves the purpose of granting holders or creditors of bonds that were issued based on the resolution of the Annual General Meeting on May 9, 2018 subscription or conversion rights relating to no more than a total of 12,500,000 shares in compliance with the corresponding conditions of the bonds. Based on the authorization granted by the Annual General Meeting on May 9, 2018, the Executive Board is authorized to issue bonds with warrants and/or convertible bonds in an aggregate nominal value of up to € 2,500,000,000 with or without a limited term against contributions in cash once or several times until May 8, 2023, and to guarantee bonds issued by subordinated Group companies. The Executive Board is also authorized, subject to Supervisory Board approval, to exclude shareholders' subscription rights for residual 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 shall be attributed to the aforementioned 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 shall also be attributed to the aforementioned 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 shall be attributed to the aforementioned limit of 10%. Notwithstanding the Supervisory Board's right to determine further approval requirements, the Executive Board requires the Supervisory Board's approval for the issuance of bonds with warrants and/or convertible bonds based on this authorization of the Annual General Meeting on May 9, 2018 with the exclusion of shareholders' subscription rights.

The Executive Board has so far not utilized the authorization to issue bonds with warrants and/or convertible bonds granted by the Annual General Meeting on May 9, 2018.

AUTHORIZATION OF THE EXECUTIVE BOARD TO REPURCHASE SHARES

The authorizations of the Executive Board to repurchase adidas AG shares arise from §§ 71 et seq. AktG and, as at the balance sheet date, from the authorization granted by the Annual General Meeting on May 12, 2016.

Until May 11, 2021, the Executive Board is authorized to repurchase adidas AG shares in an amount totaling up to 10% of the nominal capital at the date of the resolution (or, as the case may be, a lower amount of nominal capital at the date of utilization of the authorization) for any lawful purpose and within the legal framework. The authorization may be used by the company but also by its subordinated Group companies or by third parties on account of the company or its subordinated Group companies or third parties assigned by the company or one of its subordinated Group companies.

The repurchase can be carried out via the stock exchange, through a public invitation to submit sale offers, through a public repurchase offer, or through granting tender rights to shareholders. The authorization furthermore sets out the lowest and highest nominal value that may be granted in each case.

The purposes for which treasury shares repurchased based on this authorization may be used are set out in the resolution on Item 9 of the Agenda for the Annual General Meeting held on May 12, 2016. The shares may in particular be used as follows:

- They may be sold on the stock exchange or through a public offer to all shareholders in relation to their shareholding quota; in case of an offer to all shareholders, subscription rights for residual amounts are excluded. The shares may also be sold differently, provided the shares are sold in exchange for a cash payment and at a price that, at the time of the sale, is not significantly below the stock market price of the company's shares with the same features; the prorated amount of the nominal capital which is attributable to the aggregate number of shares sold under this authorization may not exceed 10% of the nominal capital. The prorated amount of the nominal capital attributable to new shares issued between May 12, 2016 and the sale of the shares based on an authorized capital with the exclusion of shareholders' subscription rights pursuant to § 203 section 1 in conjunction with § 186 section 3 sentence 4 AktG shall be attributed to the limit of 10%. Likewise, the prorated amount of the nominal capital that is attributable to shares which may be issued due to bonds with warrants and/or convertible bonds which are linked to subscription or conversion rights or obligations or the company's right to delivery of shares, provided these bonds are issued on the basis of authorizations pursuant to §§ 221 section 4, 186 section 3 sentence 4 AktG between May 12, 2016 and the sale of the shares, shall also be attributed to the limit of 10%.
- They may be offered and assigned as consideration for the direct or indirect acquisition of companies, parts of companies, participations in companies or other economic assets or within the scope of company mergers.
- They may be offered and sold as consideration for the acquisition of industrial property rights or intangible property rights or for the acquisition of licenses relating to such rights, also through subordinated Group companies.
- They may be used for purposes of meeting the subscription or conversion rights or obligations or the company's right to delivery of shares arising from bonds with warrants and/or convertible bonds issued by the company or its subordinated Group companies.
- In connection with employee stock purchase plans, up to 4,000,000 shares may be issued in favor of (current and former) employees of the company and its affiliated companies as well as in favor of (current and former) management bodies of the company's affiliated companies. The number of shares the company issues to eligible persons by partially utilizing the Authorized Capital 2016 shall be attributed to the maximum number of 4,000,000 shares.
- They may be canceled without such cancelation requiring an additional resolution of the Annual General Meeting.

Furthermore, the shares may be promised or assigned to members of the Executive Board as compensation by way of a stock bonus subject to the provision that resale by the Executive Board members shall only be permitted following a retention period of at least three years from the date of assignment. Responsibility in this case lies with the Supervisory Board.

In case of utilization of shares for the aforementioned purposes, except for the cancelation of shares, shareholders' subscription rights are excluded.

The Supervisory Board may determine that transactions based on this authorization may only be carried out subject to the approval of the Supervisory Board or one of its committees.

In the 2018 and 2019 financial years, the Executive Board partly utilized the authorization to repurchase adidas AG shares in the context of the share buyback program 2018-2021. In a first tranche (total period from March 22, 2018 up to and including December 4, 2018) of this share buyback program, adidas AG bought back 5,089,879 adidas AG shares via the stock exchange. In a second tranche (total period from January 7, 2019 up to and including December 18, 2019), adidas AG bought back 3,223,214 adidas AG shares via the stock exchange in the year under review. SEE NOTE 27, P. 171

In the scope of the authorization resolved upon by the Annual General Meeting on May 12, 2016, the Executive Board is furthermore authorized to conduct the share buyback also by using equity derivatives which are arranged with a credit institution or financial services institution in close conformity with market conditions. adidas AG may acquire call options issued for physical delivery and/or sell put options or use a combination of call and put options or other equity derivatives if the option conditions ensure that the shares delivered for these equity derivatives were purchased in compliance with the principle of equal treatment. All share purchases using the aforementioned equity derivatives are limited to a maximum value of 5% of the nominal capital existing at the date on which the resolution was adopted by the Annual General Meeting (or, as the case may be, a lower amount of nominal capital at the date of utilization of the authorization). The term of the options may not exceed 18 months and must furthermore be chosen in such a way that the shares are acquired upon the exercise of the options no later than May 11, 2021. The authorization furthermore sets out the lowest and highest nominal value that may be granted in each case.

For excluding subscription rights, the use and cancelation of shares purchased using equity derivatives, the general provisions adopted by the Annual General Meeting (set out above) are applicable accordingly.

CHANGE OF CONTROL/COMPENSATION AGREEMENTS

Substantial agreements entered into by adidas AG containing a change-of-control clause relate to the material financing agreements. In the case of a change of control, these agreements, in accordance with common practice, entitle the creditor to termination and early calling-in of any outstanding amounts.

No compensation agreements exist between adidas AG and members of the Executive Board or employees relating to the event of a takeover bid.

BUSINESS PERFORMANCE BY SEGMENT

adidas has divided its operating activities into the following operating segments: Europe, North America adidas, North America Reebok, Asia-Pacific, Russia/CIS, Latin America, Emerging Markets, adidas Golf, Runtastic and Other centrally managed businesses. While the operating segments Europe, Asia-Pacific, Russia/CIS, Latin America and Emerging Markets are reported separately, North America adidas and North America Reebok are combined to the reportable segment North America. Each reportable segment comprises all wholesale, retail and e-commerce business activities relating to the distribution and sale of products of the adidas and Reebok brands to retail customers and end consumers. The remaining operating segments are aggregated under Other Businesses due to their only subordinate materiality.

EUROPE

In 2019, sales in Europe increased 3% on a currency-neutral basis as well as in euro terms to € 6.071 billion from € 5.885 billion in 2018. adidas brand revenues were up 4% on a currency-neutral basis. This was driven by low-single-digit sales growth in Sport Inspired and mid-single-digit sales growth in Sport Performance. Reebok brand revenues in Europe decreased 2% on a currency-neutral basis, due to declines in both Sport and Classics. SEE TABLE 91

Net sales in Europe

+3% C.N.

€ 6.071 bn

Europe at a glance € in millions — 91

	2019	2018	Change	Change (currency-neutral)
Net sales	6,071	5,885	3%	3%
adidas brand	5,599	5,405	4%	4%
Reebok brand	471	480	(2%)	(2%)
Gross margin	51.5%	47.7%	3.9pp	–
Segmental operating profit	1,408	1,176	20%	–
Segmental operating margin	23.2%	20.0%	3.2pp	–

Gross margin in Europe increased 3.9 percentage points to 51.5% from 47.7% in 2018, as positive currency effects, lower sourcing costs and a favorable channel mix more than offset an unfavorable product and pricing mix. Operating expenses were up 6% to € 1.722 billion versus € 1.628 billion in 2018, mainly reflecting an increase in operating overhead costs. Operating expenses as a percentage of sales were up 0.7 percentage points to 28.4% (2018: 27.7%). As a result of the increase in gross margin, which more than offset the negative effect of higher operating expenses as a percentage of sales, operating margin was up 3.2 percentage points to 23.2% (2018: 20.0%). Operating profit in Europe increased 20% to € 1.408 billion versus € 1.176 billion in the prior year. SEE TABLE 91

NORTH AMERICA

Revenues in North America grew 8% on a currency-neutral basis and 13% in euro terms to € 5.313 billion from € 4.689 billion in 2018. adidas brand sales increased 7% on a currency-neutral basis, with mid-single-digit sales growth in Sport Inspired and low-single-digit sales growth in Sport Performance. Reebok brand revenues in North America grew 12% on a currency-neutral basis, driven by increases in both Sport and Classics. SEE TABLE 92

Net sales in North America

+8% C.N.

€ 5.313 bn

North America at a glance € in millions — 92

	2019	2018	Change	Change (currency-neutral)
Net sales	5,313	4,689	13%	8%
adidas brand	4,828	4,277	13%	7%
Reebok brand	485	411	18%	12%
Gross margin	40.0%	41.2%	(1.2pp)	–
Segmental operating profit	715	698	2%	–
Segmental operating margin	13.5%	14.9%	(1.4pp)	–

Gross margin in North America decreased 1.2 percentage points to 40.0% (2018: 41.2%). Higher air freight costs to mitigate the supply chain shortages and an unfavorable pricing mix were only partly offset by lower sourcing costs as well as a better product and channel mix. Operating expenses were up 14% to € 1.493 billion versus € 1.305 billion in 2018, mainly reflecting an increase in operating overhead costs. Operating expenses as a percentage of sales increased 0.3 percentage points to 28.1% (2018: 27.8%). As a result of the lower gross margin and higher operating expenses as a percentage of sales, operating margin declined 1.4 percentage points to 13.5% from 14.9% in 2018. Operating profit in North America increased 2% to € 715 million from € 698 million in 2018. SEE TABLE 92

ASIA-PACIFIC

Sales in Asia-Pacific grew 10% on a currency-neutral basis. In euro terms, sales in Asia-Pacific were up 12% to € 8.032 billion from € 7.141 billion in 2018. adidas brand revenues increased 11% on a currency-neutral basis. This development was due to double-digit sales growth in both Sport Inspired and Sport Performance. Reebok brand sales in Asia-Pacific decreased 15% on a currency-neutral basis, due to declines in both Sport and Classics. SEE TABLE 93

Net sales in Asia-Pacific
+10% C.N.
€ 8.032 bn

Asia-Pacific at a glance € in millions — 93

	2019	2018	Change	Change (currency-neutral)
Net sales	8,032	7,141	12%	10%
adidas brand	7,736	6,805	14%	11%
Reebok brand	296	336	(12%)	(15%)
Gross margin	57.0%	56.2%	0.8pp	–
Segmental operating profit	2,703	2,339	16%	–
Segmental operating margin	33.7%	32.7%	0.9pp	–

Gross margin in Asia-Pacific increased 0.8 percentage points to 57.0% (2018: 56.2%), reflecting lower sourcing costs, positive currency effects and an improved product and channel mix, partly offset by an unfavorable pricing mix. Operating expenses were up 12% to € 1.891 billion versus € 1.688 billion in 2018, mainly driven by higher operating overhead costs. Operating expenses as a percentage of sales were down 0.1 percentage points to 23.5% (2018: 23.6%). As a result of the gross margin increase as well as lower operating expenses as a percentage of sales, operating margin was up 0.9 percentage points to 33.7% versus 32.7% in 2018. Operating profit in Asia-Pacific increased 16% to € 2.703 billion from € 2.339 billion in 2018. SEE TABLE 93

RUSSIA/CIS

Sales in Russia/CIS increased 8% on a currency-neutral basis. In euro terms, sales in Russia/CIS grew 11% to € 658 million from € 595 million in 2018. adidas brand revenues were up 7% on a currency-neutral basis. While sales in Sport Inspired grew at a double-digit rate, revenues in Sport Performance increased at a mid-single-digit rate. Reebok brand revenues in Russia/CIS increased 11% on a currency-neutral basis, driven by mid-single-digit growth in Sport and double-digit growth in Classics. SEE TABLE 94

Net sales in Russia/CIS
+8% C.N.
€ 658 m

Russia/CIS at a glance € in millions — 94

	2019	2018	Change	Change (currency-neutral)
Net sales	658	595	11%	8%
adidas brand	490	446	10%	7%
Reebok brand	168	149	13%	11%
Gross margin	61.7%	65.8%	(4.2pp)	–
Segmental operating profit	167	146	14%	–
Segmental operating margin	25.4%	24.6%	0.8pp	–

Gross margin in Russia/CIS decreased 4.2 percentage points to 61.7% from 65.8% in 2018, as an unfavorable pricing and channel mix more than offset lower sourcing costs and positive currency effects. Operating expenses were down 3% to € 239 million (2018: € 245 million), reflecting a decline in both operating overhead costs and marketing expenditure. Operating expenses as a percentage of sales decreased 4.9 percentage points to 36.3% versus 41.2% in the prior year. As the lower gross margin was more than offset by lower operating expenses as a percentage of sales, operating margin improved 0.8 percentage points to 25.4% from 24.6% in 2018. Operating profit in Russia/CIS increased 14% to € 167 million versus € 146 million in 2018. SEE TABLE 94

LATIN AMERICA

Revenues in Latin America increased 7% on a currency-neutral basis. In euro terms, sales in Latin America grew 2% to € 1.660 billion from € 1.634 billion in 2018. adidas brand sales were up 8% on a currency-neutral basis. Double-digit growth in Sport Inspired was partly offset by a low-single-digit sales decline in Sport Performance. Reebok brand sales in Latin America grew 3% on a currency-neutral basis, as a high-single-digit decline in Sport was more than offset by double-digit growth in Classics. SEE TABLE 95

Net sales in Latin America
+7% C.N.
€ 1.660 bn

Gross margin in Latin America decreased 0.4 percentage points to 44.5% (2018: 44.9%), as negative currency effects and an unfavorable product and channel mix were only partly offset by lower sourcing costs and a favorable pricing mix. Operating expenses were down 2% to € 444 million from € 454 million in 2018, reflecting a decrease in operating overhead costs. Operating expenses as a percentage of sales declined 1.1 percentage points to 26.7% (2018: 27.8%). As the lower gross margin was more than offset by lower operating expenses as a percentage of sales, operating margin improved 0.7 percentage points to 17.8% from 17.1% in 2018. Operating profit in Latin America increased 6% to € 295 million versus € 279 million in 2018. SEE TABLE 95

Latin America at a glance € in millions — 95

	2019	2018	Change	Change (currency-neutral)
Net sales	1,660	1,634	2%	7%
adidas brand	1,490	1,463	2%	8%
Reebok brand	170	171	(1%)	3%
Gross margin	44.5%	44.9%	(0.4pp)	–
Segmental operating profit	295	279	6%	–
Segmental operating margin	17.8%	17.1%	0.7pp	–

EMERGING MARKETS

Revenues in Emerging Markets were up 13% on a currency-neutral basis. In euro terms, sales in Emerging Markets grew 14% to € 1.302 billion from € 1.144 billion in 2018. adidas brand revenues increased 12% on a currency-neutral basis, driven by double-digit growth in Sport Inspired and high-single-digit growth in Sport Performance. Reebok brand revenues in Emerging Markets grew 14% on a currency-neutral basis, driven by a high-single-digit increase in Sport and double-digit growth in Classics. SEE TABLE 96

Net sales in Emerging Markets
+13% C.N.
€ 1.302 bn

Emerging Markets at a glance € in millions — 96

	2019	2018	Change	Change (currency-neutral)
Net sales	1,302	1,144	14%	13%
adidas brand	1,146	1,010	13%	12%
Reebok brand	156	134	16%	14%
Gross margin	52.3%	52.8%	(0.5pp)	–
Segmental operating profit	367	318	15%	–
Segmental operating margin	28.2%	27.8%	0.4pp	–

Gross margin in Emerging Markets decreased 0.5 percentage points to 52.3% (2018: 52.8%), as negative currency effects and an unfavorable channel mix more than offset lower sourcing costs and a favorable product and pricing mix. Operating expenses were up 10% to € 314 million versus € 286 million in 2018, reflecting an increase in marketing expenditure as well as higher operating overhead costs. As a percentage of sales, operating expenses decreased 0.8 percentage points to 24.2% from 25.0% in 2018. As the lower gross margin was more than offset by lower operating expenses as a percentage of sales, operating margin was up 0.4 percentage points to 28.2% (2018: 27.8%). Operating profit in Emerging Markets increased 15% to € 367 million versus € 318 million in 2018. SEE TABLE 96

OUTLOOK

In 2020, we expect growth of the global economy and consumer spending to reaccelerate only slightly in light of various uncertainties, yet still to provide a supportive backdrop for robust expansion of the sporting goods industry. Through our extensive pipeline of innovative products, powerful brand-building activities and tight control of both our inventory levels and our cost base, we project significant revenue growth and strong bottom-line improvements in 2020. We forecast sales to increase at a rate between 6% and 8% on a currency-neutral basis. Gross margin is projected to decline slightly compared to the prior year level of 52.0%, which is expected to be more than compensated by operating leverage. Consequently, operating margin is expected to increase between 0.2 percentage points and 0.5 percentage points to a level between 11.5% and 11.8%. As a result, net income from continuing operations is forecast to increase between 10% and 13% to a level between € 2.100 billion and € 2.160 billion. The company's outlook for 2020 does not reflect any impact from the coronavirus outbreak and is subject to change depending on further developments in this regard.

FORWARD-LOOKING STATEMENTS

This Management Report contains forward-looking statements that reflect Management's current view with respect to the future development of our company. The outlook is based on estimates that we have made on the basis of all the information available to us at the time of completion of this Annual Report. In addition, such forward-looking statements are subject to uncertainties which are beyond the control of the company. SEE RISK AND OPPORTUNITY REPORT, P. 120 In case the underlying assumptions turn out to be incorrect or described risks or opportunities materialize, actual results and developments may materially deviate (negatively or positively) from those expressed by such statements. adidas does not assume any obligation to update any forward-looking statements made in this Management Report beyond statutory disclosure obligations.

GLOBAL ECONOMIC GROWTH TO STABILIZE IN 2020[1]

Global GDP growth is projected to reaccelerate slightly to 2.5% in 2020. Amid recent de-escalation of trade tensions, investment and trade are forecast to gradually improve, while monetary policy is expected to stay accommodative. Nevertheless, moderating activity in major economies and financial market turbulences remain existing downside risks. In addition, differences between the pace of growth in developed and developing economies affect the global GDP projection. Developing economies are forecast to see an increase of growth at 4.1%, underlined by continued monetary policy support and a stabilization of oil and other commodity prices. In contrast, growth in developed economies is projected to slow to 1.4%, reflecting continued weakness in manufacturing and limited room for additional monetary policy accommodation. On a global level, additional downside risks include an escalation of trade tensions and geopolitical conflicts as well as a lasting outbreak of the coronavirus. Associated uncertainty might dampen consumer confidence, trade and growth.

SPORTING GOODS INDUSTRY EXPANSION TO CONTINUE IN 2020

In the absence of any major macroeconomic shocks, we expect the global sporting goods industry to grow at a mid-single-digit rate in 2020. Industry growth will continue to be driven by North America and Asia-Pacific, the biggest markets by size globally. Most other markets also look set to continue their expansion at robust rates, contributing to a growing industry. Growth in developing economies is predicted to be further supported by a growing middle class and progressing urbanization. In developed economies, robust labor markets should fuel resilient consumption and support consumer spending on sporting goods. Globally, demand for athletic performance products should be continuously supported by increasing sports participation rates and rising awareness for health and wellness. In addition, demand for athletic casual and activewear products is expected to be further driven by increasing sportswear penetration rates, as sports-inspired apparel and footwear (*'athleisure'* SEE GLOSSARY) keeps evolving as a structural component of the broader fashion landscape. Sustainability is expected to further gain in importance, as consumers show increasing demand for sustainable companies and products. Collaborations between sportswear brands and non-athlete influencers will remain an industry growth driver. Within the supply chain, increased efficiency in manufacturing and speed-to-market capabilities should further benefit sales growth and inventory levels, as consumers' demands can be met faster and more precisely. On the distribution side, the significant expansion of the e-commerce channel is set to continue amid further investments into consumer insights generation and the creation of premium shopping experiences. Last but not least, major sporting events such as the UEFA EURO 2020 and the 2020 Olympic Games in Tokyo will support industry growth. For the sporting goods sector too, risks related to escalating trade tensions and geopolitical conflicts as well as the coronavirus outbreak remain.

OUTLOOK FOR 2020 SUBJECT TO CHANGE DUE TO CORONAVIRUS OUTBREAK IN CHINA

The company's outlook for 2020 as outlined in this report is subject to change depending on the further developments related to the coronavirus outbreak. In the first three weeks of 2020, our business in Greater China – which represents around two-thirds of our Asia-Pacific revenues and has a

1 Source: World Bank Global Economic Prospects.

slightly higher profitability level than the segment's average – performed strongly. However, since then we have been experiencing a material negative impact on our operations in China. We have a dedicated task force team in place to assess the situation, develop mitigation actions and ensure the personal safety as well as financial security of our employees and their families, which is the company's number one priority. Since the start of the crisis, we have been working closely with the Chinese authorities to take measures to contain the epidemic and show our solidarity with the people directly affected. As a result of a significant number of store closures – both own- and partner-operated – and a pronounced traffic reduction within the remaining store fleet, business activity in Greater China has been around 85% below the prior year level since Chinese New Year on January 25, with a corresponding revenue and bottom-line impact. In addition, the company's supply chain in China has been facing disruptions. adidas' global sourcing activities, however, have not been materially impacted so far, as production in the country is predominantly for the local market. Similarly, while we have seen some traffic declines in other markets – predominantly Japan and South Korea – we have not yet observed any major business impact outside of Greater China.

As the situation keeps evolving, the magnitude of the overall impact on our business in 2020 cannot be quantified reliably at this point in time. Accordingly, the company's outlook for 2020 as follows and outlined in this report does not reflect any impact of the coronavirus outbreak.

2020 Outlook[1] **97**

Currency-neutral sales development (in %):	
adidas	to increase at a rate between 6% and 8%
Europe[2]	mid-single-digit increase
North America[2]	low-double-digit increase
Asia-Pacific[2]	high-single-digit increase
Russia/CIS[2]	low-double-digit increase
Latin America[2]	mid-single-digit increase
Emerging Markets[2]	high-single-digit increase
Gross margin	to decrease slightly compared to the prior year level of 52.0%
Operating margin	to increase between 0.2pp and 0.5pp to a level between 11.5% and 11.8%
Net income from continuing operations	to increase at a rate between 10% and 13% to a level between € 2.100 billion and € 2.160 billion
Average operating working capital in % of sales	to increase slightly
Capital expenditure	to increase to a level of around € 800 million

1 Subject to change due to coronavirus outbreak in China.
2 Combined sales of the adidas and Reebok brands.

CURRENCY-NEUTRAL SALES TO INCREASE BETWEEN 6% AND 8% IN 2020

We expect sales to increase at a rate between 6% and 8% on a currency-neutral basis in 2020. SEE TABLE 97 Despite continued uncertainties regarding the global economic outlook, the company's sales development will be favorably impacted by rising consumer spending, increasing penetration of sportswear ('athleisure') and growing health awareness in most geographical areas. In addition, the further expansion and improvement of our controlled space initiatives, in particular through our own e-commerce channel, is expected to contribute to sales growth.

CURRENCY-NEUTRAL REVENUES TO INCREASE IN ALL MARKET SEGMENTS

In 2020, we expect currency-neutral revenues to again increase in all market segments. While currency-neutral sales are projected to grow at a low-double-digit rate in North America and Russia/CIS, currency-neutral revenues in Asia-Pacific and Emerging Markets are expected to grow at a high-single-digit rate. Sales in Europe and Latin America are forecast to improve at a mid-single-digit rate in currency-neutral terms. SEE TABLE 97

GROSS MARGIN EXPECTED TO DECLINE SLIGHTLY

In 2020, the gross margin is forecast to decline slightly compared to the prior year level of 52.0%. SEE TABLE 97 The gross margin development will be significantly burdened by the adverse impact from unfavorable currency developments as well as negative effects from higher sourcing costs. These headwinds will largely be compensated by a better channel mix as well as normalized use of air freight after last year's supply chain shortages were successfully mitigated.

OPERATING MARGIN TO EXPAND TO A LEVEL BETWEEN 11.5% AND 11.8%

In 2020, the operating margin is projected to increase between 0.2 percentage points and 0.5 percentage points to a level between 11.5% and 11.8%. The anticipated slight decline in gross margin is expected to be more than offset by leverage on other operating expenses. This, together with the continued top-line growth, is expected to drive a double-digit-rate improvement of the bottom line. Net income from continuing operations is projected to increase to a level between € 2.100 billion and € 2.160 billion, reflecting an increase of between 10% and 13% compared to the prior year level of € 1.918 billion. SEE TABLE 97

AVERAGE OPERATING WORKING CAPITAL AS A PERCENTAGE OF SALES TO INCREASE SLIGHTLY

In 2020, average operating working capital as a percentage of sales is projected to increase slightly compared to the significantly better-than-expected prior year level of 18.1%. SEE TABLE 97

CAPITAL EXPENDITURE TO INCREASE TO AROUND € 800 MILLION

In 2020, capital expenditure is expected to increase to around € 800 million (2019: € 711 million). Investments will mainly focus on controlled space initiatives of the adidas and Reebok brands in both physical retail and e-commerce, the company's IT and logistics infrastructure as well as the further development of state-of-the-art corporate facilities in Herzogenaurach and Portland. SEE TABLE 97

MANAGEMENT TO PROPOSE DIVIDEND OF € 3.85

As a result of the strong operational and financial performance in 2019, our robust financial position as well as Management's confidence in our short- and long-term growth aspirations, the adidas AG Executive and Supervisory Boards will recommend paying a dividend of € 3.85 per dividend-entitled share for 2019 (2018: € 3.35) to shareholders at the Annual General Meeting (AGM) on May 14, 2020. The total payout of € 752 million (2018: € 664 million) reflects a payout ratio of 39.2% of net income from continuing operations (2018: 38.9%), based on the number of shares outstanding as at the date of preparation of the consolidated financial statements. This is within the target range of between 30% and 50% of net income from continuing operations as defined in our dividend policy. SEE OUR SHARE, P. 46

RISK AND OPPORTUNITY REPORT

In order to remain competitive and ensure sustainable success, adidas consciously takes risks and continuously explores and develops opportunities. Our risk and opportunity management principles and system provide the framework for our company to conduct business in a well-controlled environment.

RISK AND OPPORTUNITY MANAGEMENT PRINCIPLES

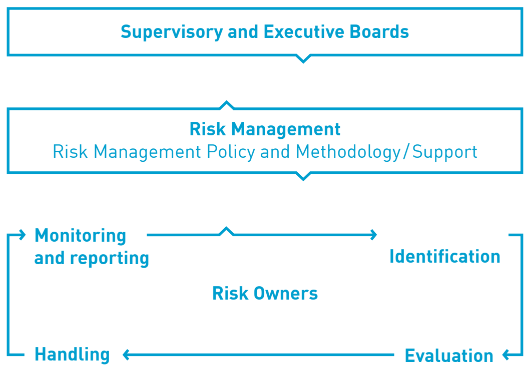
We define risk as the potential occurrence of an external or internal event (or series of events) that may negatively impact our ability to achieve the company's business objectives or financial goals. Opportunity is defined as the potential occurrence of an external or internal event (or series of events) that can positively impact the company's ability to achieve its business objectives or financial goals.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

The Executive Board has overall responsibility for establishing an effective risk and opportunity management system that ensures comprehensive and consistent management of all material risks and opportunities. SEE DIAGRAM 98 The Risk Management department governs, operates and develops the company's risk and opportunity management system and is the owner of the centrally managed risk and opportunity management process on behalf of the Executive Board. The Supervisory Board is responsible for monitoring the effectiveness of the risk management system. These duties are undertaken by the Supervisory Board's Audit Committee. Working independently of all other functions of the organizations, the Internal Audit department provides objective assurance to the Executive Board and the Audit Committee regarding the adequacy and effectiveness of the company's risk and opportunity management system on a regular basis. In addition, the Internal Audit department includes an assessment of the effectiveness of risk management processes and compliance with the company's Risk Management Policy as part of its regular auditing activities with selected adidas subsidiaries or functions each year.

Our risk and opportunity management system is based on frameworks for enterprise risk management and internal controls developed and published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Additionally, we have adapted our risk and opportunity management system to more appropriately reflect the structure as well as the culture of the company. This system focuses on the identification, evaluation, handling, monitoring and systematic reporting of risks and opportunities. The key objective of the risk and opportunity management system is to support business success and protect the company as a going concern through an opportunity-focused but risk-aware decision-making framework. Our Risk Management Policy outlines the principles, processes, tools, risk areas, key responsibilities, reporting requirements and communication timelines within our company.

adidas risk and opportunity management system 98



Risk and opportunity management is a company-wide activity which utilizes key insights from the members of the Executive Board as well as from global and local business units and functions.

Our risk and opportunity management process comprises the following steps:

- **Risk and opportunity identification:** adidas continuously monitors the macroeconomic environment and developments in the sporting goods industry, as well as internal processes, to identify risks and opportunities as early as possible. Our company-wide network of Risk Owners (at least all leaders reporting directly to the Executive Board, including the Managing Directors of our markets) ensures an effective bottom-up identification of risks and opportunities. Risk Management has defined 25 categories to assist Risk Owners in identifying risks and opportunities. The Risk Owners use various instruments in the risk and opportunity identification process, such as primary qualitative and quantitative research including trend scouting and consumer surveys as well as feedback from our business partners and controlled space network. These efforts are supported by global market research and competitor analysis. Through this process, we seek to identify the markets, categories, consumer target groups and product styles which show most potential for future growth at a local and global level. Equally, our analysis focuses on those areas that are at risk of saturation or exposed to increased competition or changing consumer tastes. However, our risk and opportunity identification process is not only limited to external risk factors or opportunities; it also includes an internal perspective that considers company culture, processes, projects, human resources and compliance aspects.

- **Risk and opportunity evaluation:** We assess identified risks and opportunities individually according to a systematic evaluation methodology, which allows adequate prioritization as well as allocation of resources. Risk and opportunity evaluation is also part of the Risk Owners' responsibility. The Risk Management department supports and guides the Risk Owners in the evaluation process. According to our methodology, risks and opportunities are evaluated by looking at two dimensions: the potential impact and the likelihood that this impact materializes. Based on this evaluation, we classify risks and opportunities into three categories: minor, moderate and major.

The potential impact is evaluated using five categories: marginal, low, medium, high and significant. These categories represent financial or equivalent non-financial measurements. The financial measurements are based on the potential effect on the company's net income. Non-financial measurements used are the degree of media exposure affecting the company's reputation, brand image and employer value proposition, the degree of damage to people's health and safety, and the degree of legal and judicial consequences at the corporate and personal level. Likelihood represents the possibility that a given risk or opportunity may materialize with the specific impact. The likelihood of individual risks and opportunities is evaluated on a percentage scale divided into five categories: below 15%, 15% – 30%, 30% – 50%, 50% – 85% and above 85%.
SEE DIAGRAM 99

When evaluating risks and opportunities, we also consider the earliest time period when the company's target achievement may be impacted, in order to provide a broad perspective and ensure early identification and mitigation. Short-term risks and opportunities may affect the achievement of the company's objectives already in the current financial year, mid-term risks and opportunities would impact the company's target achievement in the next financial year, while long-term risks and opportunities might only have an effect on the achievement of the company's objectives after the next financial year.

Risk evaluation categories 99

	Marginal	Low	Medium	High	Significant
Financial equivalent[1]	€ 1 million – € 10 million	€ 10 million – € 35 million	€ 35 million – € 60 million	€ 60 million – € 100 million	> € 100 million
Qualitative equivalent	Almost no media coverage. Minor harm to employees or third parties such as consumers, customers, vendors, athletes that does not require medical treatment. Internal corrective actions required.	Limited local media coverage. Minor harm to employees or third parties such as consumers, customers, vendors, athletes that requires medical treatment. Judicial investigations leading to no direct sanctions but requiring internal corrective actions, including dismissal of employees.	Local and limited national media coverage. Harm to employees or third parties such as consumers, customers, vendors, athletes that leads to hospitalization. Judicial investigations leading to imprisonment of employees and/or business interruption.	Several weeks of national media coverage and some international media coverage. Serious, life-changing harm to employees or third parties such as consumers, customers, vendors, athletes. Judicial investigations leading to imprisonment of senior leadership and/or significant business interruption including due to ongoing investigations.	More than a month of extensive international media coverage. Fatalities of employees or third parties such as consumers, customers, vendors, athletes. Litigation (including class action), imprisonment of Board member(s), monitorship and/or cessation of business operations due to court order.

Potential impact

Risk classification: Minor Moderate Major

1 Based on net income.

We consider both gross and net risks in our risk assessments. While the gross risk reflects the inherent risk before any mitigating action, the net risk reflects the residual risk after all mitigating action. On the one hand, this approach allows for a good understanding of the impact of mitigating action taken; on the other hand, it provides the basis for scenario analysis. Our assessment of risks presented in this report only reflects the net risk perspective. We measure the actual financial impact of the most relevant risks that materialized against the original assessment on a yearly basis. In this way, we ensure continuous monitoring of the accuracy of risk evaluations across the company, which enables us to continuously improve evaluation methodology based on our findings.

In assessing the potential effect from opportunities, each opportunity is appraised with respect to viability, commerciality and potential risks. This approach is applied to longer-term strategic prospects but also to shorter-term tactical and opportunistic initiatives at the corporate level as well as at the market and brand level. In contrast to the risk evaluation, only the net perspective exists for assessing opportunities.

- **Risk and opportunity handling:** Risks and opportunities are treated in accordance with the company's risk and opportunity management principles as described in the Risk Management Policy. Risk Owners are in charge of developing and implementing appropriate risk-mitigating action and exploiting opportunities within their area of responsibility. In addition, the Risk Owners need to determine a general risk-handling strategy for the identified risks, which is either risk avoidance, risk reduction with the objective to minimize impact and/or likelihood, risk transfer to a third party or risk acceptance. The decision on the implementation of the respective risk-handling strategy also takes into account the costs in relation to the effectiveness of any planned mitigating action if applicable. The Risk Management department works closely with the Risk Owners to monitor the continuous progress of planned mitigating action and assess the viability of already implemented mitigating action. In 2019, we introduced a formalized risk acceptance process linked to the risk classification. Depending on the risk class determined by the risk and opportunity evaluation, the authority to make decisions to accept risks resides with the Executive Board, the Risk Owners and operational management. The decision to accept material risks without taking additional mitigating action can only be made by the entire Executive Board.
- **Risk and opportunity monitoring and reporting:** Our risk and opportunity management system aims to increase the transparency of risks and opportunities. As both risks and opportunities are subject to constant change, Risk Owners not only monitor developments but also the adequacy and effectiveness of the current risk-handling strategy on an ongoing basis.

Regular risk reporting takes place half-yearly and consists of a five-step reporting stream that is supported and facilitated by a globally used company-wide IT solution:

1. Risk Owners are required to report to Risk Management risks and opportunities that have a possible net impact of € 1 million and above, regardless of the likelihood of materializing.

2. Risk Management consolidates and aggregates the reported risks and opportunities and provides a consolidated report based on the Risk Owners' input to each member of the Executive Board concerning his or her individual area of responsibility. Each report specifically highlights substantial individual risks and opportunities. Each member of the Executive Board reviews the reported risks and opportunities of his or her individual area of responsibility, adding his or her own assessment of risks and opportunities if necessary.

3. Risk Management provides a consolidated report to all members of the Executive Board that includes both the assessment of each member of the Executive Board and the major risks and opportunities reported by Risk Owners. The Executive Board reviews the report, jointly agrees on a final company assessment of risks and opportunities and decides if Risk Owners are required to take further action.

4. Based on the Executive Board's decision, Risk Management creates the final risk and opportunity report that is also shared with the Core Leadership Group (CLG). SEE PEOPLE AND CULTURE, P. 70

5. The Executive Board in collaboration with Risk Management presents the final risk and opportunity assessment results to the Audit Committee of the Supervisory Board.

Material changes in previously reported risks and opportunities and/or newly identified risks and opportunities that are classified as moderate or major as well as any issues identified which, due to their material nature, require immediate reporting, are also reported outside the regular half-yearly reporting stream on an ad hoc basis to the Risk Management department and the Executive Board.

COMPLIANCE MANAGEMENT SYSTEM (ADIDAS FAIR PLAY COMPLIANCE FRAMEWORK)

We consider compliance with the law as well as with external and internal regulations to be imperative. The Executive Board sets the tone right from the top – every employee is required to act ethically and in compliance with the law as well as with external and internal regulations while executing the company's business. Violations must be avoided under all circumstances. However, we realize that it will never be possible to exclude compliance violations with absolute certainty.

The adidas Fair Play Compliance Framework is overseen by the company's Chief Compliance Officer. We see compliance as all-encompassing, spanning all business functions throughout the entire value chain. Our central Compliance team works closely with Regional Compliance Managers and Local Compliance Officers to conduct a systematic assessment of key compliance risks on a yearly basis. In addition, the central Compliance team regularly conducts compliance reviews within selected entities.

The company's Compliance Management System (CMS) is based on the OECD Principles of Corporate Governance. It refers to the OECD Guidelines for Multinational Enterprises, and is designed to:

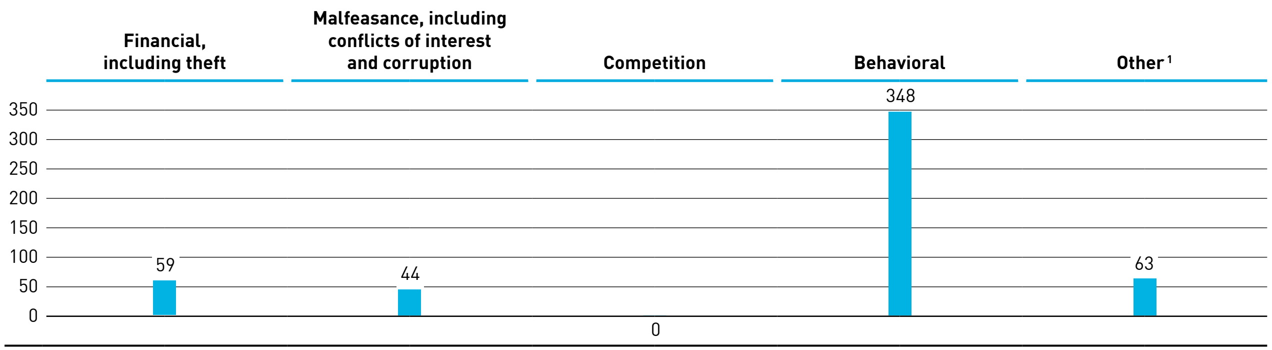
- support the achievement of qualitative and sustainable growth through good corporate governance;
- reduce and mitigate the risk of financial losses or damage caused by non-compliant conduct;
- protect and further enhance the value and reputation of the company and its brands through compliant conduct; and
- preserve diversity by fighting harassment and discrimination.

The adidas Fair Play Code of Conduct stipulates guidelines for behavior in everyday work, which all employees are obliged to comply with. It is applicable globally and for all business areas, accessible on our website and on our intranet. In 2019, we revised the Code of Conduct to ensure it remains up-to-date and reflects our business environment. ↗ ADIDAS-GROUP.COM/S/CODE-OF-CONDUCT

The Code of Conduct and our CMS are organized around three pillars: prevent, detect and respond.

- **Prevention:** The foundation of our CMS is the adoption and implementation of our Fair Play Code of Conduct, the Compliance Policy, and the Privacy Policy. adidas issues targeted compliance-related communication by management and the Compliance department and provides mandatory training to all employees globally during onboarding and in regular, repeated cycles. In 2019, more than 3,500 employees completed online compliance training. Furthermore, we conducted targeted in-person compliance training as appropriate with senior management and newly promoted or hired senior executives across the globe in order to further enhance the compliance 'tone from the top', as well as the 'tone from the middle'. We closely monitor the completion rates for these training measures and continuously update our web-based training.
- **Detection:** adidas has whistleblowing procedures to ensure timely detection of potential infringements of statutory regulations or internal guidelines. Employees can report compliance concerns internally to their supervisor, the Chief Compliance Officer, Regional Compliance Managers or Local Compliance Officers, the relevant HR manager or the Works Council. Employees can also report externally via an independent, confidential reporting hotline and website, and can choose to do so anonymously through the Fair Play hotline. The hotline is available at all times worldwide.
- **Response:** Appropriate and timely response to compliance violations is essential. The Chief Compliance Officer leads all investigations in cooperation with an established team of Regional Compliance Managers and a global network of Local Compliance Officers. We track, monitor, and report potential incidents of non-compliance worldwide. In 2019, we recorded 514 potential compliance violations (2018: 410). SEE DIAGRAM 100, SEE DIAGRAM 101 Most importantly, insights gained from the investigation of past violations are used to continuously improve the CMS. Where necessary, we react promptly to confirmed compliance violations, through appropriate and effective sanctions ranging from warnings to termination of employment contracts.

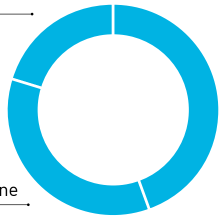
Potential compliance violations 100



1 Includes payroll issues, intellectual property and leaks of confidential information, inter alia.

In 2019, we continued to reinforce the adidas compliance organization and activities and enhance cooperation with other governance functions, e.g. Internal Audit, Internal Controls, and Risk Management.

Reporting of potential compliance violations in % 101



The company's Chief Compliance Officer regularly reports to the Executive Board on the further development of the compliance program and on major compliance cases. In addition, the Chief Compliance Officer reports to the Audit Committee on a regular basis. In 2019, the Chief Compliance Officer attended five meetings of the Audit Committee of the Supervisory Board to report on the further development of the compliance program, major compliance cases and other relevant compliance topics.

DESCRIPTION OF THE MAIN FEATURES OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM RELATING TO THE CONSOLIDATED FINANCIAL REPORTING PROCESS PURSUANT TO § 315 SECTION 4 GERMAN COMMERCIAL CODE (HANDELSGESETZBUCH – HGB)

The internal control and risk management system relating to the consolidated financial reporting process of the company represents a process embedded within the company-wide corporate governance system. It aims to provide reasonable assurance regarding the reliability of the company's external financial reporting by ensuring company-wide compliance with statutory accounting regulations, in particular the International Financial Reporting Standards (IFRS) and internal consolidated financial reporting policies (Finance Manual). We regard the internal control and risk management system as a process based on the principle of segregation of duties, encompassing various sub-processes in the areas of Accounting, Controlling, Taxes, Treasury, Planning, Reporting and Legal, focusing on the identification, assessment, mitigation, monitoring and reporting of financial reporting risks. Clearly defined responsibilities are assigned to each distinct sub-process. In a first step, the internal control and risk management system serves to identify, assess, limit and control risks identified in the consolidated financial reporting process which might result in the consolidated financial statements not being compliant with internal and external regulations.

Internal Control over Financial Reporting (ICoFR) serves to provide reasonable assurance regarding the reliability of financial reporting and compliance with applicable laws and regulations. To monitor the effectiveness of ICoFR, the Policies and Internal Controls department and the Internal Audit department regularly review accounting-related processes. Additionally, as part of the year-end audit, the external auditor assesses the effectiveness of selected internal controls, including IT controls. The Audit Committee of the Supervisory Board also monitors the effectiveness of ICoFR. However, due to the limitations of ICoFR, even with appropriate and functional systems absolute certainty about the effectiveness of ICoFR cannot be guaranteed.

All adidas companies are required to comply with the consolidated financial reporting policies (Finance Manual), which are available to all employees involved in the financial reporting process through the company-wide intranet. We update the Finance Manual on a regular basis, dependent on regulatory changes and internal developments. Changes to the Finance Manual are promptly communicated to all adidas companies. Clear policies serve to limit employees' scope of discretion with regard to recognition and valuation of assets and liabilities, thus reducing the risk of inconsistent accounting practices within the company. We aim to ensure compliance with the Finance Manual through continuous adherence to the four-eyes principle in accounting-related processes. In addition, the local manager responsible for the accounting process within the respective company and the respective local Managing Director confirm adherence to the Finance Manual and to IFRS in a signed representation letter to the Accounting department semi-annually.

The accounting for adidas companies is conducted either locally or by our Global Business Services. Virtually all of the IT Enterprise Resource Planning (ERP) systems used are based on a company-wide standardized SAP system. Following approval by the Finance Director of the respective adidas company, the local financial statements are transferred to a central consolidation system based on SAP SEM-BCS. At the corporate level, the regularity and reliability of the financial statements prepared by adidas companies are reviewed by the Accounting and Controlling departments. These reviews include automated validations in the system as well as the creation of reports and analyses to ensure data integrity and adherence to the reporting logic. In addition, differences between current-year and prior-year financial data as well as budget figures are analyzed on a market level. If necessary, adidas seeks the opinion of independent experts to review business transactions that occur infrequently and on a non-routine basis. After ensuring data plausibility, the centrally coordinated and monitored consolidation process begins, running automatically on SAP SEM-BCS. Controls within the individual consolidation steps, such as those relating to the consolidation of debt or of income and expenses, are conducted both manually and system-based, using automatically created consolidation logs. Any inadequacies are remedied manually by systematically processing the individual errors as well as differences and are reported back to the adidas companies. After finalization of all consolidation steps, all items in the consolidated income statement and in the consolidated statement of financial position are analyzed with respect to trends and variances. Unless already otherwise clarified, the adidas companies are asked to explain any identified material deviations.

All financial systems used are protected against malpractice by means of appropriate authorization concepts, approval concepts and access restrictions. Access authorizations are reviewed on a regular basis and updated if required. The risk of data loss or outage of accounting-related IT systems is minimized through central control and monitoring of virtually all IT systems, centralized management of change processes and regular data backups.

ILLUSTRATION OF RISKS

This report includes an explanation of financial and non-financial risks that we deem to be most relevant to the achievement of the company's objectives in 2020 and beyond. According to our risk assessment methodology, risks related to the competitive and retail environment and risks related to consumer demand and product offering are considered material. Our presentation of risks in this year's Annual Report differs from the 2018 Annual Report as we changed risk categories and therefore consolidated individual risks based on these updated categories. Changes in risk assessments are shown on a comparable basis. The risks overview table illustrates the assessment of all risks described below. SEE TABLE 102

Risks related to the competitive and retail environment

Changes in the competitive landscape and the retail environment could impact the company's success, in particular in the medium to long term. Strategic alliances amongst competitors and/or retailers, the increase in retailers' own private label businesses and intense competition for consumers, production capacity and promotion partnerships between well-established industry peers and new market entrants pose a substantial risk to adidas. This could lead to harmful competitive behavior, such as sustained periods of discounting in the marketplace or intense bidding for promotion partnerships. Failure to recognize and respond to consolidation in the retail industry could lead to increased dependency on particular retail partners, reduced bargaining power and, consequently, margin erosion. Sustained pricing pressure in key markets could threaten the company's financial performance and the competitiveness of our brands. Aggressive competitive practices could also drive increases in marketing costs and market share losses, thus hurting the company's profitability and market position. The inability to adjust our distribution strategy in a timely manner to a changing retail industry, which is experiencing increasing substitution of physical retail stores by digital commerce platforms as well as increasing connectivity between physical and digital retail, could result in sales and profit shortfalls. A decline in the attractiveness of particular shopping locations such as shopping malls could lead to sales shortfalls in our customers' and our own stores, higher inventory in the marketplace, increased clearance activity and margin pressure.

Corporate risks overview **102**

Risk categories 2019	Risk categories 2018	Potential impact	Change (2018 rating)[1]	Likelihood	Change (2018 rating)[1]
Risks related to the competitive and retail environment	Competition risks; Risks related to distribution strategy	High	↑ (Medium)	30% – 50%	
Risks related to consumer demand and product offering	Consumer demand risks	High		15% – 30%	
Macroeconomic, sociopolitical, regulatory and currency risks	Macroeconomic, sociopolitical, and regulatory risks; Currency risks	Significant		<15%	
IT and cyber security risks	IT and cyber security risks	Significant		<15%	
Risks related to tax and customs regulations	Risks related to customs and tax regulations	Significant	↑ (High)	<15%	↓ (15% – 30%)
Compliance risks	Fraud and corruption risks; Data privacy risks	Significant		<15%	
Risks related to organizational structure and change	–	Medium		30% – 50%	↑ (15% – 30%)

1 2018 rating on comparable basis reflecting evaluation of risks as if updated risk categories had been applied in 2018.

To mitigate these risks, we continuously monitor and analyze information on our competitors and markets in order to be able to anticipate unfavorable changes in the competitive environment rather than merely reacting to such changes. This enables us to proactively adjust our marketing and sales activities (e.g. product launches, selective pricing adjustments) when needed. We also continuously and closely monitor numerous indicators (e.g. order placement, sell-through rates at the point of sale, average selling prices, discounts, store traffic) that help us identify changes in the retail environment and quickly take appropriate action such as closing or remodeling own stores. We constantly adjust our segmentation strategies to ensure that the right product is sold at the right point of sale to the right consumer at an appropriate price. Continuous investment in research and development ensures that we remain innovative and distinct from competitors. SEE INNOVATION, P. 67 We also pursue a strategy of entering into long-term agreements with key promotion partners such as Real Madrid or James Harden, as well as adding new partners to refresh and diversify our portfolio, e.g. Mikaela Shiffrin or Boca Juniors. In addition, our product and communication initiatives are designed to increase brand desire, drive market share growth and strengthen our brands' market position.

Risks related to consumer demand and product offering

Our success largely depends on our ability to continuously create new, innovative footwear and apparel products. Consumer demand changes can be sudden and unexpected, particularly when it comes to the more fashion-related part of our business. Therefore, we face a risk of short-term revenue loss in cases where we are unable to anticipate consumer demand or respond quickly to changes. In addition, creating and offering products that do not resonate with consumers and our retail partners is a critical risk to the success of our brands, especially considering our strategy to focus on key product franchises. SEE ADIDAS BRAND STRATEGY, P. 55 In the short term, we consider this risk most relevant in our key markets Asia-Pacific and North America. Even more critical in the long term, however, are the risks of continuously overlooking new consumer trends, failing to introduce new product innovation and failing to continuously generate consumer excitement with our product offering and marketing activities.

To mitigate these risks, identifying and responding to shifts in consumer demand as early as possible is a key responsibility of our brand and sales organizations and, in particular, of the respective Risk Owners. Therefore, we utilize extensive primary and secondary research tools as outlined in our risk and opportunity identification process. By putting the consumer at the center of our decision-making we intend to create higher brand advocacy. As part of our adidas brand advocacy program, we continuously monitor the *Net Promoter Score (NPS)* SEE GLOSSARY and strive to understand consumers' perception. SEE ADIDAS BRAND STRATEGY, P. 55 We continuously expand our consumer analytics efforts to read and quickly react to changes in demand or trend shifts. In addition, direct touchpoints with consumers via our own digital channels and direct communication with consumers on social media platforms strengthen our understanding of consumer preferences and behavior and, as a result, help us to reduce our vulnerability to changes in demand. Through continuous monitoring of sell-through data and disciplined product lifecycle management, in particular for our major product franchises, we are able to better detect demand patterns and prevent overexposure. Our Speed programs also help us mitigate the risk as they enable us to be faster in case of demand shifts. By leveraging our promotion partnerships for launches of key product franchises and by carefully orchestrating launch events across markets and channels, we intend to maintain brand desire and consumer demand at a constantly high level. Open Source also helps us utilize external insights and capabilities in product creation and to drive consumer demand, brand desire, market share and profitability. SEE CORPORATE STRATEGY, P. 50

Macroeconomic, sociopolitical, regulatory and currency risks

Growth in the sporting goods industry is highly dependent on consumer spending and consumer confidence. Economic downturns, financial market turbulence, currency exchange rate fluctuations and sociopolitical factors such as military conflicts, changes of government, civil unrest, pandemics, nationalization or expropriation, in particular in regions where adidas is strongly represented, therefore could negatively impact the company's business activities and top- and bottom-line performance. Currency risks, for example, are a direct result of multi-currency cash flows within the company, in particular the mismatch of the currencies required for sourcing our products versus the denominations of our sales. Furthermore, translation impacts from the conversion of non-euro-denominated results into the company's functional currency, the euro, might lead to a material negative impact on our company's financial performance. SEE NOTE 30, P. 180 In addition, substantial changes in the regulatory environment (e.g. trade restrictions, economic and political sanctions, regulations concerning product compliance, environmental regulations) could lead to potential sales shortfalls or cost increases.

To mitigate these macroeconomic, sociopolitical and regulatory risks, adidas strives to balance sales across key regions and also between developed and emerging markets. We continuously monitor the macroeconomic, political and regulatory landscape in all our key markets to anticipate potential problem areas, so that we are able to quickly adjust our business activities accordingly upon any change in conditions. Potential adjustments may be a reallocation of manufacturing of our products to alternative countries, a reallocation of investments to alternative, more attractive markets, changes in product prices, closure of own-retail stores, more conservative product purchasing, tight working capital management and an increased focus on cost control. To mitigate the risk related to fluctuations in currency exchange rates, we utilize a centralized currency risk management system and hedge currency needs for projected sourcing requirements on a rolling basis up to 24 months in advance. In rare instances, hedges are contracted beyond the 24-months horizon. SEE TREASURY, P. 104 By building on our leading position within the sporting goods industry, we actively engage in supporting policymakers and regulators in their efforts to liberalize global trade and curtail trade barriers and also in order to proactively adapt to significant changes in the regulatory environment

IT and cyber security risks

Theft, leakage, corruption or unavailability of critical information (e.g. consumer data, employee data, product data) and systems could lead to reputational damage, regulatory penalties or the inability to perform key business processes. Key business processes, including product marketing, order management, warehouse management, invoice processing, customer support and financial reporting, are all dependent on IT systems. Significant outages, application failures or cyber security threats to our infrastructure, or that of our business partners, could therefore result in considerable business disruption or impact to business-critical data.

To mitigate these risks, our IT organization proactively engages in system preventive maintenance, service continuity planning, adherence to IT policies and maintenance of a comprehensive information security program. Information security governance, data security, security architecture design, continuity management and employee awareness programs help us to protect the company adequately. We have also secured limited insurance coverage for damage resulting from cyber security incidents.

Risks related to tax and customs regulations

Numerous laws and regulations regarding customs and taxes as well as changes in such laws and regulations affect the company's business practices worldwide. Non-compliance with regulations concerning product imports (including calculation of customs values), intercompany transactions or income taxes could lead to substantial financial penalties and additional costs as well as negative media coverage and therefore reputational damage, for example in case of understatements or underpayments of corporate income taxes or customs duties. Changes in regulations regarding customs and taxes may also have a substantial impact on the company's sourcing costs or income taxes. Therefore, we also create provisions in accordance with the relevant accounting regulations to account for potential disputes with customs or tax authorities. The increase in the potential impact of risks relating to tax and customs regulations in 2019 reflects the increasingly aggressive positions being taken by customs and tax authorities in audits.

To proactively manage such risks, we constantly seek expert advice from specialized law and tax advisory firms. We closely monitor changes in legislation in order to properly adopt regulatory requirements regarding customs and taxes. In addition, our internal legal, customs and tax departments advise our operational management teams to ensure appropriate and compliant business practices. Furthermore, we work closely with customs authorities and governments worldwide to make sure we adhere to customs and import regulations and obtain the required clearance of products to fulfill sales demand.

Compliance risks

As a globally operating company, adidas is subject to various laws and regulations. Non-compliance with such laws and regulations could lead to penalties and fines and cause significant reputational damage. For example, non-compliance with laws and regulations concerning data protection and privacy, such as the EU General Data Protection Regulation, may result in substantial fines. In addition, publication of failure to comply with data protection and privacy regulations could cause significant reputational damage and result in a loss of consumer trust in our brands. We also face the risk that members of top management as well as our employees breach rules and standards that guide appropriate and responsible business behavior. This includes the risks of fraud, financial misstatements or manipulation, anti-competitive business practices, bribery, corruption, discrimination and harassment at the workplace.

Our Fair Play Compliance Framework helps us to prevent, detect and adequately respond to these risks. Our Global Policy Manual provides a framework for basic work procedures and processes and our Fair Play Code of Conduct stipulates that every employee and our business partners shall act ethically in compliance with the laws and regulations of the legal systems where they conduct company business. In addition, our regional compliance managers and local compliance officers guide and advise our operating managers regarding fraud and corruption topics. Furthermore, we utilize controls such as segregation of duties in IT systems and data analytics technology to prevent or detect fraudulent activities. We are also working with external partners and law firms to ensure we are informed about legal requirements across the globe, and we take appropriate action to ensure compliance. To mitigate the risk of non-compliance with laws and regulations concerning data protection and privacy, we have developed a global privacy management framework that introduces the company's privacy principles and provides guidance for the use and deletion of personal information. This framework applies to all adidas businesses worldwide and also sets our expectations of third-party business partners for managing personal information for or on behalf of adidas. Our global privacy officer and the global privacy department are establishing both the framework and monitoring capabilities to track and report its implementation. In addition, they are continuously providing further implementation guidance and training.

Risks related to organizational structure and change

Operating in a dynamic and fast-moving competitive environment, the company needs to cope with constantly changing requirements in respect of the workforce (e.g. adaptability, learning, skillsets, mobility, diversity) and workplace (e.g. flexibility and space management). Improper planning and inadequate or untimely execution of reorganization and transformation initiatives may reduce employee engagement, cause business disruption and inefficiencies, and negatively affect business performance. Frequent organizational changes could cause fatigue among the workforce and lead to reduced efficiency and productivity. A complex organizational structure and unclear roles and responsibilities can lead to delayed or sub-optimal decision-making, as well as inefficient and ineffective processes.

We mitigate these risks through continuous, open and transparent communication with our employees. Our Executive Board members as well as the senior management team across the company regularly update employees on organizational changes and openly explain the reasons for change. To adequately manage change and to ensure clarity about roles and responsibilities throughout the organization, we also utilize internal and external experts in project management, change management and communication, who actively educate and engage the workforce to embrace and support new organizational structures and processes. To increase flexibility and adaptability in the workforce and workplace and thereby reduce risks related to organizational change, we implement various mitigating measures such as strategic workforce planning, tailored on-the-job learning programs and development plans for our employees. Through People Pulse we continuously monitor employee satisfaction and identify potential challenges related to organizational structure and change, which allows us to take appropriate action as early as possible. SEE PEOPLE AND CULTURE, P. 70

ILLUSTRATION OF OPPORTUNITIES

In this report, we illustrate opportunities considered most relevant in 2020 and beyond. According to our assessment methodology, macroeconomic, sociopolitical, regulatory and currency opportunities as well as opportunities related to sustainability are considered material. Our presentation of opportunities in this year's Annual Report differs slightly from the 2018 Annual Report as we changed risk and opportunity categories and therefore consolidated individual opportunities based on these updated categories. Changes in risk assessment are shown on a comparable basis. The assessment is illustrated in the opportunities overview table. SEE TABLE 103

Macroeconomic, sociopolitical, regulatory and currency opportunities

Legislative and regulatory changes such as the elimination of trade barriers due to free trade agreements (e.g. between the European Union and Vietnam) can create cost savings or potentially open up new channels of distribution and, as a result, positively impact profitability. Changes in local tax or customs regulations (e.g. reduction of tax rates on private incomes, reduction of import duties) could lead to increased consumer spending and consequently positively affect our sales or result in additional cost savings. Favorable exchange rate developments can potentially have a positive impact on the company's financial results. Translation effects from the conversion of non-euro-denominated results into our company's functional currency, the euro, might also positively impact our company's financial performance. SEE TREASURY, P. 104

Opportunities related to sustainability

We believe that a continued focus on sustainability represents an opportunity for the company, in particular in the medium to long term. While we have already been very successful with our sustainability efforts, we see further upside potential leveraging our leadership position. SEE SUSTAINABILITY, P. 78 Consumers are increasingly looking for products composed of more sustainable materials and manufactured in an innovative and yet socially and environmentally responsible way. By further strengthening our sustainability focus in our marketing

Corporate opportunities overview 103

Opportunity categories 2019	Opportunity categories 2018	Potential impact	Change (2018 rating)[1]	Likelihood	Change (2018 rating)[1]
Macroeconomic, sociopolitical, regulatory and currency opportunities	Macroeconomic, sociopolitical and regulatory opportunities; Favorable financial market changes	Significant		15% – 30%	↓ (30% – 50%)
Opportunities related to sustainability	Organic growth opportunities	High	↑ (Medium)	30% – 50%	
Opportunities related to distribution strategy	Organic growth opportunities	Medium	↓ (High)	30% – 50%	↑ (15% – 30%)
Opportunities related to tax regulations	–	Significant	↑ (Low)	< 15%	↓ (50% – 85%)
Opportunities related to data analytics	Opportunities related to organizational and process improvements	Low	↓ (High)	50% – 85%	↑ (15% – 30%)
Opportunities related to process optimization	Opportunities related to organizational and process improvements	Low		50% – 85%	↑ (30% – 50%)

1 2018 rating on comparable basis reflecting evaluation of opportunities as if updated opportunity categories had been applied in 2018.

and product creation activities, for example in the Outdoor category, we may generate additional sales growth and drive profitability improvements.

Opportunities related to distribution strategy

The sporting goods retail environment is changing constantly. We therefore continue to adapt our distribution strategy and have made *controlled space* SEE GLOSSARY initiatives a priority. This includes the further expansion of our own e-commerce activities, the optimization of our network of wholesale partners with a clear focus on partners that provide consumers with the best shopping experience and customer service, retail space management with key accounts (online and brick & mortar), as well as the introduction and roll-out of new own-retail store formats. Successful results from these initiatives could enable us to accelerate top- and bottom-line growth. SEE SALES AND DISTRIBUTION STRATEGY, P. 61

Opportunities related to tax regulations

The potential release of valuation allowances on deferred tax assets, for example in the US, could result in an increase of deferred tax assets and positively impact income tax expense. In addition, changes in local tax regulations may offer the company the option to realize benefits that could result in a reduction of tax expenses and higher net income.

Opportunities related to data analytics

Data and analytics play a crucial role in enabling fact-based decision-making. Therefore, we have a dedicated Data & Analytics team to drive business decision-making by leveraging the power of data. The continuous enhancement of our existing capabilities to build and scale insights-driven use cases and the use of the latest technology could bring value to our business operations across the entire company. As a result, we see the opportunity to become faster and more efficient in our operations. We may increase visibility and understanding of consumer preferences, increase full-price sales, reduce discounts and optimize order book management, inventory management and purchasing. This could result in improved financial performance.

Opportunities related to process optimization

Continued optimization of key business processes and strict cost control are vital to achieving high profitability and return on invested capital. We are confident that there is still a substantial opportunity to improve process efficiency and effectiveness and further streamline cost structures throughout our company. Consequently, we will continue to focus on driving the standardization and harmonization of processes, as reflected by the company's 'ONE adidas' initiative. SEE CORPORATE STRATEGY, P. 50

MANAGEMENT ASSESSMENT OF PERFORMANCE, RISKS AND OPPORTUNITIES, AND OUTLOOK

ASSESSMENT OF PERFORMANCE VERSUS TARGETS

We communicate our financial targets on an annual basis. We also provide updates throughout the year as appropriate. In 2019, the company delivered a strong operational and financial performance. Sales development was favorably impacted by rising consumer spending on sporting goods, supported by global trends such as increasing penetration of sportswear ('athleisure'), increasing health awareness and rising sports participation rates. SEE ECONOMIC AND SECTOR DEVELOPMENT, P. 95 The continued brand momentum, supported by innovative product launches and inspiring marketing campaigns, as well as the successful execution of the company's strategic business plan 'Creating the New' drove robust sales growth and strong profitability improvements. We maintained our full-year outlook throughout the year and delivered top- and bottom-line results within the respective guidance ranges. SEE TABLE 104

Company targets versus actual key metrics — 104

	2018 Results	2019 Targets[1]	2019 Results	2020 Outlook[2]
Currency-neutral sales development	8%	to increase at a rate between 5% and 8%	6%	to increase at a rate between 6% and 8%
Gross margin	51.8%	to increase to a level of around 52.0%	52.0% *0.2pp*	to decrease slightly compared to the prior year level of 52.0%
Operating margin	10.8%	to increase between 0.5pp and 0.7pp to a level between 11.3% and 11.5%	11.3% *0.4pp*	to increase between 0.2pp and 0.5pp to a level between 11.5% and 11.8%
Net income from continuing operations[3] (€ in millions)	1,709	to increase at a rate between 8% and 12% to a level between € 1.845 billion and € 1.915 billion	1,918 *12%*	to increase at a rate between 10% and 13% to a level between € 2.100 billion and € 2.160 billion
Average operating working capital in % of net sales	19.0%	slight increase	18.1% *(0.9pp)*	slight increase
Capital expenditure[4] (€ in millions)	794	to increase to a level of up to € 900 million	711 *(11%)*	to increase to a level of around € 800 million

1 As published on March 13, 2019.
2 Subject to change due to coronavirus outbreak in China.
3 2019 including negative impact from accounting change according to IFRS 16; excluding this impact, net income from continuing operations was expected to increase at a rate between 10% and 14% to a level between € 1.880 billion and € 1.950 billion.
4 Excluding acquisitions and leases.

In 2019, revenues increased 6% on a currency-neutral basis, in line with our guidance of 5%-8% growth. This development was driven by increases across all market segments including Europe, which returned to growth in the second half of the year. Our direct-to-consumer business grew at a double-digit rate, with e-commerce recording another year of exceptional growth. Supply chain shortages, which we had experienced following a strong increase in demand for mid-priced apparel, weighed on our top-line growth, particularly in the first half of the year. Consequently, revenues grew 4% on a currency-neutral basis in the first six months of 2019 before accelerating in the second half of the year as our mitigating actions showed the planned effect and we resolved the issue. The gross margin ended the year at 52.0%, as expected, reflecting an increase of 0.2 percentage points. Lower sourcing costs, positive currency developments as well as a better product and channel mix more than offset higher air freight costs to mitigate supply chain shortages and a less favorable pricing mix. The operating margin also developed as anticipated. At the beginning of the year we guided for an increase to 11.3%-11.5% and achieved a level of 11.3%. On top of the gross margin increase, lower other operating expenses as a percentage of sales supported this development. Net income from continuing operations increased 12% to € 1.918 billion, including the negative impact from the first-time application of IFRS 16, and as such reached the upper end of our guidance of 8%-12% growth. SEE INCOME STATEMENT, P. 96

In 2019, average operating working capital as a percentage of sales ended the year at a level of 18.1%, which reflects a year-over-year improvement of 0.9 percentage points. Our guidance for operating working capital was for a slight increase. The better-than-expected development mainly reflects an increase in payables, which is a direct result of improved payment terms with our vendors. Capital expenditure amounted to € 711 million in 2019, compared to our guidance of up to € 900 million. Investments were mainly focused on controlled space initiatives of the adidas and Reebok brands, aimed at further strengthening our own-retail activities in our own stores and e-commerce, franchise store presence and shop-in-shop presentations. Other areas of investment included logistics infrastructure and IT systems as well as the further development of our major corporate facilities in Herzogenaurach, Portland and Shanghai. SEE STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS, P. 100

Beyond our financial performance, we also actively monitor non-financial KPIs. SEE INTERNAL MANAGEMENT SYSTEM, P. 92

In 2019, our Net Promoter Score (NPS) stayed on high levels, reflecting the strength of our brands. Also from a market share perspective, we continue to be very encouraged by our strong performance in key categories and key markets, as defined in the company's strategic business plan. In our two strategic growth markets, North America and Greater China, we once again saw market share gains. Our diligence and discipline in sustainability matters continues to yield strong recognition for our company. In 2019, adidas was again represented in a variety of high-profile sustainability indices. For the 20th consecutive time, we were selected to join the Dow Jones Sustainability Indices (DJSI), the world's first global sustainability index family tracking the performance of the leading sustainability-driven companies worldwide. adidas was assessed to be among the global top 10% best-performing companies in its industry in economic, environmental and social criteria, and received industry-best scores in criteria including Brand Management, Environmental Policy & Management Systems, Operational Eco-Efficiency and Social Reporting. SEE SUSTAINABILITY, P. 78 As we are convinced that our employees' feedback plays a crucial role in our pursuit of creating a desirable work environment, we continued to leverage insights that we gain from 'People Pulse', our global approach and system platform for quarterly measurement of the level of employee satisfaction. In 2019, People Pulse saw again high response rates. On average, our employee Net Promoter Score (eNPS) remained stable in 2019 compared to the previous year. People Pulse results are not only leveraged for general feedback on the employee experience at adidas, but also as a tool to gather employee insights regarding important elements of our strategy. SEE PEOPLE AND CULTURE, P. 70

Finally, we continue to enjoy an overall strong level of on-time in-full (OTIF) deliveries to our customers and own-retail stores. In 2019, OTIF remained stable compared to the prior year level. SEE GLOBAL OPERATIONS, P. 63

ASSESSMENT OF OVERALL RISKS AND OPPORTUNITIES

Our Risk Management team aggregates all risks and opportunities reported by Risk Owners and Executive Board members through the half-yearly risk and opportunity assessment process. Results from this process are analyzed and reported to the Executive Board accordingly. In addition, the Executive Board discusses and assesses risks and opportunities on a regular basis. SEE RISK AND OPPORTUNITY REPORT, P. 120 Taking into account the potential financial impact as well as the likelihood of the risks explained in this report materializing, and considering the strong balance sheet as well as the current business outlook, we do not foresee any material jeopardy to the viability of the company as a going concern. This assessment is also supported by the historical response to our financing demands. adidas therefore has not sought an official rating by any of the leading rating agencies. We remain confident that our earnings strength forms a solid basis for our future business development and provides the resources necessary to pursue the opportunities available to the company. Compared to the prior year, our assessment of certain risks has changed in terms of likelihood of occurrence and/or potential financial impact. The changes in risks and opportunities balance out, leaving the overall adidas risk profile largely unchanged compared to the prior year.

ASSESSMENT OF FINANCIAL OUTLOOK

In March 2015, adidas unveiled 'Creating the New', our 2020 strategic business plan, which defines strategic priorities and objectives for the period up to 2020. The strategy is designed to drive brand desirability which, in turn, is expected to spur top- and bottom-line growth.

In March 2017, 'Creating the New' was updated with complementary initiatives in order to grow the top and bottom line even faster than initially projected. Consequently, we had increased our financial targets for 2020. We project currency-neutral revenues to increase at a rate of 10% to 12% on average per year until 2020 compared to the 2015 results. Net income from continuing operations is expected to grow at a higher rate than the top line. While in March 2017 we projected net income from continuing operations to expand by 20% to 22% on average per year during the five-year period, we once again upgraded our long-term profitability target in March 2018 following the strong operational and financial performance in 2017. As a result, we expect net income from continuing operations to grow by 22% to 24% on average per year in the period between 2015 and 2020. SEE CORPORATE STRATEGY, P. 50

Our successes since initiating 'Creating the New', as measured by financial as well as non-financial KPIs, are a direct consequence of our relentless execution and focus on this strategy. Throughout 2020, the whole organization will stay focused on successfully completing our current strategic business plan, before we announce details on the next strategic cycle in November 2020.

Against the background of rising consumer spending, increasing penetration of sportswear ('athleisure') and growing health awareness in most geographical areas, we project further significant top-line improvements in 2020. The revenue increase is to be driven by our extensive pipeline of new product launches paired with brand-building activities. In addition, the further expansion and improvement of our controlled space initiatives, in particular through our own e-commerce channel, is expected to contribute to the sales growth. Last but not least, major sporting events such as the UEFA EURO 2020 and the 2020 Olympic Games in Tokyo will support this positive development. In combination with tight control of both our inventory levels and our cost base, we expect to generate strong profitability improvements also in 2020. Supported by further operating margin expansion, our bottom line is again expected to increase at a double-digit rate in 2020. SEE OUTLOOK, P. 117

We believe our outlook for 2020 realistically describes the underlying development of the company. However, the outlook for 2020 as outlined in this report is subject to change depending on the further developments related to the coronavirus outbreak. Our business in Greater China performed strongly in the first three weeks of 2020. However, since then we have been experiencing a material negative impact on our operations in China. As the situation keeps evolving, the magnitude of the overall impact on our business in 2020 cannot be quantified reliably at this point in time. Accordingly, the company's outlook for 2020 as outlined in this report does not reflect any impact of the coronavirus outbreak. SEE OUTLOOK, P. 117

In addition, ongoing uncertainties regarding the economic outlook and consumer sentiment in both developed and emerging economies as well as persisting high levels of currency volatility represent risks to the achievement of our stated financial goals and aspirations. SEE ECONOMIC AND SECTOR DEVELOPMENT, P. 95 No other material event between the end of 2019 and the publication of this report has altered our view.

4 CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

adidas AG Consolidated Statement of Financial Position (IFRS) € in millions

	Note	Dec. 31, 2019	Dec. 31, 2018[1]	Change in %
Assets				
Cash and cash equivalents	05	2,220	2,629	(15.6)
Short-term financial assets	06	292	6	5,105.6
Accounts receivable	07	2,625	2,418	8.5
Other current financial assets	08	544	542	0.2
Inventories	09	4,085	3,445	18.6
Income tax receivables	36	94	48	93.9
Other current assets	10	1,076	725	48.4
Total current assets		**10,934**	**9,813**	**11.4**
Property, plant and equipment	11	2,380	2,237	6.4
Right-of-use assets	12	2,931	–	n. a.
Goodwill	13	1,257	1,245	0.9
Trademarks	14	859	844	1.8
Other intangible assets	14	305	196	55.9
Long-term financial assets	15	367	276	33.0
Other non-current financial assets	16	450	256	75.9
Deferred tax assets	36	1,093	651	67.8
Other non-current assets	17	103	94	10.5
Total non-current assets		**9,746**	**5,799**	**68.1**
Total assets		**20,680**	**15,612**	**32.5**

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
The accompanying Notes are an integral part of these consolidated financial statements.

adidas AG Consolidated Statement of Financial Position (IFRS) € in millions

	Note	Dec. 31, 2019	Dec. 31, 2018[1]	Change in %
Liabilities and equity				
Short-term borrowings	18	43	66	(34.7)
Accounts payable		2,703	2,300	17.5
Current lease liabilities	21	733	–	n.a.
Other current financial liabilities	19	235	186	26.2
Income taxes	36	618	268	131.1
Other current provisions	20	1,446	1,232	17.4
Current accrued liabilities	21	2,437	2,305	5.7
Other current liabilities	23	538	477	12.9
Total current liabilities		**8,754**	**6,834**	**28.1**
Long-term borrowings	18	1,595	1,609	(0.9)
Non-current lease liabilities	21	2,399	–	n.a.
Other non-current financial liabilities	24	92	103	(10.2)
Pensions and similar obligations	25	229	246	(6.9)
Deferred tax liabilities	36	280	241	16.3
Other non-current provisions	20	257	128	100.1
Non-current accrued liabilities	21	9	19	(54.5)
Other non-current liabilities	26	7	68	(90.4)
Total non-current liabilities		**4,868**	**2,414**	**101.6**
Share capital		196	199	(1.6)
Reserves		45	123	(63.1)
Retained earnings		6,555	6,054	8.3
Shareholders' equity	27	**6,796**	**6,377**	**6.6**
Non-controlling interests	29	261	(13)	n.a.
Total equity		**7,058**	**6,364**	**10.9**
Total liabilities and equity		**20,680**	**15,612**	**32.5**

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
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, 2019	Year ending Dec. 31, 2018[1]	Change
Net sales	38	23,640	21,915	7.9%
Cost of sales		11,347	10,552	7.5%
Gross profit		**12,293**	**11,363**	**8.2%**
(% of net sales)		52.0%	51.8%	0.2pp
Royalty and commission income		154	129	19.5%
Other operating income	31	56	48	16.6%
Other operating expenses	11, 14, 33	9,843	9,172	7.3%
(% of net sales)		41.6%	41.9%	(0.2pp)
Marketing and point-of-sale expenses		3,042	3,001	1.4%
(% of net sales)		12.9%	13.7%	(0.8pp)
Distribution and selling expenses		4,997	4,450	12.3%
(% of net sales)		21.1%	20.3%	0.8pp
General and administration expenses		1,652	1,576	4.8%
(% of net sales)		7.0%	7.2%	(0.2pp)
Sundry expenses		134	105	28.3%
(% of net sales)		0.6%	0.5%	0.1pp
Impairment losses (net) on accounts receivable and contract assets		18	41	(57.2%)
Operating profit		**2,660**	**2,368**	**12.4%**
(% of net sales)		11.3%	10.8%	0.4pp
Financial income	34	64	57	11.2%
Financial expenses	34	166	47	253.2%
Income before taxes		**2,558**	**2,378**	**7.6%**
(% of net sales)		10.8%	10.9%	(0.0pp)
Income taxes	36	640	669	(4.3%)
(% of income before taxes)		25.0%	28.1%	(3.1pp)
Net income from continuing operations		**1,918**	**1,709**	**12.2%**
(% of net sales)		8.1%	7.8%	0.3pp
Gains/(losses) from discontinued operations, net of tax	03	59	(5)	n. a.
Net income		**1,977**	**1,704**	**16.0%**
(% of net sales)		8.4%	7.8%	0.6pp
Net income attributable to shareholders		**1,976**	**1,702**	**16.1%**
(% of net sales)		8.4%	7.8%	0.6pp
Net income attributable to non-controlling interests		**2**	**3**	**(35.1%)**
Basic earnings per share from continuing operations (in €)	37	**9.70**	8.46	14.7%
Diluted earnings per share from continuing operations (in €)	37	**9.70**	8.45	14.8%
Basic earnings per share from continuing and discontinued operations (in €)	37	**10.00**	8.44	18.5%
Diluted earnings per share from continuing and discontinued operations (in €)	37	**10.00**	8.42	18.7%

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
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) € in millions

	Note	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018[1]
Net income after taxes		**1,977**	**1,704**
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	(50)	(13)
Net gain/(loss) on other equity investments (IFRS 9), net of tax	30	12	(8)
Subtotal of items of other comprehensive income that will not be reclassified subsequently to profit or loss		**(38)**	**(21)**
Items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met			
Net (loss)/gain on cash flow hedges and net foreign investment hedges, net of tax	30	(148)	232
Net (loss)/gain on cost of hedging reserve – options, net of tax	30	(7)	3
Net gain/(loss) on cost of hedging reserve – forward contracts, net of tax	30	11	(10)
Reclassification of foreign currency differences due to dissolution of subsidiaries		0	(4)
Currency translation differences		98	(49)
Subtotal of items of other comprehensive income that will be reclassified to profit or loss when specific conditions are met		**(46)**	**171**
Other comprehensive income		**(84)**	**150**
Total comprehensive income		**1,894**	**1,855**
Attributable to shareholders of adidas AG		1,898	1,851
Attributable to non-controlling interests		(4)	4

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
2 Includes actuarial gains or losses relating to defined benefit obligations, return on plan assets (excluding interest income) and the asset ceiling effect.
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) € 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	Retained earnings	Share-holders' equity	Non-controlling interests	Total equity
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 adidas AG shares	27	(5)							(996)	(1,001)		(1,001)
Repurchase of adidas AG 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[1] / January 1, 2019		**199**	**887**	**(574)**	**(3)**	**(3)**	**(5)**	**(180)**	**6,054**	**6,377**	**(13)**	**6,364**
Other comprehensive income				104	(147)	(7)	11	(38)		(78)	(6)	(84)
Net income									1,976	1,976	2	1,977
Total comprehensive income				**104**	**(147)**	**(7)**	**11**	**(38)**	**1,976**	**1,898**	**(4)**	**1,894**
Repurchase of adidas AG shares	27	(3)							(806)	(809)		(809)
Repurchase of adidas AG shares due to equity-settled share-based payment	27	(0)							(28)	(28)		(28)
Reissuance of treasury shares due to equity-settled share-based payment	27	0							32	32		32
Dividend payment									(664)	(664)	(2)	(666)
Equity-settled share-based payment	28								(10)	(10)		(10)
First-time consolidation due to obtaining control in accordance with IFRS 10	04									–	280	280
Balance at December 31, 2019		**196**	**887**	**(470)**	**(150)**	**(10)**	**6**	**(218)**	**6,555**	**6,796**	**261**	**7,058**

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated.
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, 2019	Year ending Dec. 31, 2018[1]
Operating activities:			
Income before taxes		2,558	2,378
Adjustments for:			
Depreciation, amortization and impairment losses	11, 12, 13, 14, 32, 34	1,214	490
Reversals of impairment losses	31	(8)	(3)
Unrealized foreign exchange gains, net		(1)	(10)
Interest income	34	(50)	(24)
Interest expense	34	160	42
Losses on sale of property, plant and equipment and intangible assets, net		11	9
Other non-cash effects from operating activities	31, 32	(12)	17
Payment for external funding of pension obligations (CTA)		(105)	(90)
Operating profit before working capital changes		**3,767**	**2,808**
Increase in receivables and other assets		(694)	(209)
(Increase)/decrease in inventories		(505)	180
Increase in accounts payable and other liabilities		951	741
Cash generated from operations before taxes		**3,519**	**3,521**
Income taxes paid		(692)	(815)
Net cash generated from operating activities – continuing operations		**2,828**	**2,706**
Net cash used in operating activities – discontinued operations		(9)	(20)
Net cash generated from operating activities		**2,819**	**2,686**

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated with the exception of the presentation of interest paid.
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, 2019	Year ending Dec. 31, 2018[1]
Investing activities:			
Purchase of trademarks and other intangible assets		(110)	(96)
Proceeds from sale of trademarks and other intangible assets		0	2
Purchase of property, plant and equipment		(598)	(611)
Proceeds from sale of property, plant and equipment		13	13
Proceeds from sale of assets held for sale		–	71
Proceeds from sale of a disposal group	03	8	18
Proceeds due to business combinations	04	54	–
Proceeds from disposal of discontinued operations, net of cash disposed		20	–
Purchase of short-term financial assets		(284)	(0)
Purchase of investments and other long-term assets		(80)	(56)
Interest received		50	24
Net cash used in investing activities – continuing operations		**(925)**	**(636)**
Net cash generated from investing activities – discontinued operations		–	–
Net cash used in investing activities		**(925)**	**(636)**
Financing activities:			
Proceeds from long-term borrowings		–	141
Proceeds from issuance of a convertible bond	18	–	518
Payments for options related to a convertible bond	18	–	(35)
Interest paid		(156)	(40)
Repayments of lease liabilities/finance lease obligations		(597)	(2)
Dividend paid to shareholders of adidas AG	27	(664)	(528)
Dividend paid to non-controlling interest shareholders		(2)	(1)
Repurchase of adidas AG shares	27	(809)	(1,000)
Repurchase of adidas AG shares due to share-based payments		(28)	(22)
Proceeds from reissuance of treasury shares due to share-based payments		24	19
Proceeds from short-term borrowings	18	–	9
Repayments of short-term borrowings	18	(42)	(49)
Net cash used in financing activities – continuing operations		**(2,273)**	**(991)**
Net cash generated from financing activities – discontinued operations		–	–
Net cash used in financing activities		**(2,273)**	**(991)**
Effect of exchange rates on cash		**(30)**	**(29)**
(Decrease)/increase in cash and cash equivalents		(410)	1,031
Cash and cash equivalents at beginning of year	05	2,629	1,598
Cash and cash equivalents at end of period	05	**2,220**	**2,629**

1 First-time application of IFRS 16 as of January 1, 2019. Prior year figures are not restated with the exception of the presentation of interest paid.
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, 2019 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, 2019, 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, 2019 and have been applied for the first time to these consolidated financial statements:

— **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. The new standard had a significant impact on the company's consolidated statement of financial position upon initial application. adidas has a significant number of rental arrangements and leases worldwide which were classified as leases under IAS 17 – mainly pertaining to more than 2,500 rented own-retail stores as well as rented offices and warehouses.
adidas applied IFRS 16 as of January 1, 2019 and transitioned to IFRS 16 in accordance with the modified retrospective approach with no adjustments to the 2018 comparative financial information, using practical expedients as described below. The reclassifications and the adjustments arising from the implementation of IFRS 16 are therefore recognized in the opening statement of financial position on January 1, 2019.
adidas elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, adidas relied on its assessment made applying IAS 17 and IFRIC 4 'Determining Whether an Arrangement Contains a Lease'. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.
The company 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 implemented a technical system to ensure the administration of data from non-real estate lease contracts and a lease engine to guarantee IFRS 16-compliant accounting valuations and measurements.
Amounts paid for software licensing and leases are not within the scope of IFRS 16 and are accounted for in accordance with IAS 38.
At initial application of IFRS 16, adidas elected to use the following practical expedients permitted by the standard:
— the accounting for operating leases with a remaining lease term of less than twelve months as at January 1, 2019, as short-term leases;
— the exclusion of initial direct costs for the measurement of the right-of-use asset as at January 1, 2019;
— the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
— no adjustments at January 1, 2019, for leases for which the underlying asset is of low value.

Until December 31, 2018, adidas as a lessee classified leases as operating leases or finance leases under IAS 17. The vast majority of the company's lease contracts were classified as operating lease contracts and the respective rent expense was expensed on a straight-line basis over the lease term. At transition, for leases classified as operating leases under IAS 17, lease liabilities were recognized and measured at the present value of the remaining lease payments, discounted at the incremental borrowing rate of adidas as at January 1, 2019. Right-of-use assets were initially measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized at December 31, 2018, for that specific lease. For leases previously classified as finance leases, adidas recognized the carrying amount of the lease asset and lease liability according to IAS 17 at December 31, 2018, as the carrying amount of the right-of-use asset and the lease liability according to IFRS 16 at January 1, 2019.
Under IFRS 16, lease expenses are 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 which were expensed under IAS 17 are eliminated under IFRS 16. These changes resulted in a negative impact on the company's net income from continuing operations in the amount of € 54 million for the year ended December 31, 2019.

Due to the presentation of lease payments as financing activities under IFRS 16, the cash flows from operating activities increased while the cash flows from financing activities declined accordingly. This resulted in a decline in cash flows from financing activities in the amount of € 692 million and an improvement in cash flows from operating activities in the amount of € 684 million. No adjustments result from the first-time application of IFRS 16 in retained earnings.

Further information about current accounting methods under IFRS 16 and the impact of IFRS 16 initial application at adidas is provided in these Notes. SEE NOTES 02, 12 AND 21

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. adidas does not have any financial assets with prepayment features. Additionally, the company did not modify financial liabilities. Therefore, this amendment did not have any impact on the company's consolidated financial statements.

- **IAS 19 Amendment – Plan Amendment, Curtailment or Settlement (EU 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 did not have any material impact on the consolidated financial statements.
- **IAS 28 Amendment – Long-term Interests in Associates and Joint Ventures (EU 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 was not already accounted for according to IFRS 9. Therefore, the amendment did not have any impact on the 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 has no impact on the consolidated financial statements.
- **Improvements to IFRS (2015–2017) – Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (EU 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 did not have an impact as the aforementioned transactions did not take place during the year ending December 31, 2019. 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. These amendments did not have any impact on the consolidated financial statements. 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 did not have a 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, 2019, and which have not been applied in preparing these consolidated financial statements are:

- **IFRS 9, IFRS 7 and IAS 39 Amendments – Interest Rate Benchmark Reform (EU effective date: January 1, 2020):** The amendments modify specific hedge accounting requirements, so that entities would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of the interest rate benchmark reform. The amendments apply for all hedging relationships that are directly affected by the interest rate benchmark reform. During the last financial year adidas did not conclude or possess any hedge instruments which were affected by the changes. Therefore, this amendment is not expected to have any impact on the consolidated financial statements.
- **IAS 1 and IAS 8 Amendment – Definition of Material (EU 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.

- **General Amendments – References to the Conceptual Framework (EU effective date: January 1, 2020):** The amendments update references to the Conceptual Framework in individual standards. This amendment 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 endorsed by 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 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 Amendment – Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (IASB effective date: January 1, 2022):** The amendment clarifies the classification of current and non-current liabilities when presenting amounts in the statement of financial position. This amendment is not expected to have any 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. This can lead to individual amounts rounded to zero.

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 in 2019 and 2018, respectively:

Number of consolidated subsidiaries

	2019	2018
January 1	**128**	**129**
First-time consolidated subsidiaries	4	–
Thereof: newly founded	3	–
Thereof: control obtained in accordance with IFRS 10	1	–
Deconsolidated/divested subsidiaries	(5)	(1)
Intercompany mergers	(2)	–
December 31	**125**	**128**

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 I to the consolidated financial statements. SEE SHAREHOLDINGS, P. 208 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 is 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. In cases where not all of the shares in the investment in a subsidiary are acquired, a non-controlling interest measured

Overview of selected subsequent measurement principles

	Subsequent measurement principle
Assets	
Cash and cash equivalents	Nominal amount
Cash and cash equivalents (investments in certain money market funds)	Fair value through profit or loss
Short-term financial assets	Fair value through profit or loss
Accounts receivable	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
Right-of-use assets	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
Liabilities	
Borrowings	Amortized cost
Accounts payable	Amortized cost
Liabilities/provisions for cash-settled share-based payment arrangements	Fair value
Contract liabilities	Expected settlement amount
Other financial liabilities	Amortized cost
Provisions:	
Pensions	Projected unit credit method
Other provisions	Expected settlement amount
Accrued liabilities	Amortized cost
Lease liabilities	Amortized cost

initially as a proportionate share of net assets is recognized at the date of the first-time consolidation.

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.

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 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. All purchases and sales of financial assets, with the exception of trade receivables, are recognized on the trade date and initially measured at fair value. At initial recognition, trade receivables that do not have a significant financing component are measured at their transaction price. Subsequently, a financial asset is measured at amortized cost, fair value through other comprehensive income (debt instrument), fair value through other comprehensive income (equity instrument) 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: a financial asset which is held within a business model whose objective is to hold assets to collect contractual cash flows (business model 'Hold to collect') and the financial asset's 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 (business model 'Hold to collect and sell') 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.

In principle, all investments in equity instruments are measured at fair value through profit or loss. At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor a contingent consideration acquired by a purchaser in a business combination. 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 only reclassified when 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 losses 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 instrument)	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses 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 instrument)	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

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 using closing exchange rates at the balance sheet date into the presentation currency, the euro, which is also the functional currency of adidas AG. 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,	
	2019	2018	2019	2018
USD	1.1196	1.1813	1.1234	1.1450
GBP	0.8773	0.8847	0.8508	0.8945
JPY	122.0868	130.4030	121.9400	125.8500
CNY	7.7393	7.8051	7.8057	7.8584
RUB	72.5070	73.9202	69.5449	79.5438

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 35 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 whose operations and cash flows can be clearly distinguished operationally and for financial reporting purposes from the rest of the company is classified as a discontinued operation 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, stock price options as well as forward stock transactions and currency swaps, to hedge its exposure to foreign exchange and stock price risks. In accordance with its Treasury Policy, the company 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. In applying cash flow hedge accounting only the spot element of foreign exchange deals and the intrinsic value of currency options are designated (spot-to-spot designation).

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges or net investments 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.

Hedges of net investments in foreign entities are accounted for in a similar way to cash flow hedges. The effective currency gains and losses in the derivative and all gains and losses arising on the translation of the borrowing are recognized in equity with the exception of the cross-currency basis spread.

Certain derivative transactions, while providing effective economic hedges under the company's risk management policies, do not qualify for hedge accounting under the specific rules of IFRS 9.

adidas documents the relationship between hedging instruments and hedge objects as well as the risk management objectives and strategies for undertaking various hedge transactions at transaction inception. 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 hedged derivatives by using generally accepted methods of effectiveness testing, such as the 'hypothetical derivative method' or the 'dollar offset method'. The economic relationship between the hedging instrument and hedged item is qualitative and quantitative ascertainable and adidas judges the effectiveness of the hedging relationship with the hypothetical derivative method. The main sources of expected ineffectiveness are due to changes in the credit risk and in the timing of the hedged transactions.

The fair values of currency options, forward exchange contracts and forward stock transactions are determined on the basis of market conditions on the reporting date. The fair value of a currency option is determined using generally accepted models. 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. The company determines fair values taking the counterparty risk into consideration.

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 are performed based on the company's business model for managing these financial assets and the contractual cash flow characteristics. Investments in 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.

Short-term financial assets

Investments in money market funds which do not fulfill the criteria of cash equivalents are shown under short-term financial assets. These are classified at fair value through profit or loss. Changes in the fair value are recognized in the consolidated income statement as they occur.

Accounts receivable

Accounts receivable are recognized at the transaction price, which represents the amount of consideration to which the company 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 and measured under IFRS 9 based on the company's 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 and are assigned to the business model 'Hold to collect' are measured at amortized cost. adidas mainly has security deposits and receivables from credit card companies and electronic marketplaces which fall under this category.

Other financial assets which are neither within the business model 'Hold to collect' nor 'Hold to collect and sell' are measured at fair value through profit or loss. This category mainly includes secured promissory notes and earn-out components.

Long-term financial assets

Long-term financial assets are distinguished between debt and equity instruments and classified according to IFRS 9 as follows:

Debt instruments are measured depending on the company's business model for managing financial assets and the contractual cash flows. Only financial assets that are held within the business model 'Hold to collect' with the objective to collect the contractual cash flows which represent solely payments of principal and interest on the principal amount outstanding on a specific date are measured at amortized cost. adidas classifies certain loans within this category. All other financial assets which do not fulfill one 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 which do not fulfill the contractual cash flow characteristics in the category fair value through profit or loss.

Generally, all investments in equity instruments are measured at fair value through profit or loss.

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 long-term strategic purposes. The designation of certain equity instruments at fair value through other comprehensive income (equity) is based on a strategic Management decision.

Inventories

Finished goods and merchandise 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 realized principally through a 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 all 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.

Estimated useful lives are as follows:

Estimated useful lives of property, plant and equipment

	Years
Land	indefinite
Buildings and leasehold improvements	20 – 50
Furniture and fixtures	3 – 5
Technical equipment and machinery as well as other equipment	2 – 10

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. This is measured at the higher of fair value less costs of disposal (net disposal price) 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.

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 only 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 financial assets measured at amortized cost or at fair value through other comprehensive income (debt instrument) 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 for accounts receivable 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 as a percentage rate to calculate the expected credit loss for each portfolio and aging bucket. The percentage 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 the majority of such instruments due to the low credit risk for these investments, which is based upon the investment grade of their counterparties (defined by the company as equivalent of BBB+ or higher). A significant increase of credit risk is assumed for cash and cash equivalents when the instruments are more than 30 days past due. adidas monitors the credit risk associated with cash and cash equivalents taking into consideration the economic environment, external credit ratings and/or CDS spreads of counterparty financial institutions and using established 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 analysis 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.

Leases

adidas assesses whether a contract is or contains a lease according to IFRS 16 'Leases' at the inception of the contract. IFRS 16 defines a lease as a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset if the lessee has the right to obtain substantially all the economic benefits from the use of the identified asset (e.g. by having the exclusive right to use the asset throughout that period) and the right to direct the use of the identified asset throughout the period of use.

In its role as a lessee, adidas leases various types of assets, particularly buildings (retail stores, offices, warehouses, etc.), land, technical equipment and machinery (warehouse equipment, production machines, etc.), motor vehicles, computer hardware as well as furniture and fixtures. Lease contracts are typically negotiated for fixed periods of up to 99 years but may include extension or termination options. Lease terms are negotiated individually and may contain a wide range of different terms and conditions.

adidas makes use of the recognition exemption in IFRS 16 to not recognize right-of-use assets and lease liabilities 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 and the agreement does not include a purchase option). The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term. Real estate and automobile leases are excluded from the classification as low-value assets.

Furthermore, adidas exercises the option for lessees to combine lease payments with payments for non-lease components in the calculation of the lease liability and right-of-use asset for all lease asset classes except for real estate.

adidas recognizes a right-of-use asset and a corresponding lease liability at the lease commencement date. At the commencement date, adidas initially measures the lease liability at the present value of the lease payments that are not paid at that date. This includes fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments based on an index or a rate, amounts expected to be payable by adidas under residual value guarantees, the exercise price of a purchase option if adidas is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. Variable lease payments are excluded from the measurement of the lease liability. The lease payments are discounted using the interest rate implicit in the lease. If this rate cannot be readily determined, adidas uses its incremental borrowing rate. Generally, adidas uses the incremental borrowing rate as the discount rate, adjusted to reflect the country-specific risk, the contract currency-specific risk and the lease term.

After the commencement date, lease payments are split into redemption payments and interest payments. The lease liability is subsequently measured by increasing the carrying amount to reflect interest cost on the lease liability using the effective interest rate and reducing the carrying amount to reflect the lease payments made. The carrying amount of the lease liability is remeasured provided any reassessments/lease modifications occur (including changes in the assessment of whether an extension or termination option is reasonably certain to be exercised).

At the commencement date, the right-of-use asset is initially measured at cost, which is comprised of the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date, less any lease incentives received, any initial direct costs incurred by the lessee and an estimate of costs to be incurred by adidas in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The right-of-use asset is subsequently measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. In principle, the right-of-use asset is depreciated on a straight-line basis over the lease term or the useful life of the leased asset, whichever is shorter.

adidas applies judgement in determining the lease term for lease contracts including extension or termination options. The assessment of whether the options are reasonably certain to be exercised has an impact on the lease term and therefore may significantly affect the measurement of lease liabilities and right-of-use assets, respectively.

In rare cases, adidas acts as a lessor when the company signs sub-leasing contracts for real estate properties with third parties. These contracts are not material to the company's consolidated financial statements.

adidas does not own any investment property.

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 received, liabilities and contingent liabilities 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 over the estimated useful life, taking into account any potential residual value.

Expenditure during the development phase of internally generated intangible assets is capitalized as incurred if it fulfills the recognition criteria 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 14.

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 fixed-rate corporate bonds at the balance sheet date provided there is a deep market for such 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 40

Treasury shares

When adidas AG shares are repurchased and recognized as treasury shares, 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 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 already 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 at the point in time 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).

The amount of recognizable 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, the company's customers 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 of 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 inventories/products, less any handling costs 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 rebates for customers' sales growth for adidas products, and loyalty as well as sell-out support, e.g. through retail space/franchise store management. As soon as 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 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 are accounted for as marketing and point-of-sale expenses.

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 to third parties. The resulting 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 recorded as arranged in the contract with the customer.

Advertising and promotional expenditure

Advance payments for media campaigns are included in prepaid expenses within other current and non-current assets until the services are received, and upon receipt expensed in full. Significant costs for media campaigns are expensed on a straight-line basis 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 performance-based government grants in the form of subsidies, subventions or premiums from local, national or international government authorities such as those of the Free State of Bavaria, the Federal Republic of Germany and the European Union.

Performance-based government grants are recognized if there is reasonable assurance that the grants will be received and that the company satisfies the conditions attached.

Performance-based grants 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 as well as for 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 unless it relates to items recognized directly in equity, in which case it is recognized in equity.

When there is uncertainty over income tax treatments, adidas recognizes and measures current or deferred tax assets or liabilities applying the requirements of IAS 12 and IFRIC 23. On a case-by-case basis, adidas determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments, depending on which approach better predicts the resolution of the uncertainty.

Where it is not considered probable that the tax authority will accept an uncertain tax treatment, adidas reflects the effects of the uncertainty by using one of the following methods, depending on which method better predicts the resolution of the uncertainty:
- the single most likely amount
- the expected value based on the sum of the probability-weighted amounts.

In assessing whether and how an uncertain tax treatment affects the determination of taxable profits (tax losses), tax bases, unused tax losses, unused tax credits and tax rates, adidas assumes that a taxation authority will examine amounts it has a right to examine and will have full knowledge of all relevant information when making those examinations.

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 the end of each reporting period and at the date of settlement, with all changes in fair value recognized in profit or loss for the period.

Change of presentation

There was a change in the presentation of interest paid in the consolidated statement of cash flows in the financial year. Due to the first-time application of IFRS 16, adidas has applied the option to show the interest paid within the net cash used in financing activities instead of the net cash generated from operating activities and, to enhance comparability, the prior year was also adjusted.

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, which include in particular goodwill SEE NOTE 13, trademarks SEE NOTE 14, other provisions SEE NOTE 20, pensions SEE NOTE 25, derivatives SEE NOTE 30, income taxes SEE NOTE 36, as well as litigation and other legal risks SEE NOTE 40.

Judgments have also been used in determining the lease term for lease contracts as well as valuation methods for intangible assets. SEE NOTES 12, 21

03 » 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, 2019 mainly relates to a fair value adjustment of the earn-out component as well as actual earn-out received related to the sale of the TaylorMade business. The increase in fair value is attributable to adjusted future EBITDA-value estimates. In 2019, adidas received a cash consideration of US $ 25 million. In addition, the promissory note, which was part of the initial purchase price, increased by US $ 25 million. The fair value of the earn-out component at December 31, 2019 amounts to US $ 50 million (2018: US $ 24 million).

Gains from discontinued operations for the year ending December 31, 2019 in an amount of € 59 million (2018: losses of € 5 million) are entirely attributable to the shareholders of adidas AG. The tax benefit in respect of discontinued operations is € 4 million (2018: € 4 million).

04 » FIRST-TIME CONSOLIDATION/DISPOSAL OF SUBSIDIARIES AS WELL AS ASSETS AND LIABILITIES

Effective as of December 2019, an amendment to the contractual arrangements existing between Agron, Inc. and adidas entered into force granting adidas the power to approve key financial and operational targets as well as the organizational structure of Agron, Inc. adidas has the right to, and is exposed to, the returns from its contractual business relations with Agron, Inc., which are dependent on the level of its net sales and overall profitability. As a result of the extended power, adidas has the ability to directly influence the amount of these variable returns and consequently obtained control over Agron, Inc. Therefore, a fair value of its assets and liabilities was consolidated for the first time into the company's consolidated statement of financial position as at December 31, 2019. In addition, starting from January 1, 2020, income and expenses of Agron, Inc. will be included in the company's consolidated income statement. As adidas holds no equity interests of Agron, Inc., both net assets as well as income and expenses are attributable entirely to the non-controlling interest. adidas has not transferred any consideration to the owners of Agron, Inc. in relation to the amendment of the contractual arrangements. The effect of the first-time consolidation was reflected entirely within the equity and neither goodwill nor a gain from a bargain purchase has been recognized.

Agron, Inc. is engaged in the design, development and distribution of sports accessories, primarily under licenses from adidas America, Inc. These products are sold directly by Agron, Inc. to retailers in the USA.

The following assets and liabilities of Agron, Inc. were recognized at the date of first-time consolidation in the company's consolidated statement of financial position based on the preliminary fair value calculation:

Net assets of Agron, Inc. at the first-time consolidation date
€ in millions

	Pre-control carrying amounts	Fair value adjustments	Recognized values due to obtaining control
Cash and cash equivalents	54		54
Accounts receivable	54		54
Inventories	82	21	103
Other current assets	3		3
Property, plant and equipment	41		41
Other intangible assets	–	83	83
Accounts payable	(1)		(1)
Current provisions	(2)		(2)
Other current liabilities	(54)		(54)
Deferred tax liabilities	–	(2)	(2)
Net assets	**178**	**103**	**280**
Consideration settled in cash			–
Cash and cash equivalents acquired			54
Net cash inflow due to obtaining control			**54**

Loss allowance recognized for accounts receivable amounted to € 3 million.

Financial statements of Agron, Inc. as at December 31, 2019 (adidas reporting date) were not available by the time the consolidated financial statements of adidas were prepared. Therefore, financial statements of Agron, Inc. as at November 30, 2019 were used instead. Those statements were adjusted for the effects of significant transactions that occurred between November 30, 2019 and December 31, 2019.

The following valuation methods for the recognized assets were applied:

- Inventories: The fair value of inventory was measured using the cost approach. Realized margins were added to the book values to calculate the selling price. Marketing and logistic costs were then deducted from the selling price.
- Other intangible assets: The fair value of the license agreement between Agron, Inc. and adidas America, Inc. was determined by discounting future profits after taxes until the end of the contract term on December 31, 2024.

For the year ending December 31, 2019 no net sales as well as no income and expenses of Agron, Inc. were included in the company's consolidated income statement. If the first-time consolidation had occurred on January 1, 2019, the company's total net sales would have been € 24,055 million while net income attributable to shareholders would have remained unchanged at € 1,976 million for the year ending December 31, 2019.

As at April 15, 2019 (closing date), the company formally completed the divestiture of its Global Merchandising, S.L. subsidiary. The final purchase price amounted to € 3 million in total, received in cash. All contractually agreed closing net assets were transferred by adidas at the closing date. In 2019, a resulting loss from this transaction in an amount of € 4 million was accounted for as other operating expenses.

The following assets and liabilities were derecognized from the consolidated statement of financial position as a result of the completed divestiture of Global Merchandising, S.L.:

Impact of divestiture on items in the consolidated statement of financial position € in millions

	April 15, 2019
Cash and cash equivalents	1
Current assets	8
Non-current assets	1
Liabilities	(3)
Net assets	**6**
Consideration received in cash	3
Less: cash and cash equivalents disposed of	(1)
Net cash inflow	**2**

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

05 » 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 does not recognize any credit impairment losses for these financial assets.

Further information about cash and cash equivalents is presented in these Notes. SEE NOTE 30

06 » 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 which are mainly investments in money market funds.

07 » 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

	Collective loss allowance				Individual loss allowance	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	
Dec. 31, 2019						
Accounts receivable, gross	2,329	286	25	34	139	2,814
Weighted average loss rate	0.7%	4.3%	39.1%	59.5%	92.9%	6.7%
Loss allowance	(17)	(12)	(10)	(20)	(129)	(189)
Accounts receivable, net	**2,312**	**274**	**15**	**14**	**10**	**2,625**
Dec. 31, 2018						
Accounts receivable, gross	2,069	341	32	32	138	2,612
Weighted average loss rate	0.8%	3.6%	31.2%	64.7%	96.5%	7.4%
Loss allowance	(17)	(12)	(10)	(21)	(133)	(193)
Accounts receivable, net	**2,052**	**328**	**22**	**11**	**5**	**2,418**

Movement in loss allowances for accounts receivable € in millions

	2019	2018
Loss allowances at January 1	**193**	**174**
Net remeasurement of loss allowances	0	25
Write-offs charged against the loss allowance accounts	(7)	(4)
Currency translation differences	1	(1)
Other changes	1	(0)
Loss allowances at December 31	**189**	**193**

As at December 31, 2019, the loss allowance for not credit-impaired accounts receivable in the amount of € 345 million and credit-impaired accounts receivable in the amount € 5 million was not recognized as adidas holds credit enhancement instruments, mainly in the form of credit insurance and bank guarantees, which mitigate the credit risk of those financial assets.

In 2019, the line item 'Other changes' relates mainly to the first-time consolidation of Agron, Inc. and to the divestiture of Global Merchandising, S.L. SEE NOTE 04

There are 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 30

08 » OTHER CURRENT FINANCIAL ASSETS

Other current financial assets consist of the following:

Other current financial assets € in millions

	Dec. 31, 2019	Dec. 31, 2018
Currency options	18	19
Forward exchange contracts	118	200
Revaluation of total return swap	30	–
Security deposits	28	58
Receivables from credit cards and similar receivables	165	154
Promissory notes	34	27
Earn-out components	9	–
Sundry	152	87
Other current financial assets, gross	**554**	**545**
Less: accumulated allowances	11	3
Other current financial assets, net	**544**	**542**

The line item 'Sundry' mainly relates to receivables from retail business of € 43 million and customs claims of € 53 million.

Further information about currency options and forward exchange contracts is contained in these Notes. SEE NOTE 30

09 » INVENTORIES

Inventories by major classification are as follows:

Inventories € in millions

	Dec. 31, 2019			Dec. 31, 2018		
	Gross value	Allowance for obsolescence	Net value	Gross value	Allowance for obsolescence	Net value
Merchandise and finished goods on hand	2,984	(80)	2,904	2,588	(117)	2,471
Goods in transit	1,175	–	1,175	966	–	966
Raw materials	6	–	6	7	–	7
Work in progress	0	–	0	0	–	0
Inventories	**4,165**	**(80)**	**4,085**	**3,562**	**(117)**	**3,445**

Goods in transit mainly relate to shipments of finished goods and merchandise from suppliers in Asia to subsidiaries in Europe, North America, Asia and Latin America.

10 » OTHER CURRENT ASSETS

Other current assets consist of the following:

Other current assets € in millions

	Dec. 31, 2019	Dec. 31, 2018
Prepaid expenses	290	242
Return assets	305	258
Tax receivables other than income taxes	343	124
Contract assets	17	10
Sundry	125	97
Other current assets, gross	**1,080**	**731**
Less: accumulated allowances	(5)	(6)
Other current assets, net	**1,076**	**725**

Prepaid expenses mainly relate to promotion and service contracts. The increase in the line item 'Tax receivables other than income taxes' relates mainly to value-added tax.

11 » PROPERTY, PLANT AND EQUIPMENT

The following table presents a reconciliation of the carrying amount of property, plant and equipment:

Property, plant and equipment € in millions

	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures	Construction in progress	Property, plant and equipment
Acquisition cost					
January 1, 2018	**1,242**	**288**	**1,721**	**378**	**3,629**
Additions	137	22	240	299	699
Disposals	(36)	(7)	(203)	(2)	(248)
Transfers	62	57	70	(198)	(9)
Currency translation differences	3	(3)	(11)	2	(9)
December 31, 2018	**1,408**	**357**	**1,817**	**480**	**4,061**
Transfer to right-of-use assets due to first-time application of IFRS 16	(84)	–	(9)	–	(93)
January 1, 2019	**1,324**	**357**	**1,808**	**480**	**3,969**
Additions	144	31	303	121	599
Disposals	(42)	(9)	(219)	(3)	(272)
Transfers	347	43	(15)	(380)	(6)
Increase in companies consolidated	40	1	0	–	41
Decrease in companies consolidated	–	–	(2)	–	(2)
Currency translation differences	28	9	35	4	76
December 31, 2019	**1,842**	**432**	**1,910**	**221**	**4,405**
Accumulated depreciation and impairment					
January 1, 2018	**362**	**154**	**1,112**	**–**	**1,628**
Depreciation	71	32	306	–	409
Impairment losses	3	1	15	–	19
Reversals of impairment losses	(0)	–	(3)	–	(3)
Disposals	(30)	(6)	(191)	–	(227)
Transfers	4	–	(4)	–	0
Currency translation differences	4	(1)	(5)	–	(3)
December 31, 2018	**414**	**180**	**1,230**	**–**	**1,824**
Transfer to right-of-use assets due to first-time application of IFRS 16	(1)	–	(9)	–	(10)
January 1, 2019	**412**	**180**	**1,221**	**–**	**1,814**
Depreciation	105	39	288	–	432
Impairment losses	3	1	0	–	5
Reversals of impairment losses	(2)	–	(7)	–	(8)
Disposals	(36)	(9)	(207)	–	(252)
Transfers	31	(5)	(28)	–	(3)
Decrease in companies consolidated	–	–	(2)	–	(2)
Currency translation differences	6	7	25	–	39
December 31, 2019	**520**	**214**	**1,291**	**–**	**2,025**
Net carrying amount					
January 1, 2018	880	134	609	378	2,000
December 31, 2018	994	177	587	480	2,237
January 1, 2019	912	177	587	480	2,155
December 31, 2019	**1,322**	**219**	**618**	**221**	**2,380**

As a general principle, it is regularly assessed whether there are any indications that property, plant and equipment 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 recognized in the presented periods mainly relate to the company's own-retail activities, for which contrary to expectations there will be an insufficient flow of future economic benefits.

Further information on total depreciation and amortization expenses, impairment losses and reversals of impairment losses is provided in these Notes. SEE NOTE 33

The decrease in the line item 'Construction in progress' mainly relates to the finalized investments in the company's headquarters in Herzogenaurach.

Additionally, borrowing costs in an amount of € 1 million (2018: € 3 million) related to the construction of qualifying assets at adidas AG were capitalized using a capitalization rate of 1.3 % (2018: 1.3%).

12 » RIGHT-OF-USE ASSETS

As a result of the first-time application of IFRS 16, the company recognized right-of-use assets in an amount of € 2.9 billion in relation to leases previously classified as operating leases. The following table presents a reconciliation of the carrying amount of right-of-use assets:

Right-of-use assets € in millions

	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures	Right-of-use assets
December 31, 2018	**–**	**–**	**–**	**–**
Recognition of right-of-use assets on first-time application of IFRS 16	2,669	126	61	2,856
Transfer from property, plant and equipment due to first-time application of IFRS 16	82	–	–	82
January 1, 2019	**2,751**	**126**	**61**	**2,938**
Additions	672	4	10	686
Depreciation	(596)	(30)	(25)	(651)
Impairment losses	(13)	–	–	(13)
Other changes	(29)	0	(0)	(29)
December 31, 2019	**2,785**	**100**	**46**	**2,931**

As a general principle, it is regularly assessed whether there are any indications that right-of-use assets might be impaired. Irrespective of the existence of such indications, right-of-use assets in own-retail stores are tested annually for impairment where 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 recognized in the presented periods mainly relate to the company's own-retail activities for which contrary to expectations there will be an insufficient flow of future economic benefits.

Income from sub-leasing of right-of-use assets recognized in the consolidated income statement in 2019 amounted to € 3.3 million.

Further information on total depreciation and amortization expenses, impairment losses and reversals of impairment losses is provided in these Notes. SEE NOTE 33

13 » 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, 2019	Dec. 31, 2018
Goodwill, gross	1,659	1,642
Less: accumulated impairment losses	(402)	(396)
Goodwill, net	**1,257**	**1,245**

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 € 12 million and positive € 25 million was recorded for the years ending December 31, 2019 and 2018, 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 six-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 six-year period are extrapolated using steady growth rates of 1.7% (2018: 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.

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 number of groups of cash-generating units amounted to a total of nine at the end of 2019 and 2018, respectively.

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, 2019 and 2018, 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, 2019	**Dec. 31, 2018**	**Dec. 31, 2019**	**Dec. 31, 2018**
Europe	620	614	7.4%	7.9%
Asia-Pacific	379	375	7.4%	7.9%
adidas Golf	179	178	7.0%	7.6%
Emerging Markets	79	78	9.0%	9.1%
Total	**1,257**	**1,245**		

A change in the discount rate by up to approximately 9.5 percentage points or a reduction of planned free cash inflows by up to approximately 65% 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.

The reconciliation of goodwill is as follows:

Reconciliation of goodwill, net € in millions

	Europe	Asia-Pacific	adidas Golf	Emerging Markets	Total
January 1, 2019	**614**	**375**	**178**	**78**	**1,245**
Currency translation differences	7	4	0	1	12
December 31, 2019	**620**	**379**	**179**	**79**	**1,257**

14 » TRADEMARKS AND OTHER INTANGIBLE ASSETS

Trademarks and other intangible assets consist of the following:

Trademarks and other intangible assets € in millions

	Trademarks	Other intangible assets
Acquisition cost		
January 1, 2018	**1,332**	**839**
Additions	2	94
Disposals	(1)	(40)
Transfers	–	9
Currency translation differences	62	9
December 31, 2018/January 1, 2019	**1,394**	**912**
Additions	–	112
Disposals	(9)	(26)
Transfers	–	3
Increase in companies consolidated	–	83
Decrease in companies consolidated	–	(1)
Currency translation differences	26	4
December 31, 2019	**1,412**	**1,086**
Accumulated amortization and impairment		
January 1, 2018	**526**	**685**
Amortization	0	61
Impairment losses	(0)	–
Reversals of impairment losses	–	(0)
Disposals	–	(39)
Transfers	–	(0)
Currency translation differences	24	9
December 31, 2018/January 1, 2019	**550**	**716**
Amortization	0	78
Impairment losses	–	6
Disposals	(9)	(26)
Transfers	–	2
Decrease in companies consolidated	–	(0)
Currency translation differences	10	5
December 31, 2019	**553**	**781**
Net carrying amount		
January 1, 2018	806	154
December 31, 2018/January 1, 2019	844	196
December 31, 2019	**859**	**305**

At December 31, 2019, 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.

Trademarks € in millions

	Dec. 31, 2019	Dec. 31. 2018
Reebok	1,379	1,353
Other	34	41
Trademarks, gross	**1,412**	**1,394**
Less: accumulated amortization and impairment losses	(553)	(550)
Trademarks, net	**859**	**844**

adidas tests at least on an annual basis whether trademarks with indefinite useful lives are impaired based on the value-in-use concept on the basis of the relevant cash-generating units. In 2019, there was no impairment identified for any trademarks with indefinite useful lives.

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 a 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 2019 (2018: six).

This calculation uses cash flow projections based on the financial planning covering a six-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-to-high-single-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% (2018: 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 6.6% to 9.9% (2018: 7.2% to 10.2%).

A change in the discount rate by approximately 0.3 percentage points or a reduction of planned free cash inflows by approximately 5% 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 (€ 325 million), Asia-Pacific (€ 222 million), Emerging Markets (€ 101 million), North America Reebok (€ 98 million) and Russia/CIS (€ 97 million). All other trademarks are part of the respective groups of cash-generating units.

Further information on total depreciation and amortization expenses, impairment losses and reversals of impairment losses is provided in these Notes. SEE NOTE 33

15 » LONG-TERM FINANCIAL ASSETS

Long-term financial assets primarily include an 8.33% investment in FC Bayern München AG (2018: 8.33%) of € 84 million (2018: € 83 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 are used in order to calculate the fair value as at December 31, 2019.

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 positive fair value adjustments in an amount of € 12 million in 2019 (2018: negative € 8 million).

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 2019 (2018: positive € 2 million).

Long-term financial assets € in millions

	Dec. 31, 2019	Dec. 31, 2018
Investment in FC Bayern München AG	84	83
Other equity investments	81	61
Other investments	201	131
Loans	1	1
Long-term financial assets	**367**	**276**

16 » OTHER NON-CURRENT FINANCIAL ASSETS

Other non-current financial assets consist of the following:

Other non-current financial assets € in millions

	Dec. 31, 2019	Dec. 31, 2018
Currency options	10	8
Forward exchange contracts	2	8
Revaluation of total return swap	59	3
Options	86	20
Security deposits	110	74
Earn-out components	36	21
Promissory notes	149	122
Sundry	0	0
Other non-current financial assets	**450**	**256**

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 30

Further information about promissory notes and earn-out components is provided in these Notes. SEE NOTE 03

17 » OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

Other non-current assets € in millions

	Dec. 31, 2019	Dec. 31, 2018
Prepaid expenses	101	87
Sundry	3	7
Other non-current assets	**103**	**94**

Prepaid expenses mainly relate to long-term promotion contracts. SEE NOTE 40

18 » 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, 2019 are denominated in euro (2019: 99%; 2018: 97%).

The weighted average interest rate on the Group's gross borrowings decreased to 1.5% in 2019 (2018: 2.1%).

As at December 31, 2019, adidas had cash credit lines and other long-term financing arrangements totaling € 3.6 billion (2018: € 3.7 billion); thereof unused credit lines accounted for € 1.9 billion (2018: € 2.0 billion). In addition, as at December 31, 2019, adidas had separate lines for the issuance of letters of credit and guarantees in an amount of approximately € 0.5 billion (2018: € 0.5 billion).

The amounts reported as gross borrowings represent outstanding borrowings under the following arrangements with aggregated expiration dates as follows:

Gross borrowings as at December 31, 2019 € 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	43	38	38	46	165
Eurobond	–	598	–	388	986
Equity-neutral convertible bond	–	–	487	–	487
Total	**43**	**636**	**525**	**434**	**1,638**

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.

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.

Further details on future cash outflows are provided in this Annual Report. SEE RISK AND OPPORTUNITY REPORT, P. 120

19 » OTHER CURRENT FINANCIAL LIABILITIES

Other current financial liabilities consist of the following:

Other current financial liabilities € in millions

	Dec. 31, 2019	Dec. 31, 2018
Forward exchange contracts	169	94
Finance lease obligations	–	10
Earn-out components	–	15
Sundry	66	68
Other current financial liabilities	**235**	**186**

The line item 'Sundry' mainly relates to payables due to customs duties.

Further information about forward exchange contracts is contained in these Notes. SEE NOTE 30

In 2019, lease liabilities according to IFRS 16 are shown separately in the consolidated statement of financial position. A reclassification for lease liabilities accounted for under IAS 17 was not made for 2018.

20 » OTHER PROVISIONS

Other provisions consist of the following:

Other provisions € in millions

	Jan. 1, 2019	Additions	Usage	Reversals	Increase/ decrease in companies consolidated	Transfers	Currency translation differences	Dec. 31, 2019	Thereof non-current
Marketing	28	16	(27)	(0)	–	–	(0)	16	–
Personnel	188	310	(71)	(16)	–	(0)	2	413	182
Returns and warranty	608	674	(523)	(40)	–	(0)	6	725	–
Taxes, other than income taxes	28	20	(8)	(1)	–	–	2	42	2
Customs	190	21	(12)	(11)	–	–	(3)	184	13
Sundry	318	160	(137)	(22)	2	0	2	323	60
Other provisions	**1,360**	**1,201**	**(778)**	**(90)**	**2**	**(0)**	**9**	**1,703**	**257**

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.

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 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 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.

21 » LEASE LIABILITIES

As a result of initially applying IFRS 16, the company recognized lease liabilities in an amount of € 3.0 billion in relation to leases previously classified as operating leases. adidas' weighted average borrowing rate applied to lease liabilities recognized in the statement of financial position on January 1, 2019 was 3.5%.

Lease liabilities € in millions

	Dec. 31, 2019	Jan. 1, 2019
Land and buildings	2,985	2,874
Technical equipment and machinery	101	135
Other equipment, furniture and fixtures	47	61
Lease liabilities	**3,132**	**3,070**

The difference between operating lease commitments disclosed applying IAS 17 as reported at December 31, 2018, and the lease liabilities recognized at the date of first-time application of IFRS 16 on January 1, 2019, is shown in the following table:

Lease liabilities recognized as at January 1, 2019 € in millions

Operating lease commitments as at December 31, 2018	2,984
Less: short-term leases recognized on a straight-line basis as expense	(36)
Less: low-value leases recognized on a straight-line basis as expense	(14)
Adjustments as a result of a different treatment of extension and termination options	314
Adjustments: Other	32
Gross lease liabilities as at January 1, 2019	**3,280**
Discounting	(301)
Discounted lease liabilities as at January 1, 2019	**2,979**
Plus: Finance lease liabilities recognized as at December 31, 2018	91
Lease liabilities recognized as at January 1, 2019	**3,070**

The lease liabilities held by adidas as at December 31, 2019 mature as follows:

Contractual payments for lease liabilities

	Dec. 31, 2019
Within 1 year	723
Between 1 and 5 years	2,110
After 5 years	732
Total	**3,566**

Interest recognized on lease liabilities in 2019 amounted to € 101 million.

Expenses from leases classified as short-term or low-value or variable are excluded from the measurement of the lease liability. Further information on total expenses relating to short-term, low-value, and variable leases is provided in these Notes. SEE NOTE 33

In 2019, the total cash outflows for leases, including the above-mentioned leases not included in the calculation of the lease liability, amounted to € 874 million.

22 » ACCRUED LIABILITIES

Accrued liabilities consist of the following:

Accrued liabilities € in millions

	Dec. 31, 2019	Thereof: non-current	Dec. 31, 2018	Thereof: non-current
Goods and services not yet invoiced	1,011	1	917	1
Marketing and sales	1,018	3	893	3
Personnel	387	0	488	10
Sundry	31	4	25	5
Accrued liabilities	**2,446**	**9**	**2,324**	**19**

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 include accruals for interest.

23 » OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

Other current liabilities € in millions

	Dec. 31, 2019	Dec. 31, 2018
Tax liabilities other than income taxes	296	178
Liabilities due to personnel	49	49
Liabilities due to social security	23	23
Deferred income	63	73
Contract liabilities	0	1
Sundry	107	154
Other current liabilities	**538**	**477**

The increase in the line item 'Tax liabilities other than income taxes' relates mainly to value-added tax.

24 » OTHER NON-CURRENT FINANCIAL LIABILITIES

Other non-current financial liabilities consist of the following:

Other non-current financial liabilities € in millions

	Dec. 31, 2019	Dec. 31, 2018
Forward exchange contracts	7	2
Embedded derivatives	86	20
Finance lease obligations	–	81
Other non-current financial liabilities	**92**	**103**

Embedded derivatives relate to the equity-neutral convertible bond which was issued on September 5, 2018. In 2018, finance lease obligations are mainly related to two buildings at the adidas headquarters in Herzogenaurach.

Further information about forward exchange contracts is provided in these Notes. SEE NOTE 30

In 2019, lease liabilities according to IFRS 16 are shown separately in the consolidated statement of financial position. A reclassification of lease liabilities accounted for under IAS 17 was not made for 2018.

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, 2019	Dec. 31, 2018
Liability arising from defined benefit pension plans	223	244
Similar obligations	2	2
Pensions and similar obligations	**225**	**246**

Defined contribution pension plans

The total expense for defined contribution plans amounted to € 74 million in 2019 (2018: € 74 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. From 2020 onwards, active existing employees and new entrants are entitled to benefits in accordance with the general company agreement 'Core Benefits: adidas company pension plan'. This is a pension plan with a basic employer contribution, possible salary sacrifice and additional matching contribution. Thus, 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 provided in this Annual Report. SEE COMPENSATION REPORT, P. 30

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 90% 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, 2019			Dec. 31, 2018		
	Germany	**UK**	**South Korea**	**Germany**	**UK**	**South Korea**
Active members	281	–	19	231	–	22
Former employees with vested rights	140	57	–	114	45	–
Pensioners	101	8	–	78	6	–
Total	**522**	**64**	**19**	**424**	**51**	**22**

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 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, 2019	**Dec. 31, 2018**
Present value of funded obligation from defined benefit pension plans	626	515
Fair value of plan assets	(442)	(303)
Funded status	**184**	**212**
Present value of unfunded obligation from defined benefit pension plans	39	32
Asset ceiling effect	–	–
Net defined benefit liability	**223**	**244**
Thereof: liability	227	244
Thereof: adidas AG	178	202
Thereof: asset	(4)	(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, 2019	Dec. 31, 2018
Discount rate	1.6	2.3
Expected rate of salary increases	3.8	3.6
Expected pension increases	1.6	1.7

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 2019 tables from the Korea 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, 2019	Year ending Dec. 31, 2018
Current service cost	30	26
Net interest expense	6	6
Thereof: interest cost	12	11
Thereof: interest income	(7)	(5)
Past service credit/cost	(0)	1
Loss on plan settlements	–	0
Expenses for defined benefit pension plans (recognized in the consolidated income statement)	**35**	**33**
Actuarial losses	89	10
Thereof: due to changes in financial assumptions	75	(18)
Thereof: due to changes in demographic assumptions	(1)	(0)
Thereof: due to experience adjustments	15	28
(Return)/loss on plan assets (not included in net interest income)	(21)	11
Asset ceiling effect	–	(0)
Remeasurements for defined benefit pension plans (recognized as decrease in other reserves in the consolidated statement of comprehensive income)	**68**	**20**
Total	**103**	**54**

Of the total pension expenses recorded in the consolidated income statement, an amount of € 25 million (2018: € 24 million) relates to employees of adidas AG and € 4 million (2018: € 4 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

	2019	2018
Present value of the obligation from defined benefit pension plans as at January 1	**547**	**513**
Currency translation differences	4	1
Current service cost	30	26
Interest cost	12	11
Contribution by plan participants	0	0
Pensions paid	(17)	(15)
Payments for plan settlements	–	(0)
Actuarial losses	89	10
Thereof: due to changes in financial assumptions	75	(18)
Thereof: due to changes in demographic assumptions	(1)	(0)
Thereof: due to experience adjustments	15	28
Past service (credit)/cost	(0)	1
Loss on plan settlements	–	0
Business combinations/transfers/divestitures	–	0
Present value of the obligation from defined benefit pension plans as at December 31	**665**	**547**

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, 2019			Dec. 31, 2018		
	Germany	UK	South Korea	Germany	UK	South Korea
Present value of the obligation from defined benefit pension plans	522	64	19	424	51	22
Increase in the discount rate by 0.5%	479	56	18	390	45	21
Reduction in the discount rate by 0.5%	572	74	20	462	59	23
Average duration of the obligations (in years)	18	27	11	17	26	7

Since many pension plans are closed to future accrual, 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

	2019	2018
Fair value of plan assets as at January 1	**303**	**218**
Currency translation differences	3	(0)
Pensions paid	(8)	(6)
Contributions by the employer	115	97
Contributions paid by plan participants	0	0
Interest income from plan assets	7	5
(Loss)/return on plan assets (not included in net interest income)	21	(11)
Fair value of plan assets as at December 31	**442**	**303**

Approximately 96% (2018: 95%) of the total plan assets are allocated to plan assets in the three major countries: Germany (2019: 78%, 2018: 73%), UK (2019: 13%, 2018: 16%) and South Korea (2019: 5%, 2018: 6%).

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 2019, an amount of € 105 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 2020 financial year amount to € 25 million. Thereof, € 12 million relates to benefits directly paid to pensioners by the subsidiaries and € 13 million to employer contributions paid into the plan assets. In 2019, the actual return on plan assets (including interest income) was € 28 million (2018: loss of € 6 million).

Composition of plan assets € in millions

	Dec. 31, 2019	Dec. 31, 2018
Cash and cash equivalents	85	58
Equity instruments	59	30
Bonds	98	33
Real estate	90	85
Pension plan reinsurance	50	48
Investment funds	60	50
Other assets	0	0
Fair value of plan assets	**442**	**303**

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, 2019	Dec. 31, 2018
Deferred income	4	64
Liabilities due to personnel	2	2
Sundry	0	2
Other non-current liabilities	**7**	**68**

27 » SHAREHOLDERS' EQUITY

The nominal capital of adidas AG has remained unchanged since December 31, 2018. As at the balance sheet date, it amounted to a total of € 200,416,186 divided into 200,416,186 registered no-par-value shares and was fully paid in.

Each share grants one vote and is entitled to dividends starting from the commencement of the year in which 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 4,446,799 treasury shares, corresponding to a notional amount of € 4,449,799 in the nominal capital and consequently to 2.22% 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 2019 financial year.

The following overview of the existing authorized capital does not include the Authorized Capital 2017/II canceled by the Annual General Meeting on May 9, 2019, which had also not been utilized up to and including May 9, 2019.

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 9, 2019 until June 13, 2024

— 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 2019);

  the overall volume of the shares issued based on this authorization with the exclusion of subscription rights must not exceed 10% of the nominal capital existing at the point in time when this authorization becomes effective or, in case this amount is lower, at the date of the respective issuance. The nominal capital which is attributed to the shares to be issued to service option or conversion rights or option or conversion obligations from bonds, debt securities or participation rights to the extent that they are issued during the term of the authorization up to the date of the respective exercise of this authorization with the exclusion of subscription rights, or which is attributed to shares which are issued or sold during the term of the authorization up to the date of the respective exercise of this authorization with the exclusion of subscription rights, has to be included in the aforementioned limit of 10%. This deduction clause shall not apply if residual amounts of shares are excluded from subscription rights. The Authorized Capital 2019 must not be used to issue shares within the scope of compensation or participation programs for Executive Board members or employees or for members of the management bodies or employees of subsidiaries;

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 and 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 overview of the Contingent Capital is based on § 4 section 6 of the Articles of Association of adidas AG as well as on the underlying resolution of the Annual General Meeting held on May 9, 2018. It does not include the Contingent Capital 2010 canceled by the Annual General Meeting on May 9, 2019, which had not been utilized up to and including May 9, 2019. Additional contingent capital does not exist.

Contingent Capital 2018

The nominal capital is conditionally increased by up to € 12.5 million divided into not more than 12,500,000 registered no-par-value shares (Contingent Capital 2018). The contingent capital increase serves the issuance of registered no-par-value shares when exercising option or conversion rights or fulfilling the respective option and/or conversion obligations or when exercising the company's right to choose to partially or in total deliver registered 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 obligations 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 obligations, 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 adidas AG shares 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 residual 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 aforementioned 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 aforementioned 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 adidas AG 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 aforementioned limit of 10%.

In the period up until the balance sheet date, 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 of adidas AG shares 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. 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 22, 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. On January 7, 2019, the share buyback program was resumed in the form of a second tranche. More information on the adidas AG shares repurchased in the 2019 financial year is set out in the table 'Repurchase of adidas AG shares in the 2019 financial year'. The difference between the total price of just under € 815 million shown in the table and the cash outflow from the repurchase of adidas AG shares in the amount of € 809 million shown in the consolidated statement of changes in equity as well as the consolidated statement of cash flows results from reimbursements of incidental purchasing cost.

Repurchase of adidas AG shares in the 2019 financial year

Month	Number of shares	Total price in € (excluding incidental purchasing costs)	Average purchase price per share in €	Amount in the nominal capital in €	Amount in the nominal capital in %
January	256,198	51,333,852.75	200.37	256,198	0.13
February	230,796	46,661,131.62	202.17	230,796	0.12
March	255,544	54,356,363.81	212.71	255,544	0.13
April	226,764	51,344,626.29	226.42	226,764	0.11
May	10,452	2,683,046.50	256.70	10,452	0.01
June	351,375	94,364,958.64	268.56	351,375	0.18
July	367,521	103,024,730.93	280.32	367,521	0.18
August	535,047	141,607,505.60	264.66	535,047	0.27
September	307,043	83,861,030.42	273.12	307,043	0.15
October	268,406	74,038,194.34	275.84	268,406	0.13
November	413,931	111,512,903.94	269.40	413,931	0.21
December	137	37,939.95	276.93	137	0.00007
2019 financial year total[1]	**3,223,214**	**814,826,284.79**	**252.80**	**3,223,214**	**1.61**

1 In the period from January 7, 2019 up to and including December 18, 2019.

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 its Executive Board members, adidas AG plans to cancel the majority of the repurchased shares. 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 AND EXPLANATORY REPORT, P. 109

In the 2019 financial year, a total of 21,256 treasury shares were used as consideration for, inter alia, the transfer or licensing of intellectual property rights and intangible property rights due to contractual obligations.

Repurchase of adidas AG shares and use of treasury shares in the context of the employee stock purchase plan 2019

Purchase date	Number of shares	Total price in € (excluding incidental purchasing costs)	Average purchase price per share in €	Amount in the nominal capital in €	Amount in the nominal capital in %	Issuance date to employees
January 8, 2019	29,328	5,740,076.16	195.72	29,328	0.01	January 10, 2019
April 5, 2019	23,924	5,409,934.12	226.13	23,924	0.01	April 9, 2019
July 5, 2019	20,694	5,757,898.56	278.24	20,694	0.01	July 9, 2019
October 8, 2019	20,655	5,647,283.55	273.41	20,655	0.01	October 10, 2019

Repurchase of adidas AG shares and use of treasury shares in the context of the employee stock purchase plan 2019/Matching shares

Purchase date	Number of shares	Total price in € (excluding incidental purchasing costs)	Average purchase price per share in €	Amount in the nominal capital in €	Amount in the nominal capital in %	Issuance date to employees
January 8, 2019	3,349	655,466.28	195.72	3,349	0.002	January 10, 2019
April 5, 2019	3,195	722,485.35	226.13	3,195	0.002	April 9, 2019
July 5, 2019	4,020	1,118,524.80	278.24	4,020	0.002	July 9, 2019
October 8, 2019	3,323	908,541.43	273.41	3,323	0.002	October 10, 2019

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 and continued from January 2019, adidas AG purchased adidas AG shares in connection with this employee stock purchase plan. More details on the repurchase of adidas AG shares and use of treasury shares in connection with the employee stock purchase plan in the 2019 financial year are set out in the tables 'Repurchase of adidas AG shares and use of treasury shares in the context of the employee stock purchase plan 2019' and 'Repurchase of adidas AG shares and use of treasury shares in the context of the employee stock purchase plan 2019/Matching shares' SEE DISCLOSURES PURSUANT TO § 315A SECTION 1 AND § 289A SECTION 1 OF THE GERMAN COMMERCIAL CODE AND EXPLANATORY REPORT, P. 109, SEE NOTES 02 AND 28

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[2]	December 17, 2019	Exceeding 5%	§§ 34, 38 sec. 1 no. 1, 38 sec. 1 no. 2	6.34	12,708,562
FMR LLC, Wilmington, DE, USA[2]	November 27, 2019	Exceeding 5%	§ 34	5.14	10,306,397
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[2]	November 19, 2018	Exceeding 5%	§ 34	8.09	16,214,074
Elian Corporate Trustee (Cayman) Limited, Grand Cayman, Cayman Islands[2]	December 16, 2016	Exceeding 5%	§§ 21, 25 sec. 1 no. 2	5.71	11,950,482
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.
2 Voluntary group notification due to crossing a threshold on subsidiary level.

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 German Securities Trading Act (Wertpapierhandelsgesetz – WpHG) need to be disclosed.

The table 'Notified reportable shareholdings' reflects reportable shareholdings in adidas AG, Herzogenaurach, as at the balance sheet date which have each been notified to adidas AG. 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 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.

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 12.8% (2018: negative 15.0%) 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 € 873 million (2018: negative € 959 million) and shareholders' equity in an amount of € 6.796 billion (2018: € 6.377 billion). EBITDA amounted to € 3.845 billion for the financial year ending December 31, 2019 (2018: € 2.882 billion). The ratio between net borrowings and EBITDA amounted to –0.2 for the 2019 financial year (2018: –0.3).

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, hedges of net investments in foreign subsidiaries as well as the effective portion of the cumulative net change in the fair value of the total return swap.
- **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 adidas AG 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 (2018: € 4 million). Furthermore, other reserves include additional restricted capital in an amount of € 69 million (2018: € 52 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 2019 Annual General Meeting, the dividend for 2018 was € 3.35 per share (total amount: € 664 million). The Executive Board of adidas AG will propose to use retained earnings of adidas AG in an amount of € 828 million as reported in the 2019 financial statements of adidas AG for a dividend payment of € 3.85 per share and to carry forward the subsequent remaining amount.

As at February 25, 2020, 195,433,799 dividend-entitled shares exist, resulting in a dividend payment of € 752 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 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 enroll for the plan. The company accepts enrolment requests on the first day of the relevant investment quarter. This is the grant date for the investment and matching shares. The fair value at the vesting date is equivalent to the fair value of the granted equity instruments at this date. The employees invest an amount up to 10% of their gross base salary per quarter in the plan. A few days after the end of the investment quarter the shares are purchased on the market at fair market value and transferred to the employees. Thereby the amount invested during the quarter plus the top-up from adidas is used. These shares can be sold at any time by the employee. If the shares are held for a period of one year after the last day of an investment quarter, employees will receive one-time free matching shares (one matching share for every six adidas AG shares acquired). This plan currently constitutes an equity-settled share-based payment for both elements. For the component of the matching shares relating to the specific period of service an appropriate discount is taken into account. The effects are presented in the following table:

Equity-settled share-based payment transactions with employees

	As at December 31, 2018	As at December 31, 2019				
	9th investment quarter	9th investment quarter	10th investment quarter	11th investment quarter	12th investment quarter	13th investment quarter
Grant date	Oct. 1, 2018	Oct. 1, 2018	Jan. 2, 2019	April 1, 2019	July 1, 2019	Oct. 1, 2019
Share price at grant date (in €)	213.80	213.80	184.40	219.20	274.35	282.20
Share price at December 31 (in €)	182.40					289.80
Number of granted investment shares based on the share price as at December 31	31,481					21,507
Number of actually purchased investment shares	–	29,328	23,924	20,694	20,655	–
Number of actually purchased matching shares	–	3,771	–	–	–	–
Outstanding granted matching shares based on the share price as at December 31 or actually purchased investment shares	5,247	–	3,987	3,449	3,442	3,585
Average remaining vesting period in months as at December 31 (in months)	12	0	3	6	9	12

The number of forfeited matching shares during the period amounted to 4,059 (2018: 3,473).

As at December 31, 2019, the total expenses recognized relating to investment shares amounted to € 3.1 million (2018: € 3.2 million).

Expenses recognized relating to vesting of matching shares amounted to € 2.8 million in 2019 (2018: € 2.5 million).

As at December 31, 2019, a total amount of € 5 million (2018: € 5 million) was invested by the participants in the stock purchase plan and was not yet transferred into shares by the end of December 2019. Therefore, this amount has been included in 'Other current financial liabilities'. SEE NOTE 19

Further information about the purchase of shares for the employee stock purchase plan is provided in these Notes. SEE NOTE 27

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 transfer of basic shares over five years which correspond to a value of US $ 5million each year. Based on the contractual terms, the third transfer in 2019 equated to 21,256 shares. The shares from the fifth tranche of repurchased shares with an average price of € 198.91 per share were used as a consideration. SEE NOTE 27

As at January 1, 2019 (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, 2019, it was likely that the bonus shares will be issued. Therefore, expenses recognized for bonus shares amounting to € 2 million were accrued in 2019 (2018: € 5 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. The effects are presented in the following table:

The fair value is based on the closing price of the adidas AG share on December 31, 2019, adjusted for future dividend payments.

In 2019, this resulted in an expense of € 170 million (2018: € 53 million). The corresponding provision amounted to € 254 million (2018: € 84 million).

Cash-settled share-based payment transactions with employees

	As at December 31, 2018				As at December 31, 2019					
Plan year	**2017**		**2018**		**2017**		**2018**		**2019**	
Tranche	4-year tranche	3-year tranche	4-year tranche	3-year tranche	4-year tranche	3-year tranche	4-year tranche	3-year tranche	4-year tranche	3-year tranche
Share price as at December 31 (in €)	175.89	179.22	172.08	175.89	286.09	289.80	281.30	286.09	276.23	281.30
Number of granted RSUs based on the share price as at December 31 (in €)	277,998	336,099	295,114	160,518	249,632	300,365	262,940	143,933	212,225	236,158
Average risk-free interest rate based on the share price as at December 31 (in %)	0.73%	0.83%	0.70%	0.73%	0.70%	–	0.64%	0.70%	0.60%	0.64%
Average remaining vesting period as at December 31 (in months)	24	12	36	24	12	–	24	12	36	24

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 both as at December 31, 2019 and as at December 31, 2018. SEE SHAREHOLDINGS, P. 208

As a result of obtaining control over Agron, Inc., its net assets, which are attributable entirely to the non-controlling interest, were consolidated for the first-time into the company's consolidated statement of financial position as at December 31, 2019. SEE NOTE 04

A merger of Reebok Israel Ltd. with adidas Israel Ltd. (formerly: Life Sport Ltd.) was completed in 2019.

Reebok India Company was acquired in connection with the acquisition of Reebok in 2006.

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, 2019	Dec. 31, 2018
Agron, Inc.	USA	100%	–
adidas Israel Ltd. (formerly: Life Sport Ltd.)	Israel	15%	15%
Reebok Israel Ltd.	Israel	–	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, 2019		Dec. 31, 2018
	Total	Thereof: Agron, Inc.	
Net sales (third parties)	222	–	200
Net income	**14**	**–**	**19**
Net income attributable to non-controlling interests	**2**	**–**	**3**
Other comprehensive income	(8)	(6)	15
Total comprehensive income	**6**	**(6)**	**33**
Total comprehensive income attributable to non-controlling interests	**(4)**	**(6)**	**4**
Current assets	361	209	114
Non-current assets	195	122	21
Current liabilities	(174)	(55)	(70)
Non-current liabilities	(42)	(2)	(2)
Net assets	**340**	**274**	**63**
Net assets attributable to non-controlling interests according to the consolidated statement of financial position	**261**	**274**	**(13)**
Net cash generated from operating activities	14	–	31
Net cash generated from/(used in) investing activities	0	–	(11)
Net cash used in financing activities	(11)	–	(20)
Net increase/(decrease) of cash and cash equivalents	**3**	**–**	**(0)**
Dividends paid to non-controlling interests during the year [1]	2	–	1

1 Included in net cash used in financing activities.

30 » FINANCIAL INSTRUMENTS

Additional disclosures on financial instruments

Carrying amounts of financial instruments and their fair values including hierarchy according to IFRS 13 € in millions

	Category	December 31, 2019					December 31, 2018				
		Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets											
Cash and cash equivalents											
Cash and cash equivalents	Amortized cost	1,636		–	–	–	2,180		–	–	–
Cash equivalents	Fair value through profit or loss	584	584	–	584	–	449	449	–	449	–
Short-term financial assets	Fair value through profit or loss	292	292	–	292	–	6	6	–	6	–
Accounts receivable	Amortized cost	2,625		–	–	–	2,418		–	–	–
Other current financial assets											
Derivatives used in hedge accounting	Hedge accounting	141	141	–	141	–	172	172	–	172	–
Derivatives not used in hedge accounting	Fair value through profit or loss	25	25	–	25	–	46	46	–	46	–
Promissory notes	Fair value through profit or loss	33	33	–	–	33	26	26	–	–	26
Earn-out components	Fair value through profit or loss	9	9	–	–	9	–	–	–	–	–
Other financial assets	Amortized cost	336		–	–	–	297		–	–	–
Long-term financial assets											
Other equity investments	Fair value through profit or loss	87	87	–	–	87	86	86	–	–	86
Other equity investments	Fair value through other comprehensive income	79	79	–	–	79	58	58	–	–	58
Other investments	Fair value through profit or loss	35	37	–	37[1]	–	25	27	–	27[2]	–
Other investments	Amortized cost	167		–	–	–	104		–	–	–
Loans	Amortized cost	1		–	–	–	1		–	–	–

1 Net gains in the amount of € 2 million and gains in the amount of € 0 million due to currency translation differences were recognized in equity in 2019.
2 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.
3 Lease liabilities are measured in accordance with IFRS 16 and finance lease obligations are measured in accordance with IAS 17.

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 assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 is based on inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Carrying amounts of financial instruments and their fair values including hierarchy according to IFRS 13 € in millions

	Category	December 31, 2019					December 31, 2018				
		Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Other non-current financial assets											
Derivatives used in hedge accounting	Hedge accounting	62	62	–	62	–	11	11	–	11	–
Derivatives not used in hedge accounting	Fair value through profit or loss	95	95	–	95	–	28	28	–	28	–
Promissory notes	Fair value through profit or loss	149	149	–	–	149	122	122	–	–	122
Earn-out components	Fair value through profit or loss	36	36	–	–	36	21	21	–	–	21
Other financial assets	Amortized cost	110		–	–	–	74		–	–	–
Financial assets per level				**–**	**1,236**	**392**			**–**	**740**	**313**
Financial liabilities											
Short-term borrowings											
Bank borrowings	Amortized cost	43		–	–	–	66		–	–	–
Accounts payable	Amortized cost	2,703		–	–	–	2,300		–	–	–
Current accrued liabilities	Amortized cost	1,017		–	–	–	922		–	–	–
Current accrued liabilities for customer discounts	Amortized cost	740		–	–	–	619		–	–	–
Other current financial liabilities									–	–	–
Derivatives used in hedge accounting	Hedge accounting	138	138	–	138	–	65	65	–	65	–
Derivatives not used in hedge accounting	Fair value through profit or loss	31	31	–	31	–	29	29	–	29	–
Earn-out components	Fair value through profit or loss	–		–	–	–	15	15	–	–	15
Other financial liabilities	Amortized cost	66		–	–	–	68		–	–	–
Lease liabilities/finance lease obligations[3]	n.a.	733		–	–	–	10		–	–	–
Long-term borrowings											
Bank borrowings	Amortized cost	122		–	–	–	141		–	–	–
Eurobond	Amortized cost	986	1,044	1,044	–	–	984	1,030	1,030	–	–
Convertible bond	Amortized cost	487	615	615	–	–	484	520	520	–	–
Non-current accrued liabilities	Amortized cost	0		–	–	–	1		–	–	–

1 Net gains in the amount of € 2 million and gains in the amount of € 0 million due to currency translation differences were recognized in equity in 2019.
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Level 3 is based on inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Carrying amounts of financial instruments and their fair values including hierarchy according to IFRS 13 € in millions

	Category	December 31, 2019					December 31, 2018				
		Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Other non-current financial liabilities											
Derivatives used in hedge accounting	Hedge accounting	7	7	–	7	–	2	2	–	2	–
Derivatives not used in hedge accounting	Fair value through profit or loss	86	86	–	86	–	20	20	–	20	–
Other financial liabilities	Amortized cost	0		–	–	–	0		–	–	–
Lease liabilities/finance lease obligations[3]	n.a.	2,399		–	–	–	81		–	–	–
Financial liabilities per level				**1,659**	**262**	**–**			**1,550**	**116**	**15**
Thereof: aggregated by category according to IFRS 9											
Financial assets at fair value through profit or loss (FVTPL)		1,345					809				
Thereof: designated as such upon initial recognition (Fair Value Option – FVO)		–					–				
Thereof: held for trading (FAHfT)		84					83				
Financial assets at fair value through other comprehensive income (FVOCI)		79					58				
Thereof: debt instruments		–					–				
Thereof: equity investments (without recycling to profit and loss)		79					58				
Financial assets at amortized cost (AC)		4,873					5,074				
Financial liabilities at fair value through profit or loss (FVTPL)		117					63				
Thereof: held for trading (FLHfT)		–					–				
Financial liabilities at amortized cost (AC)		6,165					5,585				

1 Net gains in the amount of € 2 million and gains in the amount of € 0 million due to currency translation differences were recognized in equity in 2019.
2 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.
3 Lease liabilities are measured in accordance with IFRS 16 and finance lease obligations are measured in accordance with IAS 17.

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 assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 is based on inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Reconciliation of fair value hierarchy Level 3 in 2019 € in millions

				Realized		Unrealized			
	Fair value Jan. 1, 2019	Additions	Disposals	Gains	Losses	Gains	Losses	Currency translation	Fair value Dec. 31, 2019
Investments in other equity instruments held for trading (FAHfT)	83	–	–	–	–	1	–	–	84
Investments in other equity instruments (FVTPL)	2	–	–	–	–	–	–	–	2
Investments in other equity instruments (FVOCI)	58	8	–	–	–	15	(3)	–	78
Promissory notes (FVTPL)	147	22	(5)	1	–	14	–	3	182
Earn-out components – assets (FVTPL)	21	–	(45)	45	–	24	–	0	45
Earn-out components – liabilities (FVTPL)	15	–	(15)	–	–	–	–	–	–

Reconciliation of fair value hierarchy Level 3 in 2018 € in millions

				Realized		Unrealized			
	Fair value Jan. 1, 2018	Additions	Disposals	Gains	Losses	Gains	Losses	Currency translation	Fair value Dec. 31, 2018
Investments in other equity instruments held for trading (FAHfT)	82	–	–	–	–	1	–	–	83
Investments in other equity instruments (FVTPL)	8	–	(6)	–	–	–	–	–	2
Investments in other equity instruments (FVOCI)	64	3	–	–	–	–	8	–	58
Promissory notes (FVTPL)	149	–	(9)	–	–	1	–	5	147
Earn-out components – assets (FVTPL)	19	–	–	–	–	1	–	–	21
Earn-out components – liabilities (FVTPL)	25	–	(25)	–	–	–	15	–	15

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.

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.

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.

During the course of 2019, significant unobservable inputs did not significantly change and there were no reclassifications between levels.

Financial instruments Level 1 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, 2019.	Not applicable	Amortized cost
Eurobond	The fair value is based on the market price of the Eurobond as at December 31, 2019.	Not applicable	Amortized cost

Financial instruments Level 2 measured at fair value

Type	Valuation method	Significant unobservable inputs	Category
Cash equivalents and short-term financial assets (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
Long-term financial assets (investment securities)	The fair value is based on the market price of the assets as at December 31, 2019.	Not applicable	Fair value through profit or loss
Forward exchange contracts	In 2019, 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, 2019, 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, 2019. 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 (1.7% – 2.0%), 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 (2.3% – 3.1%)	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 (fair value through profit or loss)	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 (fair value through other comprehensive income)	The option to measure equity instruments at fair value through other comprehensive income upon implementation of IFRS 9 has been exercised. The significant inputs (financing rounds) used to measure fair value include one or more events where objective evidence of any changes was identified, considering expectations regarding future business development. The fair value adjustment is recognized in other reserves.	See column 'Valuation method'		Fair value through other compre-hensive income
Earn-out components (liabilities)	The discounted cash flow method is applied, which considers the present value of expected payments, discounted using a risk-adjusted discount rate. The fair value adjustment refers to accretion and is recognized in interest result.	Risk-adjusted discount rate (1.75%)	The estimated fair value would increase (decrease) if the target ratio achievement was higher (lower) or the risk-adjusted discount rate was lower (higher).	Fair value through profit or loss

Net gains/(losses) on financial instruments recognized in the consolidated income statement € in millions

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Financial assets classified at amortized cost (AC)	(18)	(42)
Financial assets at fair value through profit or loss (FVTPL)	90	7
Thereof: designated as such upon initial recognition	–	–
Thereof: classified as held for trading	1	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)	29	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 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'

During 2019, no dividends regarding equity instruments at fair value through other comprehensive income were recognized. Net gains or losses on financial liabilities measured at amortized cost include effects from early settlement and reversals of accrued liabilities and refund liabilities.

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, 2019	Dec. 31, 2018
Forward exchange contracts	14,697	10,784
Currency options	920	476
Total	**15,617**	**11,260**

Notional amounts of outstanding US dollar hedging instruments € in millions

	Dec. 31, 2019	Dec. 31, 2018
Forward exchange contracts	4,590	4,767
Currency options	844	319
Total	**5,434**	**5,086**

Fair values € in millions

	Dec. 31, 2019		Dec. 31, 2018	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Forward exchange contracts	120	(175)	208	(96)
Currency options	17	–	15	–
Total	**137**	**(175)**	**223**	**(96)**

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 respective 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.

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, 2019				
Exposure from firm commitments and forecast transactions	(6,522)	1,061	796	1,497
Balance sheet exposure including intercompany exposure	(274)	(31)	(7)	310
Total gross exposure	**(6,796)**	**1,030**	**789**	**1,807**
Hedged with currency options	844	(23)	(53)	0
Hedged with forward contracts	4,243	(936)	(607)	(1,681)
Net exposure	**(1,709)**	**71**	**129**	**126**
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 currency options	319	(94)	(48)	(18)
Hedged with forward contracts	4,298	(919)	(607)	(906)
Net exposure	**(798)**	**66**	**64**	**80**

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 2019 and 2018.

Based on this analysis, a 10% increase in the euro versus the US dollar at December 31, 2019 would have led to a € 6 million increase in net income.

Sensitivity analysis of foreign exchange rate changes € in millions

	USD	GBP	JPY	CNY
As at December 31, 2019				
	EUR + 10%	**EUR + 10%**	**EUR + 10%**	**EUR + 10%**
Equity	(328)	86	59	99
Net income	6	3	1	(26)
	EUR – 10%	**EUR – 10%**	**EUR – 10%**	**EUR – 10%**
Equity	465	(104)	(71)	(122)
Net income	(8)	(3)	(2)	32
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

The more negative market values of the US dollar hedges would have decreased shareholders' equity by € 328 million. A 10% weaker euro at December 31, 2019 would have led to a € 8 million decrease in net income. Shareholders' equity would have increased by € 465 million. The impacts of fluctuations of the euro against the British pound, the Japanese yen and the Chinese renminbi 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 2020 was around € 6.8 billion at year-end 2019, 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 or other credit enhancements, the carrying amount of financial assets and accounts receivable represents the maximum exposure to credit risk.

At the end of 2019, 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. Further quantitative information on the extent to which credit enhancements mitigate the credit risk of accounts receivable is included in these Notes. SEE NOTE 07

At the end of 2019, no customer accounted for more than 10% of accounts receivable.

The Treasury department arranges currency, commodity interest rate and equity 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. 104 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, 2019, no bank accounted for more than 10% of the investments of adidas. Including subsidiaries' short-term deposits in local banks, the average concentration was 2%. This leads to a maximum exposure of € 118 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 2019, adidas held derivatives of foreign exchange with a positive fair market value in the amount of € 137 million. The maximum exposure to any single bank resulting from these assets amounted to € 66 million and the average concentration was 9%.

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

	2019	2018
Assets		
Gross amounts of recognized financial assets	322	249
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	**322**	**249**
Set-off possible due to master agreements	(160)	(94)
Total net amount of financial assets	**162**	**155**
Liabilities		
Gross amounts of recognized financial liabilities	(262)	(97)
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	**(262)**	**(97)**
Set-off possible due to master agreements	160	94
Total net amount of financial liabilities	**(102)**	**(3)**

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. 104

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 and options to hedge against share price fluctuations. Swaps are used to hedge the Long-Term Incentive Plan and are classified as cash flow hedges. 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, 2019 would have led to a € 79.5 million increase in net income whereas a 10% decrease in the adidas AG share price versus the closing share price at December 31, 2019 would only have led to a € 45.7 million increase 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, 2019, cash and cash equivalents together with marketable securities amounted to € 2.511 billion (2018: € 2.635 billion). Moreover, the company maintains € 2.105 billion (2018: € 2.215 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. 104

Future cash outflows arising from financial liabilities that are recognized in the consolidated statement of financial position are presented in the table.

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

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, 2019							
Bank borrowings	43	19	19	19	19	46	165
Eurobond[1]	17	616	9	9	9	407	1,067
Equity-neutral convertible bond				487			487
Accounts payable	2,703						2,703
Other financial liabilities	66	0					66
Accrued liabilities[2]	1,016					1	1,017
Derivative financial liabilities	7,497	712	5	503	3	15	8,735
Total	**11,342**	**1,347**	**33**	**1,018**	**31**	**469**	**14,240**
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						83
Accrued liabilities[2]	921					1	922
Derivative financial liabilities	3,373	378	7	4	503	13	4,278
Total	**6,759**	**414**	**642**	**32**	**1,015**	**496**	**9,358**

1 Including interest payments.
2 Accrued interest excluded.

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 2019 with net cash of € 873 million (2018: net cash of € 959 million).

Financial instruments for the hedging of foreign exchange risk

As at December 31, 2019, adidas held the following instruments to hedge exposure to changes in foreign currency:

Average hedge rates

	Maturity	
As at December 31, 2019	**short-term**	**long-term**
Foreign currency risk		
Net exposure (€ in millions)	**853**	**360**
Forward exchange contracts		
Average EUR/USD forward rate	1.167	1.142
Average EUR/GBP forward rate	0.899	0.869
Average EUR/JPY forward rate	123.132	117.975
Average EUR/CNY forward rate	7.961	8.079
Option exchange contracts		
Average EUR/USD forward rate	1.143	–
Average EUR/GBP forward rate	0.862	0.863
Average EUR/JPY forward rate	124.650	–
Average USD/CNY forward rate	–	–
Equity risk		
Net exposure (€ in millions)	**49**	**118**
Total return swap		
Average hedge rate	179.980	190.215

Average hedge rates

	Maturity	
As at December 31, 2018	**short-term**	**long-term**
Foreign currency risk		
Net exposure (€ in millions)	**(90)**	**873**
Forward exchange contracts		
Average EUR/USD forward rate	1.223	1.207
Average EUR/GBP forward rate	0.896	0.897
Average EUR/JPY forward rate	130.737	127.577
Average USD/CNY forward rate	6.687	6.872
Option exchange contracts		
Average EUR/USD forward rate	1.189	–
Average EUR/GBP forward rate	0.933	–
Average EUR/JPY forward rate	131.221	–
Average USD/CNY forward rate	6.901	–
Equity risk		
Net exposure (€ in millions)	**–**	**104**
Total return swap		
Average hedge rate	–	177.060

The amounts at the reporting date relating to items designated as hedged items were as follows:

Designated hedged items as at December 31, 2019 € in millions

	Change in value used for calculating hedge ineffectiveness	Hedging reserve	Cost of hedging reserve	Balances remaining in the cash flow hedging reserve from hedge relationships for which hedge accounting is no longer applied
Foreign currency risk				
Sales	(59)	(49)	(47)	–
Inventory purchases	(42)	8	59	–
Net foreign investment risk	**(44)**	**(182)**	**–**	**–**
Equity risk				
Long-Term Incentive Plans	(85)	26	–	–

Designated hedged items as at December 31, 2018 € in millions

	Change in value used for calculating hedge ineffectiveness	Hedging reserve	Cost of hedging reserve	Balances remaining in the cash flow hedging 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

	2019								During the period 2019				
		Carrying amount											
	Nominal amount	Assets	Liabilities	Line item in statement of financial position 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 reserve	Hedge ineffectiveness recognized in profit or loss	Line item in income statement which includes hedge ineffectiveness	Amount from hedging reserve transferred to inventory	Amount from cost of hedging reserve transferred to inventory	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in income statement affected by the reclassification
Foreign exchange contracts – sales	4,606	21	(70)	Other financial assets/liabilities	59	(126)	–	Cost of sales	–	–	(160)	54	Cost of sales
Foreign exchange contracts – inventory purchases	4,960	40	(32)	Other financial assets/liabilities	42	(30)	–	Cost of sales	105	117	–	–	Cost of sales
Foreign exchange contracts – net foreign investments	503	–	(2)	Other financial assets/liabilities	44	–	–	Financial result	–	–	–	–	Financial result
Total return swap – Long-Term Incentive Plans	167	88	–	Other financial assets/liabilities	85	–	–	Financial result	–	–	61	–	Other operating expenses

Designated hedge instruments € in millions

	2018								During the period 2018				
		Carrying amount											
	Nominal amount	Assets	Liabilities	Line item in statement of financial position 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 reserve	Hedge ineffectiveness recognized in profit and loss	Line item in income statement which includes hedge ineffectiveness	Amount from hedging reserve transferred to inventory	Amount from cost of hedging reserve transferred to inventory	Amount reclassified from hedging reserve to profit or loss	Amount reclassified from cost of hedging reserve to profit or loss	Line item in income statement affected by the reclassification
Foreign exchange contracts – sales	3,256	23	(54)	Other financial assets/liabilities	318	25	–	Cost of sales	–	–	(26)	(33)	Cost of sales
Foreign exchange contracts – inventory purchases	4,282	151	(7)	Other financial assets/liabilities	(27)	(35)	–	Cost of sales	(46)	30	–	–	Cost of sales
Foreign exchange contracts – net foreign investments	486	6	(5)	Other financial assets/liabilities	(16)	–	–	Financial result	–	–	–	–	Financial result
Total return swap – Long-Term Incentive Plans	104	3	–	Other financial assets/liabilities	2	–	–	Financial result	–	–	1	–	Other operating expenses

Due to changes in exposure, some of the currency hedges were terminated and consequently an amount of negative € 35 million was reclassified from hedging reserves to the income statement in 2019.

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 of reserves by risk category € in millions

	Hedging reserve	Cost of hedging reserve
Balance at January 1, 2019	**(20)**	**(11)**
Cash flow hedges		
Changes in fair value:		
Foreign currency risk – sales	(158)	32
Foreign currency risk – inventory purchases	(33)	99
Foreign currency risk – net foreign investment	(44)	–
Amount no longer recognized in OCI:		
Foreign currency risk	54	(172)
Contracts during the year	(18)	46
Amount included in the cost of non-financial items:		
Foreign currency risk – inventory purchases	–	–
Tax on movements of reserves during the year	**44**	**3**
Equity hedges		
Changes in fair value:	85	–
Amount reclassified to profit or loss	(61)	–
Balance at December 31, 2019	**(150)**	**(3)**

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.

Changes of 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	40
Foreign currency risk – inventory purchases	55	(40)
Foreign currency risk – net foreign investment	(16)	–
Amount reclassified to profit or loss:		
Foreign currency risk	(73)	30
Contracts during the year	16	(39)
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)**

NOTES TO THE CONSOLIDATED INCOME STATEMENT

All figures related to the 2019 and 2018 financial years in the 'Notes to the consolidated income statement' refer to the company's continuing operations unless otherwise stated.

31 » OTHER OPERATING INCOME

Other operating income consists of the following:

Other operating income € in millions

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Income from release of accrued liabilities and other provisions	9	6
Gains from disposal of fixed assets	5	10
Sundry income	42	32
Other operating income	**56**	**48**

Sundry income mainly relates to income from reimbursements of indirect taxes.

32 » OTHER OPERATING EXPENSES

Expenses are presented by function according to the 'cost of sales method' in the income statement with the exception of impairment losses (net) on accounts receivable and contract assets which are disclosed in a separate line item as required by IFRS 9 'Financial Instruments'.

Other operating expenses presented by functions 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.

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 € 152 million in 2019 (2018: € 153 million).

General and administration expenses include the functions IT, Finance, Legal, Human Resources, Facilities & Services as well as General Management.

Sundry expenses consist mainly of costs for one-time effects as well as losses from disposal of fixed assets.

Income from government grants is reported as a deduction from the related expenses and amounted to € 34 million in 2019 (2018: €27 million).

Further information on expenses by nature is provided in these Notes. SEE NOTE 33

33 » COST BY NATURE

Supplementary information on the expenses by nature is detailed below.

Cost of materials represents the amount of inventories recognized as an expense during the period.

Depreciation of tangible and right-of-use assets, amortization of intangible assets as well as impairment losses and reversals of impairment losses on those assets are primarily included within other operating expenses unless they are directly attributable to the production costs, in which case the expenses are included within the cost of sales. Impairment losses and reversals of impairment losses on goodwill (if applicable) are presented as a separate line item in the consolidated income statement.

Personnel expenses are primarily included within other operating expenses unless they are directly attributable to the production costs, in which case the expenses are included within the cost of sales.

Expenses relating to leases of low-value assets exclude short-term leases of low-value assets.

Expenses by nature € in millions

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Cost of materials	**11,296**	**10,507**
Depreciation and amortization	**1,162**	**470**
Thereof: included within the cost of sales	31	3
Thereof: included within personnel expenses	11	–
Impairment losses	**24**	**19**
Reversals of impairment losses	**(8)**	**(3)**
Wages and salaries	2,382	2,156
Social security contributions	228	218
Pension expenses	109	107
Personnel expenses	**2,720**	**2,481**
Expense relating to short-term leases	**38**	**n.a.**
Expense relating to leases of low-value assets	**1**	**n.a.**
Expense relating to variable lease payments	**140**	**n.a.**

Further information on expenses by function is provided in these Notes. SEE NOTE 32

34 » FINANCIAL INCOME/FINANCIAL EXPENSES

Financial result consists of the following:

Financial income € in millions

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Interest income from financial instruments measured at amortized cost	50	24
Interest income from financial instruments at fair value through profit or loss	0	0
Interest income from non-financial assets	0	0
Net foreign exchange gains	–	26
Other	14	7
Financial income	**64**	**57**

Financial expenses € in millions

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Interest expense on financial instruments measured at amortized cost	160	42
Thereof: interest expense on lease liabilities	101	2
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
Net foreign exchange losses	5	–
Other	1	5
Financial expenses	**166**	**47**

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 lease liabilities as well as 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.

Information regarding investments, borrowings and financial instruments is also included in these Notes. SEE NOTES 06, 15, 18 AND 30

35 » 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. The financial statements are based on a historical cost approach. The prior year figures are stated in terms of the measuring unit current at December 31, 2018.

For translation into the presentation currency (euro), all amounts were translated at the closing rate at December 31, 2019. The net assets in the subsidiary's local financial statements were adjusted for changes in the price level.

The price index at December 31, 2019 was 3,767.12 (2018: 2,450.15).

36 » INCOME TAXES

adidas AG and its German subsidiaries are subject to German corporate and trade taxes. For the years ending December 31, 2019 and 2018, 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, 2019	Dec. 31, 2018
Deferred tax assets	1,093	651
Deferred tax liabilities	(280)	(241)
Deferred tax assets, net	**813**	**410**

The movement of deferred taxes is as follows:

Movement of deferred taxes € in millions

	2019	2018
Deferred tax assets, net as at January 1	**410**	**440**
Deferred tax income	355	4
Change in consolidated companies[1]	(2)	–
Change in deferred taxes attributable to remeasurements of defined benefit plans recorded in other comprehensive income[2]	18	6
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[3]	27	(43)
Change in deferred taxes attributable to the implementation of IFRS 9	–	1
Change in deferred taxes attributable to the implementation of IFRS 15	–	8
Currency translation differences	5	(6)
Deferred tax assets, net as at December 31	**813**	**410**

1 See Note 04.
2 See Note 25.
3 See Note 30.

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, 2019	Dec. 31, 2018
Non-current assets	462	182
Current assets	292	182
Liabilities and provisions	1,018	311
Accumulated tax loss carry-forwards	80	14
Deferred tax assets	**1,852**	**689**
Non-current assets	888	206
Current assets	69	49
Liabilities and provisions	82	24
Deferred tax liabilities	**1,039**	**279**
Deferred tax assets, net	**813**	**410**

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 on liabilities and provisions, and deferred tax liabilities on non-current assets increased significantly in 2019 due to the initial application of IFRS 16. Deferred tax assets on non-current assets increased significantly due to an increase in the tax base of non-current assets relating to an internal reorganization.

Deferred tax assets for which the realization of the related tax benefits is not probable decreased from € 554 million to € 488 million for the year ending December 31, 2019. 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.

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, 2019	Year ending Dec. 31, 2018
Current tax expenses	996	673
Deferred tax income	(355)	(4)
Income tax expenses	**640**	**669**

The deferred tax income includes tax income of € 388 million in total (2018: € 52 million) related to the origination and reversal of temporary differences.

In 2019, current and deferred tax expense/income includes impacts relating to an internal reorganization.

The company's applicable tax rate is 27.4% (2018: 30%), being the applicable income tax rate of adidas AG. The comparative information for 2018 in the table below has been restated based on the applicable tax rate of 27.4%.

The company's effective tax rate differs from the applicable tax rate of 27.4% as follows:

Tax rate reconciliation

	Year ending Dec. 31, 2019		Year ending Dec. 31, 2018	
	€ in millions	in %	€ in millions	in %
Expected income tax expenses	700	27.4	651	27.4
Tax rate differentials	(119)	(4.6)	(116)	(4.9)
Non-deductible expenses	26	1.0	27	1.2
Losses for which benefits were not recognizable and changes in valuation allowances	(53)	(2.1)	(29)	(1.2)
Changes in tax rates	3	0.1	3	0.1
Other, net	1	0.0	0	0.0
	557	**21.8**	**537**	**22.6**
Withholding tax expenses	83	3.2	132	5.6
Income tax expenses	**640**	**25.0**	**669**	**28.1**

In 2019, the effective tax rate was 25.0%. The effective tax rate in 2018 was 28.1%.

The line item 'Non-deductible expenses' includes tax expense/benefits relating to tax-free income, movements in provisions for uncertain tax positions, tax expense relating to prior periods and tax expense relating to an internal reorganization.

In 2019, the tax expense relating to prior periods is € 134 million (2018: benefit of € 69 million).

For 2019, the line item 'Losses for which benefits were not recognizable and changes in valuation allowances' mainly relates to the release of valuation allowances in respect of the US, Canada, and Brazil (€ 56 million), and an increase in the valuation allowance in Argentina (€ 3 million). For 2018, this line item mainly related to changes in valuation allowances for the US, Canada, and Argentina.

For 2019, the total tax benefit arising from previously unrecognized tax losses, credits or temporary differences in prior years that is used to reduce current tax expense was € 26 million, mainly relating to the US, Canada and Brazil (2018: € 39 million).

For 2019, the line item 'Changes in tax rates' mainly reflects tax rate reductions in India and Greece. For 2018, this line item mainly reflected tax rate reductions in France and Argentina.

37 » 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.

The convertible bond issued in March 2012 was fully converted in 2018, therefore it is not necessary to include potential dilutive shares arising from the convertible bond in the calculation of diluted earnings per share in 2019. Dilutive effects result out of the share-based payment transactions with employees. SEE NOTE 28

Earnings per share

	Continuing operations		Discontinued operations		Total	
	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Net income from continuing operations (€ in millions)	1,918	1,709	–	–	–	–
Net income attributable to non-controlling interests (€ in millions)	2	3	–	–	–	–
Net income attributable to shareholders (€ in millions)	**1,917**	**1,707**	**59**	**(5)**	**1,976**	**1,702**
Weighted average number of shares	197,606,107	201,759,012	197,606,107	201,759,012	197,606,107	201,759,012
Basic earnings per share (€)	**9.70**	**8.46**	**0.30**	**(0.02)**	**10.00**	**8.44**
Net income attributable to shareholders (€ in millions)	1,917	1,707	59	(5)	1,976	1,702
Interest expense on convertible bond, net of taxes (€ in millions)	–	0	–	–	–	0
Net income used to determine diluted earnings per share (€ in millions)	**1,917**	**1,707**	**59**	**(5)**	**1,976**	**1,702**
Weighted average number of shares	197,606,107	201,759,012	197,606,107	201,759,012	197,606,107	201,759,012
Weighted assumed conversion of the convertible bond	–	280,100	–	280,100	–	280,100
Dilutive effect of share-based payments	6,426	5,855	6,426	5,855	6,426	5,855
Weighted average number of shares for diluted earnings per share	**197,612,533**	**202,044,967**	**197,612,533**	**202,044,967**	**197,612,533**	**202,044,967**
Diluted earnings per share (€)	**9.70**	**8.45**	**0.30**	**(0.02)**	**10.00**	**8.42**

ADDITIONAL INFORMATION

38 » SEGMENTAL INFORMATION

adidas operates predominantly in one industry segment – the design, distribution and marketing of athletic and sports lifestyle products.

As at December 31, 2019, 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, North America adidas, North America Reebok, Asia-Pacific, Russia/CIS, Latin America, Emerging Markets, adidas Golf, Runtastic and Other centrally managed businesses.

Due to the completed divestiture, income and expenses of the former TaylorMade operating segment are reported as discontinued operations in 2018. SEE NOTE 03

The operating segments North America adidas and North America Reebok have been aggregated to segment North America.

According to the criteria of IFRS 8 for reportable segments, the operating segments Europe, North America, Asia-Pacific, Russia/CIS, Latin America and Emerging Markets are reported separately. The remaining operating segments are aggregated under Other Businesses due to their only subordinate materiality.

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.

Net sales represents revenue from contracts with customers. 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 expenditure 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 line items '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]	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Europe	6,071	5,885	5,599	5,405	471	480	1,408	1,176	1,671	1,511	128	115
North America	5,313	4,689	4,828	4,277	485	411	715	698	1,692	1,474	101	98
Asia-Pacific	8,032	7,141	7,736	6,805	296	336	2,703	2,339	1,735	1,417	340	333
Russia/CIS	658	595	490	446	168	149	167	146	215	157	5	5
Latin America	1,660	1,634	1,490	1,463	170	171	295	279	656	617	111	85
Emerging Markets	1,302	1,144	1,146	1,010	156	134	367	318	480	391	55	41
Reportable segments	**23,035**	**21,086**	**21,288**	**19,405**	**1,747**	**1,681**	**5,655**	**4,956**	**6,449**	**5,568**	**740**	**676**
Other Businesses (continuing operations)	605	829	217	446	1	6	68	163	191	280	15	18
Other Businesses (discontinued operations)	–	48	–	–	–	–	–	(4)	–	–	–	–
Other Businesses	**605**	**877**	**217**	**446**	**1**	**6**	**68**	**159**	**191**	**280**	**15**	**18**
Total	**23,640**	**21,963**	**21,505**	**19,851**	**1,748**	**1,687**	**5,723**	**5,114**	**6,640**	**5,848**	**755**	**693**

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]	
	2019	2018	2019	2018	2019	2018
Europe	83	69	161	55	3	3
North America	62	53	129	40	6	2
Asia-Pacific	172	157	329	133	5	2
Russia/CIS	17	7	77	23	(0)	(1)
Latin America	35	15	53	25	(0)	1
Emerging Markets	22	14	60	16	1	0
Reportable segments	**391**	**315**	**809**	**291**	**14**	**7**
Other Businesses (continuing operations)	4	5	14	7	6	8
Other Businesses (discontinued operations)	–	–	–	1	–	0
Other Businesses	**4**	**5**	**14**	**8**	**6**	**8**
Total	**395**	**321**	**824**	**299**	**20**	**16**

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.

Net sales (third parties) € in millions

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Reportable segments	23,035	21,086
Other Businesses	605	877
Reclassification to discontinued operations	–	(48)
Total	**23,640**	**21,915**

Operating profit € in millions

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Operating profit for reportable segments	5,655	4,956
Operating profit for Other Businesses	68	159
Segmental operating profit	**5,723**	**5,114**
Reclassification to discontinued operations	–	4
HQ	(1,997)	(1,755)
Central expenditure for marketing	(925)	(958)
Consolidation	(141)	(38)
Operating profit	**2,660**	**2,368**
Financial income	64	57
Financial expenses	(166)	(47)
Income before taxes	**2,558**	**2,378**

Capital expenditure € in millions

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Reportable segments	391	315
Other Businesses	4	5
HQ	316	473
Consolidation	–	–
Total	**711**	**794**

Depreciation and amortization € in millions

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Reportable segments	809	291
Other Businesses	14	8
Reclassification to discontinued operations	–	(1)
HQ	338	171
Consolidation	–	–
Total	**1,162**	**470**

Impairment losses and reversals of impairment losses € in millions

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Reportable segments	14	7
Other Businesses	6	8
Reclassification to discontinued operations	–	(0)
HQ	2	2
Consolidation	(7)	(2)
Total	**15**	**16**

Assets € in millions

	Dec. 31, 2019	Dec. 31, 2018
Accounts receivable and inventories of reportable segments	6,449	5,568
Accounts receivable and inventories of Other Businesses	191	280
Segmental assets	**6,640**	**5,848**
Non-segmental accounts receivable and inventories	70	15
Current financial assets	3,055	3,177
Other current assets	1,169	773
Non-current assets	9,746	5,799
Total	**20,680**	**15,612**

Liabilities € in millions

	Dec. 31, 2019	Dec. 31, 2018
Accounts payable of reportable segments	740	676
Accounts payable of Other Businesses	15	18
Segmental liabilities	**755**	**693**
Non-segmental accounts payable	1,947	1,607
Current financial liabilities	1,012	253
Other current liabilities	5,040	4,281
Non-current liabilities	4,868	2,414
Total	**13,622**	**9,248**

Product information

Net sales (third parties) € in millions

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Footwear	13,521	12,783
Apparel	8,963	8,223
Hardware	1,156	958
Reclassification to discontinued operations	–	(48)
Total	**23,640**	**21,915**

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 by market € in millions

	Net sales (third parties)		Non-current assets	
	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Europe	6,321	6,372	3,244	2,354
North America	5,501	4,869	1,601	718
Asia-Pacific	8,192	7,334	1,917	1,077
Russia/CIS	658	595	505	189
Latin America	1,662	1,638	183	79
Emerging Markets	1,306	1,155	385	198
Reclassification to discontinued operations	–	(48)	–	–
Total	**23,640**	**21,915**	**7,836**	**4,615**

Geographical information by country € in millions

	Net sales (third parties) – continuing operations		Non-current assets	
	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Germany, Europe	1,298	1,260	1,431	1,275
China, Asia-Pacific	5,278	4,546	1,175	582
USA, North America	5,089	4,485	1,475	640

39 » ADDITIONAL CASH FLOW INFORMATION

In 2019, the increase in cash generated from operating activities compared to the prior year was primarily due to an increase in income before taxes, a decrease in income taxes paid and the different treatment for operating leases which was partly offset by a decrease in operating working capital requirements.

Under IFRS 16, payments for operating leases formerly disclosed under IAS 17, are no longer recognized on a straight-line basis and also not reported as cash flow from operating activities. Instead, repayments and interest payments for the lease liabilities will be recognized in the cash flow from financing activities. This results in a decline in cash flows from financing activities in the amount of € 692 million and an improvement in cash flows from operating activities in the amount of € 684 million.

There was a change in the presentation of interest paid in the consolidated statement of cash flows in the financial year. Due to the first-time application of IFRS 16, the option to show the interest paid within the net cash used in financing activities was chosen, instead of net cash generated from operating activities. To enhance comparability, the prior year was also adjusted.

Net cash used in investing activities in 2019 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 and investments in money market funds.

Net cash used in financing activities mainly related to the repurchase of adidas AG shares, the dividend paid to shareholders of adidas AG and the repayments of lease liabilities.

Net cash (used in)/generated from discontinued operations
€ in millions

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Net cash (used in)/generated from operating activities	(9)	(20)
Net cash (used in) investing activities	–	–
Net cash (used in) financing activities	–	–
Net cash (used in)/generated from discontinued operations	**(9)**	**(20)**

In 2019, 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, 2019	Net (payments)/ proceeds in the period	Non-cash effects: IFRS 16 lease obligations	Non-cash effects: Fair value adjustments	Non-cash effects: Other	Non-cash effects: Effect of exchange rates	Dec. 31, 2019
Short-term borrowings	66	(42)	–	–	19	(1)	43
Long-term borrowings	1,609	–	–	–	(14)	–	1,595
Lease liabilities[1]	91	(597)	3,639	–	–	–	3,133
Total	**1,766**	**(638)**	**3,639**	**–**	**5**	**(1)**	**4,771**

1 The lease liabilities were included in the other non-current financial liabilities as of December 31, 2018. Due to the implementation of IFRS 16 the lease liabilities are shown separately as of December 31, 2019 in the balance sheet.

Further information about lease liabilities is provided in these Notes. SEE NOTE 21

40 » OTHER FINANCIAL COMMITMENTS AND CONTINGENCIES

Other financial commitments

adidas has other financial commitments for promotion and advertising contracts, which mature as follows:

Financial commitments for promotion and advertising
€ in millions

	Dec. 31, 2019	Dec. 31, 2018
Within 1 year	1,236	1,015
Between 1 and 5 years	3,671	3,050
After 5 years	1,901	1,763
Total	**6,808**	**5,828**

Commitments with respect to promotion and advertising contracts maturing after five years have remaining terms of up to eleven years from December 31, 2019.

Compared to December 31, 2018, commitments for promotion and advertising contracts mainly increased due to the extension of the existing partnership with Real Madrid.

adidas has other financial commitments for leasing and other rental obligations which mature as follows:

Financial commitments for other contracts
€ in millions

	Dec. 31, 2019	Dec. 31, 2018
Within 1 year	83	676
Between 1 and 5 years	161	1,596
After 5 years	74	712
Total	**318**	**2,984**

The contracts regarding these leases with expiration dates of between one and eleven years partly include renewal options and escalation clauses.

The decline in leasing rental obligations from € 2.984 million to € 318 million compared to 2018 reflects the first-time application of IFRS 16.

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, 2019	Dec. 31, 2018
Within 1 year	242	204
Between 1 and 5 years	190	210
After 5 years	6	0
Total	**439**	**414**

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 20 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

(€ 119 million). adidas has applied for a suspension of the payment demand and in 2019 instituted legal action against the decision before the High Court in South Africa. 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.

41 » 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 receive remuneration solely 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. 30, SEE NOTE 42

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.

42 » OTHER INFORMATION

Employees

The average numbers of employees are as follows:

Employees

	Year ending Dec. 31, 2019	Year ending Dec. 31, 2018
Own retail	32,109	32,033
Sales	3,757	3,855
Logistics	7,100	5,990
Marketing	5,933	5,835
Central administration	5,617	5,339
Production	645	988
Research and development	998	1,045
Information technology	1,499	1,354
Total	**57,659**	**56,438**

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 2019, the expenses for the professional audit service fees for the auditor KPMG AG Wirtschaftsprüfungsgesellschaft amounted to € 1.9 million (2018: € 1.7 million) thereof related to the prior year € 0.2 million (2018: € 0.1 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 (2018: € 0.1 million), € 0.8 million (2018: € 0.9 million) and € 0.2 million (2018: € 0.2 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 (2018: € 2.2 million). In addition, the members of the Supervisory Board received attendance fees of € 0.2 million (2018: € 0.1 million).

Members of the Supervisory Board were not granted any loans or advance payments in 2019.

Executive Board

In 2019, the overall compensation of the members of the Executive Board totaled € 19.0 million (2018: € 20.7 million), € 9.8 million thereof relates to short-term benefits (2018: € 10.5 million) and € 9.2 million to share-based payment (2018: € 10.2 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 € 2.6 million (2018: € 3.2 million).

In 2019, payments including pension payments to former members of the Executive Board and their survivors totaling € 14.6 million (2018: € 3.7 million).

Pension obligations relating to former members of the Executive Board and their survivors amount in total to € 92.5 million (2018: € 84.9 million).

Current members of the Executive Board were not granted any loans or advance payments in 2019.

Further information on disclosures according to § 314 section 1 no. 6a HGB is provided in this Annual Report.

SEE COMPENSATION REPORT, P. 30

Companies opting for exemption under section 264 (3) HGB

The subsidiary adidas CDC Imobilieninvest GmbH, Herzogenaurach, is opting for exemption under section 264 (3) HGB.

43 » INFORMATION RELATING TO THE GERMAN CORPORATE GOVERNANCE CODE

Information pursuant to § 161 German Stock Corporation Act (Aktiengesetz – AktG)

In December 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.

44 » EVENTS AFTER THE BALANCE SHEET DATE

Company-specific subsequent events

No 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 25, 2020. It is the Supervisory Board's task to examine the consolidated financial statements and give their approval and authorization for issue.

Herzogenaurach, February 25, 2020

The Executive Board of adidas AG

Kasper Rorsted	Roland Auschel	Brian Grevy
Harm Ohlmeyer	Karen Parkin	Martin Shankland

SHAREHOLDINGS

Shareholdings of adidas AG, Herzogenaurach, as at December 31, 2019

	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	7,168	14	100
4	adidas Verwaltungsgesellschaft mbH[3]	Herzogenaurach (Germany)	EUR	4,250	71	100
5	adidas anticipation GmbH[2]	Herzogenaurach (Germany)	EUR	25	directly	100
6	adidas Business Services GmbH	Herzogenaurach (Germany)	EUR	341	directly	100
	Europe (incl. Middle East and Africa)					
7	adidas sport gmbh	Cham (Switzerland)	CHF	6,504	directly	100
8	adidas Austria GmbH	Klagenfurt (Austria)	EUR	6,979	directly	95.89
					7	4.11
9	runtastic GmbH	Pasching (Austria)	EUR	4,950	11	100
10	adidas France S.a.r.l.	Strasbourg (France)	EUR	365,880	directly	100
11	adidas International B.V.	Amsterdam (Netherlands)	EUR	6,402,257	directly	93.97
					10	6.03
12	adidas International Trading AG	Lucerne (Switzerland)	EUR	2,474,737	11	100
13	adidas International Marketing B.V.	Amsterdam (Netherlands)	EUR	46,329	11	100
14	adidas International Property Holding B.V.	Amsterdam (Netherlands)	EUR	53,741	81	100
15	adidas Infrastructure Holding B.V.	Amsterdam (Netherlands)	EUR	(53)	11	100
16	adidas Benelux B.V.	Amsterdam (Netherlands)	EUR	4,592	directly	100
17	adidas Ventures B.V.	Amsterdam (Netherlands)	EUR	(31,485)	11	100
18	adidas (UK) Limited	Stockport (Great Britain)	GBP	30,607	11	100
19	Reebok International Limited[4]	London (Great Britain)	EUR	328,765	71	100
20	Trafford Park DC Limited	London (Great Britain)	GBP	1,743	15	100
21	Reebok Pensions Management Limited[3,4]	London (Great Britain)	GBP	–	19	100
22	Reebok Europe Holdings[3]	London (Great Britain)	GBP	21,052	19	100
23	Luta Limited[3,4]	London (Great Britain)	GBP	–	19	100
24	adidas (Ireland) Limited	Dublin (Ireland)	EUR	2,776	11	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.

Shareholdings of adidas AG, Herzogenaurach, as at December 31, 2019

	Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by[1]	in %
25	adidas International Re DAC	Dublin (Ireland)	EUR	26,536	11	100
26	Reebok Ireland Limited[3]	Dublin (Ireland)	EUR	56	24	100
27	Five Ten Europe NV[3]	Lasne (Belgium)	EUR	138	73	100
28	adidas España S.A.U.	Zaragoza (Spain)	EUR	42,591	2	100
29	adidas Finance Spain S.A.U.	Zaragoza (Spain)	EUR	36,575	71	100
30	adidas Italy S.p.A.	Monza (Italy)	EUR	57,457	11	100
31	adidas Portugal – Artigos de Desporto, S.A.	Lisbon (Portugal)	EUR	7,050	11	100
32	adidas Business Services Lda.	Morea de Maia (Portugal)	EUR	1,702	11	98
					directly	2
33	adidas Norge AS	Oslo (Norway)	NOK	31,051	directly	100
34	adidas Sverige AB	Solna (Sweden)	SEK	101,705	directly	100
35	adidas Finance Sverige AB	Solna (Sweden)	SEK	271,392	71	100
36	adidas Suomi Oy	Helsinki (Finland)	EUR	1,729	11	100
37	adidas Danmark A/S	Copenhagen (Denmark)	DKK	18,379	11	100
38	adidas CR s.r.o.	Prague (Czech Republic)	CZK	108,354	directly	100
39	adidas Budapest Kft.	Budapest (Hungary)	HUF	1,052,993	directly	100
40	adidas Bulgaria EAD	Sofia (Bulgaria)	BGN	6,106	directly	100
41	LLC 'adidas, Ltd.'	Moscow (Russia)	RUB	29,906,146	8	100
42	adidas Poland Sp. z o.o.	Warsaw (Poland)	PLN	73,373	directly	100
43	adidas Finance Poland S.A.	Warsaw (Poland)	PLN	100,849	71	100
44	adidas Romania S.R.L.	Bucharest (Romania)	RON	16,983	11	100
45	adidas Baltics SIA	Riga (Latvia)	EUR	1,979	11	100
46	adidas Slovakia s.r.o.	Bratislava (Slovak Republic)	EUR	1,191	directly	100
47	adidas Trgovina d.o.o.	Ljubljana (Slovenia)	EUR	648	directly	100
48	SC 'adidas-Ukraine'	Kiev (Ukraine)	UAH	896,051	directly	100
49	adidas LLP	Almaty (Republic of Kazakhstan)	KZT	5,677,900	directly	100
50	adidas Serbia d.o.o.	Belgrade (Serbia)	RSD	761,892	11	100
51	adidas Croatia d.o.o.	Zagreb (Croatia)	HRK	52,573	11	100
52	adidas Hellas A.E.	Athens (Greece)	EUR	24,094	directly	100
53	adidas (Cyprus) Limited	Nicosia (Cyprus)	EUR	995	directly	100
54	adidas Spor Malzemeleri Satis ve Pazarlama A.S.	Istanbul (Turkey)	TRY	421,070	11	100
55	adidas Emerging Markets L.L.C	Dubai (United Arab Emirates)	USD	20,542	indirectly	51
					10	49

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2 Profit and loss transfer agreement.
3 Company with no active business.
4 Sub-group Reebok International Limited.
5 Sub-group Reebok International Ltd.

Shareholdings of adidas AG, Herzogenaurach, as at December 31, 2019

	Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by[1]	in %
56	adidas Emerging Markets FZE	Dubai (United Arab Emirates)	USD	83,778	11	100
57	adidas Levant Limited	Dubai (United Arab Emirates)	JOD	3,265	56	100
58	adidas Levant Limited – Jordan	Amman (Jordan)	JOD	1,657	57	100
59	adidas Imports & Exports Ltd.	Cairo (Egypt)	EGP	(19,738)	60	99.98
					11	0.02
60	adidas Sporting Goods Ltd.	Cairo (Egypt)	EGP	299,211	11	90
					6	10
61	adidas Egypt Ltd.[3]	Cairo (Egypt)	USD	(1,831)	directly	99.13
					10	0.87
62	adidas Israel Ltd. (formerly: Life Sport Ltd.)	Holon (Israel)	ILS	145,195	11	85
63	adidas Morocco LLC	Casablanca (Morocco)	MAD	(14,996)	directly	100
64	adidas (South Africa) (Pty) Ltd.	Cape Town (South Africa)	ZAR	392,083	directly	100
	North America					
65	adidas North America, Inc.	Portland, Oregon (USA)	USD	4,918,948	11	100
66	adidas America, Inc.	Portland, Oregon (USA)	USD	334,916	65	100
67	adidas International, Inc.	Portland, Oregon (USA)	USD	88,036	65	100
68	adidas Team, Inc.[3]	Des Moines, Iowa (USA)	USD	(1,013)	65	100
69	The Reebok Worldwide Trading Company, LLC	Wilmington, Delaware (USA)	USD	19,551	71	100
70	Reebok Securities Holdings LLC[3,5]	Wilmington, Delaware (USA)	USD	–	71	100
71	Reebok International Ltd.[4]	Boston, Massachusetts (USA)	USD	(1,386,509)	65	100
72	adidas Indy, LLC	Wilmington, Delaware (USA)	USD	(124)	71	99
					70	1
73	Stone Age Equipment, Inc.[3]	Redlands, California (USA)	USD	3,425	66	100
74	Spartanburg DC, Inc.	Spartanburg, South Carolina (USA)	USD	17,680	66	100
75	adidas Canada Limited	Woodbridge, Ontario (Canada)	CAD	206,404	11	100
	Asia					
76	adidas Sourcing Limited	Hong Kong (China)	USD	298,310	12	100
77	adidas Services Limited	Hong Kong (China)	USD	15,305	11	100
78	adidas Hong Kong Limited	Hong Kong (China)	HKD	170,781	2	100
79	Reebok Trading (Far East) Limited[3]	Hong Kong (China)	USD	32,658	71	100
80	adidas (Suzhou) Co. Ltd.	Suzhou (China)	CNY	247,614	2	100

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Shareholdings of adidas AG, Herzogenaurach, as at December 31, 2019

	Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by[1]	in %
81	adidas Sports (China) Co. Ltd.	Suzhou (China)	CNY	11,268,823	2	100
82	adidas (China) Ltd.	Shanghai (China)	CNY	594,947	11	100
83	adidas Sports Goods (Shanghai) Co., Ltd	Shanghai (China)	CNY	29,748	82	100
84	Runtastic Software Technology (Shanghai) Co., Ltd.	Shanghai (China)	CNY	7,012	11	100
85	Zhuhai adidas Technical Services Limited[3]	Zhuhai (China)	CNY	43,922	76	100
86	adidas Logistics (Tianjin) Co., Ltd.	Tianjin (China)	CNY	175,061	15	100
87	adidas Business Services (Dalian) Limited	Dalian (China)	CNY	22,669	11	100
88	adidas Japan K.K.	Tokyo (Japan)	JPY	6,849,691	11	100
89	adidas Korea LLC.	Seoul (Korea)	KRW	275,549,295	directly	100
90	adidas Korea Technical Services Limited	Busan (Korea)	KRW	4,447,478	76	100
91	adidas India Private Limited	New Delhi (India)	INR	4,647,752	directly	10.67
					11	89.33
92	adidas India Marketing Private Limited	New Delhi (India)	INR	9,638,920	91	98.62
					11	1
					directly	0.37
93	adidas Technical Services Private Limited	New Delhi (India)	INR	214,483	76	100.00
94	Reebok India Company	New Delhi (India)	INR	(20,861,731)	104	93.15
95	PT adidas Indonesia	Jakarta (Indonesia)	IDR	578,047,649	11	99.67
					directly	0.33
96	adidas (Malaysia) Sdn. Bhd.	Petaling Jaya (Malaysia)	MYR	77,600	directly	60
					11	40
97	adidas Philippines Inc.	Pasig City (Philippines)	PHP	828,481	directly	100
98	adidas Singapore Pte. Ltd.	Singapore (Singapore)	SGD	26,454	directly	100
99	adidas Taiwan Limited	Taipei (Taiwan)	TWD	1,234,009	11	100
100	adidas (Thailand) Co., Ltd.	Bangkok (Thailand)	THB	1,299,952	directly	100
101	adidas Australia Pty Limited	Mulgrave (Australia)	AUD	84,145	11	100
102	adidas New Zealand Limited	Auckland (New Zealand)	NZD	8,734	directly	100
103	adidas Vietnam Company Limited	Ho Chi Minh City (Vietnam)	VND	91,645,267	11	100
104	Reebok (Mauritius) Company Limited	Port Louis (Mauritius)	USD	2,204	71	99.07
					69	0.93

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Shareholdings of adidas AG, Herzogenaurach, as at December 31, 2019

	Company and domicile		Currency	Equity (currency units in thousands)	Share in capital held by[1]	in %
	Latin America					
105	adidas Argentina S.A.	Buenos Aires (Argentina)	ARS	2,143,690	11	76.96
					2	23.04
106	Reebok Argentina S.A.[3]	Buenos Aires (Argentina)	ARS	(129,359)	6	96.25
					11	3.75
107	adidas do Brasil Ltda.	São Paulo (Brazil)	BRL	650,725	2	100
108	adidas Franchise Brasil Servicos Ltda.	São Paulo (Brazil)	BRL	32,078	107	99.99
					directly	0.01
109	Reebok Produtos Esportivos Brasil Ltda.[3]	São Paulo (Brazil)	BRL	12,476	11	100
110	adidas Chile Limitada	Santiago de Chile (Chile)	CLP	82,987,446	directly	99
					1	1
111	adidas Colombia Ltda.	Bogotá (Colombia)	COP	24,340,366	directly	100
112	adidas Perú S.A.C.	Lima (Peru)	PEN	123,237	directly	99.21
					110	0.79
113	adidas de Mexico, S.A. de C.V.	Mexico City (Mexico)	MXN	1,440,626	directly	100
114	adidas Industrial, S.A. de C.V.	Mexico City (Mexico)	MXN	466,822	directly	100
115	Reebok de Mexico, S.A. de C.V.[3]	Mexico City (Mexico)	MXN	(579,341)	directly	100
116	adidas Latin America, S.A.	Panama City (Panama)	USD	(54,085)	directly	100
117	Concept Sport, S.A.	Panama City (Panama)	USD	3,069	11	100
118	3 Stripes S.A.[3]	Montevideo (Uruguay)	UYU	(436)	directly	100
119	Tafibal S.A.	Montevideo (Uruguay)	UYU	(38,065)	directly	100
120	Raelit S.A.[3]	Montevideo (Uruguay)	UYU	58,678	directly	100
121	adidas Sourcing Honduras, S.A.[5]	San Pedro Sula (Honduras)	HNL	–	71	99.6
					69	0.4
122	adidas Corporation de Venezuela, S.A.[3]	Caracas (Venezuela)	VEF	(17)	directly	100
123	adisport Corporation	San Juan (Puerto Rico)	USD	(733)	11	100
124	adidas Sourcing El Salvador, S.A. de C.V.	Antiguo Cuscatlán (El Salvador)	USD	8	11	99.95
					directly	0.05

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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 25, 2020

KASPER RORSTED
CHIEF EXECUTIVE OFFICER

ROLAND AUSCHEL
GLOBAL SALES

BRIAN GREVY
GLOBAL BRANDS

HARM OHLMEYER
CHIEF FINANCIAL OFFICER

KAREN PARKIN
GLOBAL HUMAN RESOURCES

MARTIN SHANKLAND
GLOBAL OPERATIONS

REPRODUCTION OF THE INDEPENDENT AUDITOR'S REPORT

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, 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1, 2019, to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report ("group management report") of adidas AG, Herzogenaurach, for the financial year from January 1, 2019, to December 31, 2019. In accordance with German legal requirements, we have not audited the content of those components of the group management report specified in the "Other Information" section of our auditor's report.

The group management report contains cross-references that are not required by law and which are marked as unaudited. In accordance with German legal requirements, we have not audited the cross-references and the information to which the cross-references refer.

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, 2019, and of its financial performance for the financial year from January 1, 2019, to December 31, 2019, 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 those components of the management report specified in the "Other Information" section of the auditor's report. The management report contains cross-references, marked as not audited, that are not provided for by law. Our opinion does not cover these cross-references and the information to which the cross-reference refer.

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 German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). 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, 2019, to December 31, 2019. 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.

IMPAIRMENT TESTING OF THE REEBOK BRAND

For the accounting policies used and the disclosures on the judgments applied by management and sources of estimation uncertainties please refer to Note 2 and for the disclosures on the measurement of the Reebok brand please refer to Note 14 in the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK

The Reebok brand was recognized as of December 31, 2019, in the amount of EUR 842 million.

The Reebok brand is to be tested for impairment at least once a year. To this end, the brand is allocated as a "corporate asset" pursuant to IAS 36 to the cash-generating Reebok business units at the level of the markets and the value in use of these cash-generating units is compared with the carrying amount 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, and is thus subject to considerable uncertainty.

There is the risk for the financial statements that any existing impairment of the Reebok brand as of the reporting date was not identified or that a required reversal of an impairment loss on the brand was 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 cash-generating Reebok business units to which the brand as corporate asset 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 financial forecast for the following 6 years. Furthermore, we evaluated the consistency of the growth rates used in the financial forecast 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.

FIRST-TIME APPLICATION OF "IFRS 16 LEASES"

For the accounting policies used and the disclosures on the judgments applied by management and sources of estimation uncertainties please refer to Note 2 and for the disclosures on the accounting of leases please refer to Notes 1, 12, 21 and 39 in the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK

As of December 31, 2019, right-of-use assets of EUR 2,931 million and lease liabilities of EUR 3,132 million are recognized in the consolidated financial statements of adidas AG. Lease liabilities or right-of-use assets account for 15.2% or 14.2% of total equity and the accounting treatment of the rights of use or lease liabilities therefore has a material impact on the assets, liabilities, financial position, and financial performance of the Company.

The first-time application of "IFRS 16 Leases" had a material effect on the opening balance sheet figures for the financial year and how they were updated as of the reporting date. adidas AG applies the modified retrospective method for the new standard without adjustment of comparative figures.

The determination of the lease term, the amount of the lease payments and the incremental borrowing rate used as the discount rate may require judgment and be based on estimates. Furthermore, determining the first-time application effect of IFRS 16 and the updated lease liabilities and right-of-use assets in accordance with the standard requires the recording of extensive data from the lease agreements.

There is the risk for the consolidated financial statements that the right-of-use assets and lease liabilities are not recorded in full in the consolidated statement of financial position. There is also the risk that the right-of-use assets and lease liabilities have not been appropriately measured.

OUR AUDIT APPROACH

In an initial step, we gained an understanding of the process used by adidas Group to implement the new IFRS 16 accounting standard. We then analyzed the functional design and the accounting instructions underlying the implementation in terms of compliance with IFRS 16.

We assessed the appropriateness and setup of the controls established by adidas Group to ensure the full and correct determination of the data to measure the lease liabilities and right-of-use assets from leases. Where IT processing systems were used to determine and collect relevant data, we tested the effectiveness of the rules and procedures of the underlying accounting-related IT system, with the involvement of our IT experts.

For some lease agreements selected as a representative sample and some selected based on risk criteria, we assessed whether the relevant data was correctly and fully determined. To the extent that accounting judgments were made for determining the lease term, we examined whether – in light of the business model of adidas, prevailing market conditions and risks in the industry – the underlying assumptions are comprehensible and consistent with other assumptions made in the financial statements.

With the involvement of our valuation experts, we compared the assumptions and parameters underlying the incremental borrowing rates with our own assumptions and publicly available data. We also assessed the calculation model for the interest rate in terms of appropriateness.

For the lease agreements in the sample detailed above, we verified the computational accuracy of the values of the lease liabilities and right-of-use assets determined by the IT system SAP RE-FX of adidas AG.

OUR OBSERVATIONS

adidas has established appropriate procedures to record leases for the purposes of IFRS 16. The assumptions and parameters used to measure the lease liabilities and right-of-use assets are appropriate overall.

OTHER INFORMATION

Management or the supervisory board is responsible for the other information. The other information comprises the following not audited parts of the management report:

- the integrated combined non-financial statement which is marked as unaudited,
- and the corporate governance statement with the corporate governance report.

The other information comprises furthermore the remaining parts of the annual report.

The other information does not comprise the audited financial statement and the management report information audited for content and our auditor's report.

Our opinions on the annual 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 group management report information audited for content 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 consolidated non-financial statement. Please refer to our assurance report dated February 27, 2020, 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. It also has 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 it has 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 skepticism 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, 2019. We were engaged by the Supervisory Board on August 7, 2019. We have been the group auditor of adidas AG without interruption since financial year 1995.

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, 2020

KPMG AG Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Andrejewski	Schmidt
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

LIMITED ASSURANCE REPORT OF THE INDEPENDENT AUDITOR REGARDING THE COMBINED NON-FINANCIAL STATEMENT [1]

To the Supervisory Board of adidas AG, Herzogenaurach

We have performed an independent limited assurance engagement on the Combined Non-Financial Statement of adidas AG, Herzogenaurach, (further the "Company" or "adidas") and the adidas Group according to §§ 315b, 315c German Commercial Code (HGB) in conjunction with §§ 289b to 289e HGB (further the "Report") for the year from January 1 to December 31, 2019.

As described in the section "Working conditions in our supply chain" in the Report, 1,191 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, the 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 based on our work performed of the Report 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, 2019, 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 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 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 conducting 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 video conference with the distribution center Moscow (Russia)
- Evaluation of data collection and reporting processes and reliability of reported E-KPI and C-KPI data via a sampling survey for the two most relevant suppliers (by production volume, tier 1) conducted via video conferences with the sites in Vietnam and Indonesia

1 Our engagement applied to the German version of the Annual Report 2019. This text is a translation of the Limited Assurance Report issued in German, whereby the German text is authoritative.

- Evaluation of the methodology for supplier assessment (E-KPI, C-KPI)
- Assessment of the overall presentation of the disclosures

CONCLUSION

Based on the procedures performed and the evidence received to obtain assurance, 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, 2019 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.

Our assignment for the Supervisory Board of adidas AG, Herzogenaurach, and professional liability is governed by the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften (Allgemeine Auftragsbedingungen für Wirtschaftsprüfer und Wirtschaftsprüfungsgesellschaften) in the version dated January 1, 2017 (HTTPS://WWW.KPMG.DE/BESCHEINIGUNGEN/LIB/AAB_ENGLISH.PDF). By reading and using the information contained in this 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, 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Andrejewski Hell

5 ADDITIONAL INFORMATION

TEN-YEAR OVERVIEW

Ten-year overview

	2019	2018	2017[1]	2016	2015	2014	2013	2012	2011[2]	2010
Income Statement Data (€ in millions)										
Net sales[3,4]	23,640	21,915	21,218	18,483	16,915	14,534	14,203	14,883	13,322	11,990
Gross profit[3,4]	12,293	11,363	10,703	9,100	8,168	6,924	7,001	7,103	6,329	5,730
Royalty and commission income[3,4]	154	129	115	105	119	102	103	105	93	100
Other operating income[3,4,5]	56	48	17	119	8	37	12	15	9	45
Other operating expenses[3,4,5]	9,843	9,172	8,766	7,741	7,201	6,102	5,883	6,038	5,478	4,981
EBITDA[3,4]	3,845	2,882	2,511	1,953	1,475	1,283	1,496	1,445	1,199	1,159
Operating profit[3,4,6,7,8,9]	2,660	2,368	2,070	1,582	1,094	961	1,233	1,185	953	894
Net financial result[3,4]	(102)	10	(47)	(46)	(21)	(48)	(68)	(69)	(84)	(88)
Income before taxes[3,4,6,7,8,9]	2,558	2,378	2,023	1,536	1,073	913	1,165	1,116	869	806
Income taxes[3,4,10]	640	669	668	454	353	271	340	327	261	238
Net income attributable to non-controlling interests	2	3	3	2	6	6	3	(2)	(5)	(1)
Net income attributable to shareholders[6,7,8,9,10,11]	1,976	1,702	1,173	1,017	668	568	839	791	613	567
Income Statement Ratios										
Gross margin[3,4]	52.0%	51.8%	50.4%	49.2%	48.3%	47.6%	49.3%	47.7%	47.5%	47.8%
Operating margin[3,4,6,7,8,9]	11.3%	10.8%	9.8%	8.6%	6.5%	6.6%	8.7%	8.0%	7.2%	7.5%
Interest coverage[3,4]	24.3	131.6	55.6	32.7	23.8	19.3	24.0	14.6	12.2	10.1
Effective tax rate[3,4,6,7,8,9,10]	25.0%	28.1%	29.3%	29.6%	32.9%	29.7%	29.2%	29.3%	30.0%	29.5%
Net income attributable to shareholders in % of net sales[6,7,8,9,10,11]	8.4%	7.8%	5.5%	5.5%	4.0%	3.9%	5.9%	5.3%	4.6%	4.7%
Net Sales by Brand (€ in millions)										
adidas brand	21,505	19,851	18,993	16,334	13,939	11,774	11,059	11,344	9,867	8,714
Reebok brand	1,748	1,687	1,843	1,770	1,751	1,578	1,599	1,667	1,940	1,913

1 2017 restated according to IAS 8 in the 2018 consolidated financial statements.
2 2011 restated according to IAS 8 in the 2012 consolidated financial statements.
3 2019, 2018, 2017 and 2016 figures reflect continuing operations as a result of the divestiture of the Rockport, TaylorMade, Adams Golf, Ashworth and CCM Hockey businesses.
4 2015, 2014 and 2013 figures reflect continuing operations as a result of the divestiture of the Rockport business.
5 Figures reflect the adjusted consolidated income statement structure introduced in 2018.
6 2015 excluding goodwill impairment of € 34 million.
7 2014 excluding goodwill impairment of € 78 million.
8 2013 excluding goodwill impairment of € 52 million.
9 2012 excluding goodwill impairment of € 265 million.
10 2017 excluding negative one-time tax impact of € 76 million.
11 Includes continuing and discontinued operations.
12 Based on shareholders' equity.
13 2019 and 2018 figures reflect presentation of interest paid within cash flows from financing activities. Prior year figures are not restated.
14 Subject to Annual General Meeting approval.
15 Based on net income from continuing operations.
16 Based on number of shares outstanding at the date of preparation of the Consolidated Financial Statements.

Ten-year overview

	2019	2018	2017[1]	2016	2015	2014	2013	2012	2011[2]	2010
Net Sales by Product Category (€ in millions)										
Footwear[3,4]	13,521	12,783	12,427	10,132	8,360	6,658	6,587	6,922	6,242	5,389
Apparel[3,4]	8,963	8,223	7,747	7,352	6,970	6,279	5,811	6,290	5,733	5,380
Hardware[3,4]	1,156	910	1,044	999	1,585	1,597	1,806	1,671	1,347	1,221
Balance Sheet Data (€ in millions)										
Total assets	20,680	15,612	14,019	15,176	13,343	12,417	11,599	11,651	11,237	10,618
Inventories	4,085	3,445	3,692	3,763	3,113	2,526	2,634	2,486	2,502	2,119
Receivables and other current assets	4,338	3,734	3,277	3,607	3,003	2,861	2,583	2,444	2,431	2,324
Working capital	2,179	2,979	2,354	2,121	2,133	2,970	2,125	2,504	1,990	1,972
Net cash/(net borrowings)	873	959	484	(103)	(460)	(185)	295	448	90	(221)
Shareholders' equity	6,796	6,377	6,032	6,472	5,666	5,624	5,489	5,304	5,137	4,616
Balance Sheet Ratios										
Net borrowings/EBITDA[3,4]	(0.2)	(0.3)	(0.2)	0.1	0.3	0.1	(0.2)	(0.3)	(0.1)	0.2
Average operating working capital in % of net sales[3,4]	18.1%	19.0%	20.4%	21.1%	20.5%	22.4%	21.3%	20.0%	20.4%	20.8%
Financial leverage[12]	(12.8%)	(15.0%)	(8.0%)	1.6%	8.1%	3.3%	(5.4%)	(8.5%)	(1.8%)	4.8%
Equity ratio[12]	32.9%	40.8%	43.0%	42.6%	42.5%	45.3%	47.3%	45.5%	45.7%	43.5%
Equity-to-fixed-assets ratio[12]	69.7%	110.0%	112.2%	102.9%	96.9%	110.9%	115.8%	111.1%	104.6%	97.4%
Asset coverage I[12]	119.7%	151.6%	144.1%	134.0%	136.8%	158.7%	145.0%	152.7%	140.7%	141.5%
Asset coverage II[12]	84.3%	95.1%	85.4%	83.8%	89.3%	105.9%	93.2%	100.4%	93.2%	97.7%
Fixed asset intensity of investments	47.1%	37.1%	38.3%	41.4%	43.8%	40.8%	40.9%	41.0%	43.7%	44.6%
Current asset intensity of investments	52.9%	62.9%	61.7%	58.6%	56.2%	59.2%	59.1%	59.0%	56.3%	55.4%
Liquidity I	28.7%	38.6%	25.5%	22.4%	25.5%	38.6%	34.4%	44.3%	31.6%	35.5%
Liquidity II	58.7%	73.9%	62.3%	54.9%	63.7%	83.0%	72.6%	82.9%	68.3%	78.2%
Liquidity III	105.3%	124.4%	121.0%	110.6%	121.8%	140.7%	128.3%	139.7%	126.0%	132.4%
Working capital turnover[3,4]	10.8	7.4	9.0	8.7	7.9	4.9	6.7	5.9	6.7	6.1
Return on equity[11,12]	29.1%	26.7%	18.2%	15.7%	11.2%	8.7%	14.3%	9.9%	11.9%	12.3%
Return on capital employed[11]	45.4%	45.1%	41.2%	24.2%	16.5%	13.8%	23.6%	19.3%	19.9%	20.2%

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Ten-year overview

	2019	2018	2017[1]	2016	2015	2014	2013	2012	2011[2]	2010
Data per Share										
Share price at year-end (in €)	289.80	182.40	167.15	150.15	89.91	57.62	92.64	67.33	50.26	48.89
Basic earnings[3,4,6,7,8,9,10] (in €)	9.70	8.46	7.05	5.39	3.54	3.05	3.93	3.78	2.93	2.71
Diluted earnings[3,4,6,7,8,9,10] (in €)	9.70	8.45	7.00	5.29	3.54	3.05	3.93	3.78	2.93	2.71
Price/earnings ratio at year-end[3,4,6,7,8,9,10]	29.9	21.6	23.7	27.8	25.4	18.9	23.6	17.8	17.1	18.0
Market capitalization at year-end (€ in millions)	56,792	36,329	34,075	30,254	18,000	11,773	19,382	14,087	10,515	10,229
Net cash generated from operating activities[11,13] (in €)	14.26	13.31	8.14	6.73	5.41	3.36	3.03	4.50	3.86	4.28
Dividend (in €)	3.85[14]	3.35	2.60	2.00	1.60	1.50	1.50	1.35	1.00	0.80
Dividend payout ratio[3,4,6,7,8,9,10,15] (in %)	39.2[16]	38.9	37.0	37.4	44.5	47.2	38.0	35.8	34.4	29.5
Number of shares outstanding at year-end (in thousands)	195,969	199,171	203,861	201,489	200,197	204,327	209,216	209,216	209,216	209,216
Employees										
Number of employees at year-end[3,4]	59,533	57,016	56,888	58,902	55,555	53,731	49,808	46,306	46,824	42,541
Personnel expenses[3,4] (€ in millions)	2,720	2,481	2,549	2,373	2,184	1,842	1,833	1,872	1,646	1,521

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GLOSSARY

/ A

ATHLEISURE
The term is composed of the words athletic and leisure. It describes a fashion trend of sportswear no longer being just meant for training but increasingly shaping everyday clothing.

/ B

BRAND LEADERSHIP
adidas' operating model that aims at providing an organizational structure which enables a 'consumer-obsessed' culture that can act with speed, agility and empowerment.

/ C

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

CREATORS CLUB
Creators Club is a membership program that helps us deepen the relationship with our consumers. Linking all adidas apps, events, communities and channels into one single profile, the program rewards members with points for interacting with the brand, e.g. when making a purchase or using the 'adidas Running by Runtastic' or 'adidas Training by Runtastic' apps. Depending on the number of points, exclusive benefits are unlocked, including access to hype sneaker and apparel drops or invitations to special events.

CASH POOLING
A cash management technique for physical concentration of cash. Cash pooling allows adidas to combine credit and debit positions from various accounts and several subsidiaries into one central account. This technique supports our in-house bank concept where advantage is taken of any surplus funds of subsidiaries to cover cash requirements of other subsidiaries, thus reducing external financing needs and optimizing our net interest expenses.

CONTROLLED SPACE
Includes own-retail business, mono-branded franchise stores, shop-in-shops, joint ventures with retail partners and co-branded stores. Controlled space offers a high level of brand control and ensures optimal product offering and presentation according to brand requirements.

CONVERSION RATE
A key ratio in retail business describing the number of buying customers compared to those who entered the store without buying something; i.e. a 25% conversion rate means that 100 persons entered a store with 25 of them buying something.

/ D

DIRECT-TO-TEXTILE DIGITAL PRINTING
An ink-jet-based method of full colorant graphic printing onto fabric. Most notably, digital textile printing involves either printing smaller designs onto garments (e.g. T-shirts) or printing larger designs onto large-format rolls of fabric (e.g. flags, banners).

/ F

FITHUB
FitHub is Reebok's own-retail store concept, inspired by CrossFit gyms and fitness studios. Each FitHub offers a selection of Reebok's best product assortment, from footwear to apparel and accessories. Also, it inspires people to move, to train, to get fit and have fun doing it with innovative fitness products, trusted advice from trained staff and community-based events.

/ H

HARDWARE
A product category which comprises equipment that is used rather than worn by the consumer, such as bags, balls, or fitness equipment.

/ I

INDEPENDENT MANUFACTURING PARTNERS
We outsource almost 100% of production to independent manufacturing partners. They are defined on a supplier group level, which means one independent manufacturing partner might produce in several manufacturing facilities. The majority of our independent manufacturing partners are located in Asia.

/ L

LEADERSHIP FRAMEWORK

The Leadership Framework is based on the three company behaviors creativity, collaboration, confidence (the '3Cs') and articulates the particular behaviors that are expected of leaders at adidas. The framework was developed jointly with employees worldwide who provided feedback on what great leadership within adidas looks like to them. It provides a global and universal language that is inclusive, reduces the need for local interpretations and outlines concrete behaviors that serve as a measure of leadership effectiveness. It is built into the way we hire and promote as well as rate performance.

/ M

MARKETING EXPENDITURE

Expenditure that relates to point-of-sale and marketing investments. While point-of-sale investments include expenses for advertising and promotion initiatives at the point of sale as well as store fittings and furniture, marketing investments relate to sponsorship contracts with teams and individual athletes as well as to advertising, events and other communication activities. Marketing overhead expenses are not included in marketing expenditure.

/ N

NEIGHBOURHOOD

Neighbourhood is adidas Originals' premium own-retail store concept which brings the style and spirit of sport to the streets. The aim is to turn Originals stores into a local cultural epicenter. The store environment takes its inspiration from the neighborhood, which is at the heart of Originals.

NET PROMOTER SCORE (NPS)

A survey-based measure of how likely people are to recommend a brand. The survey is based on one single question to consumers: 'How likely are you to recommend this brand to your friends?', which can be answered within a scale from 0 to 10. Promoters are consumers giving the brand a 9 or 10 rating, while detractors are those between a 0 and 6 rating. The NPS is the difference between promoters and detractors measured in percentage points.

NON-TRADE PROCUREMENT ACTIVITIES

Non-trade procurement is the sourcing of goods and services which are not linked or indirectly linked to regular trade products sold to customers. The goods and services are classified as consumption by internal stakeholders and include things such as repairing equipment and purchasing office supplies.

/ O

OPERATING OVERHEAD EXPENSES

Expenses which are not directly attributable to the products or services sold, such as distribution and selling as well as general and administration costs, but not including marketing and point-of-sale expenses.

ORIGINALS THE COLLECTION

This retail concept for adidas Originals is visually inspired by the adidas brand archive. It is designed to create spaces as platforms to respond to an ever-changing culture, to the community, to our world and the collective memory of sport. Its design language is functional and flexible, iconic and relevant. The fluid, open-plan design highlights products in new and elevated ways.

/ P

PARLEY FOR THE OCEANS

Parley for the Oceans is an environmental organization and global collaboration network. Founded in 2012, Parley aims to raise awareness for the beauty and fragility of the oceans, and to inspire and empower diverse groups such as pacesetting companies, brands, organizations, governments, artists, designers, scientists, innovators and environmentalists in the exploration of new ways of creating, thinking and living on our finite, blue planet.

PARLEY OCEAN PLASTIC

Parley Ocean Plastic is a material created from upcycled plastic waste that was intercepted from beaches and coastal communities before reaching the ocean. Parley for the Oceans works with its partners to collect, sort and transport the recovered raw material (mainly PET bottles) to our supplier who produces the yarn, which is legally trademarked. It is used as a replacement for virgin plastic in the making of adidas x Parley products.

PERFORMANCE PRODUCTS

In the sporting goods industry, performance products relate to technical footwear and apparel used primarily in sports.

PROMOTION PARTNERSHIPS

Partnerships with events, associations, leagues, clubs and individual athletes. In exchange for the services of promoting the company's brands, the party is provided with products and/or cash and/or promotional materials.

/ R

RECYCLED LDPE POLYBAGS

A type of product transport packaging made of recycled low-density polyethylene (LDPE) that offers a more sustainable option to virgin plastic polybags, as they have a lower environmental footprint than conventional bags and most alternatives. Recycled LDPE polybags meet our quality and performance standards to effectively protect our products during shipping and handling, are available globally and can be recycled via existing waste streams.

/ S

SINGLE-SOURCING MODEL

Supply chain activities limited to one specific supplier. Due to the dependency on only one supplier, a company can face disadvantages during the sourcing process.

SPEEDFACTORY

Speedfactory stands for an accelerated manufacturing process of high-performance sports shoes enabled by latest manufacturing technology that was tested at the adidas Speedfactories in Ansbach, Germany, and Atlanta, USA. adidas opened both factories together with Oechsler in 2017. At the end of 2019, adidas started to deploy its Speedfactory technologies to produce athletic footwear at two of its suppliers in Asia. Production at the Ansbach and Atlanta Speedfactories will be discontinued by April 2020. This will enable adidas to continue to respond to short-term trends in demand while using production capacities more flexibly and economically and expanding the range of products with short production times faster. Manufacturing processes will continue to be developed, improved and tested in the adiLab at the adidas production site in Scheinfeld.

SPORT INSPIRED

'Sport Inspired' stands for fashion inspired by sport – also known as 'sports lifestyle'. It draws inspiration from adidas' rich archives and legacy. Sport Inspired stands for Originals, Y-3, Statement and Yeezy.

SPORT PERFORMANCE

'Sport Performance' stands for the categories training, running, football, basketball and heartbeat sports such as outdoor, swim, tennis and US sports.

STADIUM

Stadium is an own-retail store concept for the adidas brand, inspired by high school stadiums. It aims to create a sports stadium-like atmosphere to enhance the in-store experience, such as a tunnel entrance, stands for live-game viewing on big screens, locker rooms instead of dressing rooms and track and field areas where consumers can test and experience products.

SUSTAINABLE COTTON

For adidas, sustainable cotton means certified organic cotton or any other form of sustainably produced cotton that is currently available or might be in future, and Better Cotton.

/ V

VECTOR STYLE

Exclusively for the Asia-Pacific market, the Reebok Vector Style retail concept incorporates color, textures, and shapes within the space in order to convey a sense of movement and style. Capturing a more hip and modern pace, the design is meant to present the Reebok lifestyle product in a cool and interesting way. Architectural features within the store emulate the angles of Reebok's Vector logo, so that the sense of action is reinforced throughout the space.

/ W

WET PROCESSES

Wet processes are defined as water-intense processes, such as dyeing and finishing of materials.

DECLARATION OF SUPPORT

adidas AG declares support, except in the case of political risk, that the below-mentioned companies are able to meet their contractual liabilities. This declaration replaces the declaration dated February 27, 2019, which is no longer valid. The declaration of support automatically ceases from the time that a company no longer is a subsidiary of adidas AG.

adidas (China) Ltd., Shanghai, China
adidas (Cyprus) Limited, Nicosia, Cyprus
adidas (Ireland) Limited, Dublin, Ireland
adidas (Malaysia) Sdn. Bhd., Petaling Jaya, Malaysia
adidas (South Africa) (Pty) Ltd., Cape Town, South Africa
adidas (Suzhou) Co. Ltd., Suzhou, China
adidas (Thailand) Co., Ltd., Bangkok, Thailand
adidas (UK) Limited, Stockport, Great Britain
adidas America, Inc., Portland, Oregon, USA
adidas Argentina S.A., Buenos Aires, Argentina
adidas Australia Pty Limited, Mulgrave, Australia
adidas Austria GmbH, Klagenfurt, Austria
adidas Baltics SIA, Riga, Latvia
adidas Benelux B.V., Amsterdam, Netherlands
adidas Budapest Kft., Budapest, Hungary
adidas Bulgaria EAD, Sofia, Bulgaria
adidas Business Services (Dalian) Limited, Dalian, China
adidas Business Services Lda., Morea de Maia, Portugal
adidas Business Services GmbH, Herzogenaurach, Germany
adidas Canada Limited, Woodbridge, Ontario, Canada
adidas CDC Immobilieninvest GmbH, Herzogenaurach, Germany
adidas Chile Limitada, Santiago de Chile, Chile
adidas Colombia Ltda., Bogotá, Colombia
adidas CR s.r.o., Prague, Czech Republic
adidas Croatia d.o.o., Zagreb, Croatia
adidas Danmark A/S, Copenhagen, Denmark
adidas de Mexico, S.A. de C.V., Mexico City, Mexico
adidas do Brasil Ltda., São Paulo, Brazil
adidas Emerging Markets FZE, Dubai, United Arab Emirates
adidas Emerging Markets L.L.C, Dubai, United Arab Emirates
adidas España S.A.U., Zaragoza, Spain
adidas France S.a.r.l., Strasbourg, France
adidas Hellas A.E., Athens, Greece
adidas Hong Kong Limited, Hong Kong, China
adidas Imports & Exports Ltd., Cairo, Egypt
adidas India Marketing Private Limited, New Delhi, India
adidas Industrial, S.A. de C.V., Mexico City, Mexico
adidas Indy, LLC, Wilmington, Delaware, USA
adidas Insurance & Risk Consultants GmbH, Herzogenaurach, Germany
adidas International B.V., Amsterdam, Netherlands
adidas International Marketing B.V., Amsterdam, Netherlands
adidas International Property Holding B.V., Amsterdam, Netherlands
adidas International Re DAC, Dublin, Ireland
adidas International Trading AG, Lucerne, Switzerland
adidas International, Inc., Portland, Oregon, USA
adidas Italy S.p.A., Monza, Italy
adidas Japan K.K., Tokyo, Japan
adidas Korea LLC., Seoul, South Korea
adidas Latin America, S.A., Panama City, Panama
adidas LLP, Almaty, Republic of Kazakhstan
adidas Logistics (Tianjin) Co., Ltd., Tianjin, China
adidas Morocco LLC, Casablanca, Morocco
adidas New Zealand Limited, Auckland, New Zealand
adidas Norge AS, Oslo, Norway
adidas North America, Inc., Portland, Oregon, USA
adidas Perú S.A.C., Lima, Peru
adidas Philippines Inc., Pasig City, Philippines
adidas Poland Sp.z o.o., Warsaw, Poland
adidas Portugal - Artigos de Desporto, S.A., Lisbon, Portugal
adidas Romania S.R.L., Bucharest, Romania
adidas Serbia d.o.o., Belgrade, Serbia
adidas Services Limited, Hong Kong, China
adidas Singapore Pte. Ltd., Singapore, Singapore
adidas Slovakia s.r.o., Bratislava, Slovak Republic
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adidas Sourcing Limited, Hong Kong, China
adidas Spor Malzemeleri Satis ve Pazarlama A.S., Istanbul, Turkey
adidas sport gmbh, Cham, Switzerland
adidas Sporting Goods Ltd., Cairo, Egypt
adidas Sports Goods (Shanghai) Co., Ltd, Shanghai, China
adidas Sports (China) Co. Ltd., Suzhou, China
adidas Suomi Oy, Helsinki, Finland
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adidas Trgovina d.o.o., Ljubljana, Slovenia
adidas Ventures B.V., Amsterdam, Netherlands
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Stone Age Equipment, Inc., Redlands, California, USA
Tafibal S.A., Montevideo, Uruguay
Trafford Park DC Limited, London, Great Britain

FINANCIAL CALENDAR 2020

MAR 11
FULL YEAR 2019 RESULTS

MAY 8
FIRST QUARTER 2020 RESULTS

MAY 14
ANNUAL GENERAL MEETING

MAY 19
DIVIDEND PAYMENT

(subject to Annual General Meeting approval)

AUG 6
FIRST HALF 2020 RESULTS

NOV 10
NINE MONTHS 2020 RESULTS & INVESTOR AND MEDIA DAY

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