

## 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:

	2019	2018
<b>Number of consolidated subsidiaries</b>		
<b>January 1</b>	<b>128</b>	<b>129</b>
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)	-
<b>December 31</b>	<b>125</b>	<b>128</b>

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
<b>Assets</b>	
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
<b>Liabilities</b>	
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.

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:

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.

#### 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 <sup>1</sup>
Software	5–7
Patents, trademarks and licenses	5–15
Websites	2

<sup>1</sup> 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)
<b>Net assets</b>	<b>178</b>	<b>103</b>	<b>280</b>
Consideration settled in cash			-
Cash and cash equivalents acquired			54
<b>Net cash inflow due to obtaining control</b>			<b>54</b>

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)
<b>Net assets</b>	<b>6</b>
Consideration received in cash	3
Less: cash and cash equivalents disposed of	(1)
<b>Net cash inflow</b>	<b>2</b>

## 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		Credit-impaired	
	Not credit-impaired	Not credit-impaired	Not credit-impaired	Credit-impaired		
<b>Dec. 31, 2019</b>						
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)
<b>Accounts receivable, net</b>	<b>2,312</b>	<b>274</b>	<b>15</b>	<b>14</b>	<b>10</b>	<b>2,625</b>
<b>Dec. 31, 2018</b>						
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)
<b>Accounts receivable, net</b>	<b>2,052</b>	<b>328</b>	<b>22</b>	<b>11</b>	<b>5</b>	<b>2,418</b>

Movement in loss allowances for accounts receivable € in millions

	2019	2018
<b>Loss allowances at January 1</b>	<b>193</b>	<b>174</b>
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)
<b>Loss allowances at December 31</b>	<b>189</b>	<b>193</b>

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
<b>Other current financial assets, gross</b>	<b>554</b>	<b>545</b>
Less: accumulated allowances	11	3
<b>Other current financial assets, net</b>	<b>544</b>	<b>542</b>

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
<b>Inventories</b>	<b>4,165</b>	<b>(80)</b>	<b>4,085</b>	<b>3,562</b>	<b>(117)</b>	<b>3,445</b>

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
<b>Other current assets, gross</b>	<b>1,080</b>	<b>731</b>
Less: accumulated allowances	(5)	(6)
<b>Other current assets, net</b>	<b>1,076</b>	<b>725</b>

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
<b>Acquisition cost</b>					
<b>January 1, 2018</b>	<b>1,242</b>	<b>288</b>	<b>1,721</b>	<b>378</b>	<b>3,629</b>
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)
<b>December 31, 2018</b>	<b>1,408</b>	<b>357</b>	<b>1,817</b>	<b>480</b>	<b>4,061</b>
Transfer to right-of-use assets due to first-time application of IFRS 16	(84)	–	(9)	–	(93)
<b>January 1, 2019</b>	<b>1,324</b>	<b>357</b>	<b>1,808</b>	<b>480</b>	<b>3,969</b>
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
<b>December 31, 2019</b>	<b>1,842</b>	<b>432</b>	<b>1,910</b>	<b>221</b>	<b>4,405</b>
<b>Accumulated depreciation and impairment</b>					
<b>January 1, 2018</b>	<b>362</b>	<b>154</b>	<b>1,112</b>	<b>–</b>	<b>1,628</b>
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)
<b>December 31, 2018</b>	<b>414</b>	<b>180</b>	<b>1,230</b>	<b>–</b>	<b>1,824</b>
Transfer to right-of-use assets due to first-time application of IFRS 16	(1)	–	(9)	–	(10)
<b>January 1, 2019</b>	<b>412</b>	<b>180</b>	<b>1,221</b>	<b>–</b>	<b>1,814</b>
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
<b>December 31, 2019</b>	<b>520</b>	<b>214</b>	<b>1,291</b>	<b>–</b>	<b>2,025</b>
<b>Net carrying amount</b>					
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
<b>December 31, 2019</b>	<b>1,322</b>	<b>219</b>	<b>618</b>	<b>221</b>	<b>2,380</b>

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
<b>December 31, 2018</b>	-	-	-	-
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
<b>January 1, 2019</b>	<b>2,751</b>	<b>126</b>	<b>61</b>	<b>2,938</b>
Additions	672	4	10	686
Depreciation	(596)	(30)	(25)	(651)
Impairment losses	(13)	-	-	(13)
Other changes	(29)	0	(0)	(29)
<b>December 31, 2019</b>	<b>2,785</b>	<b>100</b>	<b>46</b>	<b>2,931</b>

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)
<b>Goodwill, net</b>	<b>1,257</b>	<b>1,245</b>

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%
<b>Total</b>	<b>1,257</b>	<b>1,245</b>		

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
<b>January 1, 2019</b>	<b>614</b>	<b>375</b>	<b>178</b>	<b>78</b>	<b>1,245</b>
Currency translation differences	7	4	0	1	12
<b>December 31, 2019</b>	<b>620</b>	<b>379</b>	<b>179</b>	<b>79</b>	<b>1,257</b>

## 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
<b>Acquisition cost</b>		
<b>January 1, 2018</b>	<b>1,332</b>	<b>839</b>
Additions	2	94
Disposals	(1)	(40)
Transfers	-	9
Currency translation differences	62	9
<b>December 31, 2018/January 1, 2019</b>	<b>1,394</b>	<b>912</b>
Additions	-	112
Disposals	(9)	(26)
Transfers	-	3
Increase in companies consolidated	-	83
Decrease in companies consolidated	-	(1)
Currency translation differences	26	4
<b>December 31, 2019</b>	<b>1,412</b>	<b>1,086</b>
<b>Accumulated amortization and impairment</b>		
<b>January 1, 2018</b>	<b>526</b>	<b>685</b>
Amortization	0	61
Impairment losses	(0)	-
Reversals of impairment losses	-	(0)
Disposals	-	(39)
Transfers	-	(0)
Currency translation differences	24	9
<b>December 31, 2018/January 1, 2019</b>	<b>550</b>	<b>716</b>
Amortization	0	78
Impairment losses	-	6
Disposals	(9)	(26)
Transfers	-	2
Decrease in companies consolidated	-	(0)
Currency translation differences	10	5
<b>December 31, 2019</b>	<b>553</b>	<b>781</b>
<b>Net carrying amount</b>		
January 1, 2018	806	154
December 31, 2018/January 1, 2019	844	196
<b>December 31, 2019</b>	<b>859</b>	<b>305</b>

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
<b>Trademarks, gross</b>	<b>1,412</b>	<b>1,394</b>
Less: accumulated amortization and impairment losses	(553)	(550)
<b>Trademarks, net</b>	<b>859</b>	<b>844</b>

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
<b>Long-term financial assets</b>	<b>367</b>	<b>276</b>

**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
<b>Other non-current financial assets</b>	<b>450</b>	<b>256</b>

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
<b>Other non-current assets</b>	<b>103</b>	<b>94</b>

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
<b>Total</b>	<b>43</b>	<b>636</b>	<b>525</b>	<b>434</b>	<b>1,638</b>

**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
<b>Total</b>	<b>66</b>	<b>635</b>	<b>522</b>	<b>453</b>	<b>1,676</b>

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
<b>Other current financial liabilities</b>	<b>235</b>	<b>186</b>

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
<b>Other provisions</b>	<b>1,360</b>	<b>1,201</b>	<b>(778)</b>	<b>(90)</b>	<b>2</b>	<b>(0)</b>	<b>9</b>	<b>1,703</b>	<b>257</b>

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
<b>Lease liabilities</b>	<b>3,132</b>	<b>3,070</b>

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
<b>Gross lease liabilities as at January 1, 2019</b>	<b>3,280</b>
Discounting	(301)
<b>Discounted lease liabilities as at January 1, 2019</b>	<b>2,979</b>
Plus: Finance lease liabilities recognized as at December 31, 2018	91
<b>Lease liabilities recognized as at January 1, 2019</b>	<b>3,070</b>

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
<b>Total</b>	<b>3,566</b>

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
<b>Accrued liabilities</b>	<b>2,446</b>	<b>9</b>	<b>2,324</b>	<b>19</b>

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
<b>Other current liabilities</b>	<b>538</b>	<b>477</b>

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
<b>Other non-current financial liabilities</b>	<b>92</b>	<b>103</b>

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
<b>Pensions and similar obligations</b>	<b>225</b>	<b>246</b>

#### 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	–
<b>Total</b>	<b>522</b>	<b>64</b>	<b>19</b>	<b>424</b>	<b>51</b>	<b>22</b>

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)
<b>Funded status</b>	<b>184</b>	<b>212</b>
Present value of unfunded obligation from defined benefit pension plans	39	32
Asset ceiling effect	–	–
<b>Net defined benefit liability</b>	<b>223</b>	<b>244</b>
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
<b>Expenses for defined benefit pension plans (recognized in the consolidated income statement)</b>	<b>35</b>	<b>33</b>
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)
<b>Remeasurements for defined benefit pension plans (recognized as decrease in other reserves in the consolidated statement of comprehensive income)</b>	<b>68</b>	<b>20</b>
<b>Total</b>	<b>103</b>	<b>54</b>

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
<b>Present value of the obligation from defined benefit pension plans as at January 1</b>	<b>547</b>	<b>513</b>
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
<b>Present value of the obligation from defined benefit pension plans as at December 31</b>	<b>665</b>	<b>547</b>

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
<b>Fair value of plan assets as at January 1</b>	<b>303</b>	<b>218</b>
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)
<b>Fair value of plan assets as at December 31</b>	<b>442</b>	<b>303</b>

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
<b>Fair value of plan assets</b>	<b>442</b>	<b>303</b>

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
<b>Other non-current liabilities</b>	<b>7</b>	<b>68</b>

**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
<b>2019 financial year total<sup>1</sup></b>	<b>3,223,214</b>	<b>814,826,284.79</b>	<b>252.80</b>	<b>3,223,214</b>	<b>1.61</b>

<sup>1</sup> 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 <sup>1</sup>	Shareholdings in %	Number of voting rights
			§§ 34, 38 sec. 1 no. 1, 38 sec. 1		
BlackRock, Inc., Wilmington, DE, USA <sup>2</sup>	December 17, 2019	Exceeding 5%	no. 2	6.34	12,708,562
FMR LLC, Wilmington, DE, USA <sup>2</sup>	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 <sup>2</sup>	November 19, 2018	Exceeding 5%	§ 34	8.09	16,214,074
Elian Corporate Trustee (Cayman) Limited, Grand Cayman, Cayman Islands <sup>2</sup>	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
			§ 22 sec. 1 sent. 1 no. 6 in conjunction with § 22 sec. 1 sent. 2 and 3		
The Capital Group Companies, Inc., Los Angeles, CA, USA	July 22, 2015	Exceeding 3%		3.02	6,325,110

<sup>1</sup> The provisions of the WpHG stated refer to the version applicable at the time of publication of the respective individual voting rights notification.

<sup>2</sup> 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](https://www.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:

#### Cash-settled share-based payment transactions with employees

Plan year	As at December 31, 2018				As at December 31, 2019					
	2017		2018		2017		2018		2019	
	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

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).

## 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.

The following table presents the main financial information on subsidiaries with non-controlling interests.

#### 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%

#### Financial information on subsidiaries with non-controlling interests € in millions

	Non-controlling interests		
	Total	Dec. 31, 2019	Dec. 31, 2018
		Thereof: Agron, Inc.	
Net sales (third parties)	222	–	200
<b>Net income</b>	<b>14</b>	<b>–</b>	<b>19</b>
<b>Net income attributable to non-controlling interests</b>	<b>2</b>	<b>–</b>	<b>3</b>
Other comprehensive income	(8)	(6)	15
<b>Total comprehensive income</b>	<b>6</b>	<b>(6)</b>	<b>33</b>
<b>Total comprehensive income attributable to non-controlling interests</b>	<b>(4)</b>	<b>(6)</b>	<b>4</b>
Current assets	361	209	114
Non-current assets	195	122	21
Current liabilities	(174)	(55)	(70)
Non-current liabilities	(42)	(2)	(2)
<b>Net assets</b>	<b>340</b>	<b>274</b>	<b>63</b>
<b>Net assets attributable to non-controlling interests according to the consolidated statement of financial position</b>	<b>261</b>	<b>274</b>	<b>(13)</b>
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)
<b>Net increase/(decrease) of cash and cash equivalents</b>	<b>3</b>	<b>–</b>	<b>(0)</b>
Dividends paid to non-controlling interests during the year <sup>1</sup>	2	–	1

<sup>1</sup> 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	
<b>Financial assets</b>											
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	-	-	26	26	-	-	26	
Earn-out components	Fair value through profit or loss	9	9	-	-	-	-	-	-	-	
Other financial assets	Amortized cost	336	-	-	-	297	-	-	-	-	
Long-term financial assets											
Other equity investments	Fair value through profit or loss	87	87	-	-	86	86	-	-	86	
Other equity investments	Fair value through other comprehensive income	79	79	-	-	58	58	-	-	58	
Other investments	Fair value through profit or loss	35	37	-	37 <sup>1</sup>	25	27	-	27 <sup>2</sup>	-	
Other investments	Amortized cost	167	-	-	-	104	-	-	-	-	
Loans	Amortized cost	1	-	-	-	1	-	-	-	-	

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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	
<b>Other non-current financial assets</b>												
Derivatives used in hedge accounting	Hedge accounting	62	62	-	62	-	11	11	-	11	-	
	Fair value through profit or loss											
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		-	-	-	
<b>Financial assets per level</b>				<b>-</b>	<b>1,236</b>	<b>392</b>			<b>-</b>	<b>740</b>	<b>313</b>	
<b>Financial liabilities</b>												
<b>Short-term borrowings</b>												
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		-	-	-	
<b>Other current financial liabilities</b>												
Derivatives used in hedge accounting	Hedge accounting	138	138	-	138	-	65	65	-	65	-	
	Fair value through profit or loss											
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 <sup>3</sup>	n.a.	733		-	-	-	10		-	-	-	
<b>Long-term borrowings</b>												
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		-	-	-	

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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 liabilities												
Derivatives used in hedge accounting	Hedge accounting	7	7	-	7	-	2	2	-	2	-	
	Fair value through profit or loss	86	86	-	86	-	20	20	-	20	-	
Other financial liabilities	Amortized cost	0	-	-	-	-	0	-	-	-	-	
Lease liabilities/finance lease obligations <sup>3</sup>	n.a.	2,399	-	-	-	-	81	-	-	-	-	
<b>Financial liabilities per level</b>				<b>1,659</b>	<b>262</b>	<b>-</b>			<b>1,550</b>	<b>116</b>	<b>15</b>	
<b>Thereof: aggregated by category according to IFRS 9</b>												
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					

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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

	Fair value Jan. 1, 2019	Additions	Disposals	Realized		Unrealized		Currency translation	Fair value Dec. 31, 2019
				Gains	Losses	Gains	Losses		
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

	Fair value Jan. 1, 2018	Additions	Disposals	Realized		Unrealized		Currency translation	Fair value Dec. 31, 2018
				Gains	Losses	Gains	Losses		
Investments in other equity instruments held for trading (FAHfT)	82	-	-	-	-	1	-	-	83
Investments in other equity instruments (FVTPL)	8	-	(6)	-	-	-	-	-	2
Investments in other equity instruments (FVOCI)	64	3	-	-	-	-	8	-	58
Promissory notes (FVTPL)	149	-	(9)	-	-	1	-	5	147
Earn-out components – assets (FVTPL)	19	-	-	-	-	1	-	-	21
Earn-out components – liabilities (FVTPL)	25	-	(25)	-	-	-	15	-	15

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-Koehler 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 comprehensive income
Earn-out components (liabilities)	The discounted cash flow method is applied, which considers the present value of expected payments, discounted using a risk-adjusted discount rate. The fair value adjustment refers to accretion and is recognized in interest result.	Risk-adjusted discount rate (1.75%)	The estimated fair value would increase (decrease) if the target ratio achievement was higher (lower) or the risk-adjusted discount rate was lower (higher).	Fair value through profit or loss

**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
<b>Total</b>	<b>15,617</b>	<b>11,260</b>

**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
<b>Total</b>	<b>5,434</b>	<b>5,086</b>

**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	–
<b>Total</b>	<b>137</b>	<b>(175)</b>	<b>223</b>	<b>(96)</b>

## 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
<b>As at December 31, 2019</b>				
Exposure from firm commitments and forecast transactions	(6,522)	1,061	796	1,497
Balance sheet exposure including intercompany exposure	(274)	(31)	(7)	310
<b>Total gross exposure</b>	<b>(6,796)</b>	<b>1,030</b>	<b>789</b>	<b>1,807</b>
Hedged with currency options	844	(23)	(53)	0
Hedged with forward contracts	4,243	(936)	(607)	(1,681)
<b>Net exposure</b>	<b>(1,709)</b>	<b>71</b>	<b>129</b>	<b>126</b>
<b>As at December 31, 2018</b>				
Exposure from firm commitments and forecast transactions	(5,322)	1,079	731	1,088
Balance sheet exposure including intercompany exposure	(93)	0	(12)	(84)
<b>Total gross exposure</b>	<b>(5,415)</b>	<b>1,079</b>	<b>719</b>	<b>1,004</b>
Hedged with currency options	319	(94)	(48)	(18)
Hedged with forward contracts	4,298	(919)	(607)	(906)
<b>Net exposure</b>	<b>(798)</b>	<b>66</b>	<b>64</b>	<b>80</b>

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
<b>As at December 31, 2019</b>				
	<b>EUR + 10%</b>	<b>EUR + 10%</b>	<b>EUR + 10%</b>	<b>EUR + 10%</b>
Equity	(328)	86	59	99
Net income	6	3	1	(26)
	<b>EUR – 10%</b>	<b>EUR – 10%</b>	<b>EUR – 10%</b>	<b>EUR – 10%</b>
Equity	465	(104)	(71)	(122)
Net income	(8)	(3)	(2)	32
<b>As at December 31, 2018</b>				
	<b>EUR + 10%</b>	<b>EUR + 10%</b>	<b>EUR + 10%</b>	<b>USD + 10%</b>
Equity	(269)	89	58	79
Net income	11	0	1	(9)
	<b>EUR – 10%</b>	<b>EUR – 10%</b>	<b>EUR – 10%</b>	<b>USD – 10%</b>
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
<b>Assets</b>		
Gross amounts of recognized financial assets	322	249
Financial instruments which qualify for set-off in the statement of financial position	0	0
<b>Net amounts of financial assets presented in the statement of financial position</b>	<b>322</b>	<b>249</b>
Set-off possible due to master agreements	(160)	(94)
<b>Total net amount of financial assets</b>	<b>162</b>	<b>155</b>
<b>Liabilities</b>		
Gross amounts of recognized financial liabilities	(262)	(97)
Financial instruments which qualify for set-off in the statement of financial position	0	0
<b>Net amounts of financial liabilities presented in the statement of financial position</b>	<b>(262)</b>	<b>(97)</b>
Set-off possible due to master agreements	160	94
<b>Total net amount of financial liabilities</b>	<b>(102)</b>	<b>(3)</b>

### 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
<b>As at December 31, 2019</b>							
Bank borrowings	43	19	19	19	19	46	165
Eurobond <sup>1</sup>	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 <sup>2</sup>	1,016					1	1,017
Derivative financial liabilities	7,497	712	5	503	3	15	8,735
<b>Total</b>	<b>11,342</b>	<b>1,347</b>	<b>33</b>	<b>1,018</b>	<b>31</b>	<b>469</b>	<b>14,240</b>
<b>As at December 31, 2018</b>							
Bank borrowings	66	19	19	19	19	66	208
Eurobond <sup>1</sup>	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 <sup>2</sup>	921					1	922
Derivative financial liabilities	3,373	378	7	4	503	13	4,278
<b>Total</b>	<b>6,759</b>	<b>414</b>	<b>642</b>	<b>32</b>	<b>1,015</b>	<b>496</b>	<b>9,358</b>

<sup>1</sup> Including interest payments.

<sup>2</sup> 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

As at December 31, 2019	Maturity	
	short-term	long-term
<b>Foreign currency risk</b>		
<b>Net exposure</b> (€ in millions)	<b>853</b>	<b>360</b>
<b>Forward exchange contracts</b>		
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
<b>Option exchange contracts</b>		
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	-	-
<b>Equity risk</b>		
<b>Net exposure</b> (€ in millions)	<b>49</b>	<b>118</b>
<b>Total return swap</b>		
Average hedge rate	179.980	190.215

#### Average hedge rates

As at December 31, 2018	Maturity	
	short-term	long-term
<b>Foreign currency risk</b>		
<b>Net exposure</b> (€ in millions)	<b>(90)</b>	<b>873</b>
<b>Forward exchange contracts</b>		
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
<b>Option exchange contracts</b>		
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	-
<b>Equity risk</b>		
<b>Net exposure</b> (€ in millions)	<b>-</b>	<b>104</b>
<b>Total return swap</b>		
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
<b>Foreign currency risk</b>				
Sales	(59)	(49)	(47)	-
Inventory purchases	(42)	8	59	-
<b>Net foreign investment risk</b>	<b>(44)</b>	<b>(182)</b>	-	-
<b>Equity risk</b>				
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
<b>Foreign currency risk</b>				
Sales	4	(5)	(30)	-
Inventory purchases	(112)	119	19	-
<b>Net foreign investment risk</b>	<b>(1)</b>	<b>(138)</b>	-	-
<b>Equity risk</b>				
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			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
Nominal amount	Assets	Liabilities											
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			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
	Nominal amount	Assets	Liabilities										
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
<b>Balance at January 1, 2019</b>	<b>(20)</b>	<b>(11)</b>
<b>Cash flow hedges</b>		
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	–	–
<b>Tax on movements of reserves during the year</b>	<b>44</b>	<b>3</b>
Equity hedges		
Changes in fair value:	85	–
Amount reclassified to profit or loss	(61)	–
<b>Balance at December 31, 2019</b>	<b>(150)</b>	<b>(3)</b>

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
<b>Balance at January 1, 2018</b>	<b>(295)</b>	<b>(1)</b>
<b>Cash flow hedges</b>		
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
<b>Tax on movements on reserves during the year</b>	<b>17</b>	<b>4</b>
Equity hedges		
Changes in fair value:	3	–
Amount reclassified to profit or loss	(1)	–
<b>Balance at December 31, 2018</b>	<b>(3)</b>	<b>(7)</b>

## 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
<b>Other operating income</b>	<b>56</b>	<b>48</b>

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
<b>Cost of materials</b>	<b>11,296</b>	<b>10,507</b>
<b>Depreciation and amortization</b>	<b>1,162</b>	<b>470</b>
Thereof: included within the cost of sales	31	3
Thereof: included within personnel expenses	11	-
<b>Impairment losses</b>	<b>24</b>	<b>19</b>
<b>Reversals of impairment losses</b>	<b>(8)</b>	<b>(3)</b>
Wages and salaries	2,382	2,156
Social security contributions	228	218
Pension expenses	109	107
<b>Personnel expenses</b>	<b>2,720</b>	<b>2,481</b>
<b>Expense relating to short-term leases</b>	<b>38</b>	<b>n.a.</b>
<b>Expense relating to leases of low-value assets</b>	<b>1</b>	<b>n.a.</b>
<b>Expense relating to variable lease payments</b>	<b>140</b>	<b>n.a.</b>

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
<b>Financial income</b>	<b>64</b>	<b>57</b>

**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
<b>Financial expenses</b>	<b>166</b>	<b>47</b>

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)
<b>Deferred tax assets, net</b>	<b>813</b>	<b>410</b>

The movement of deferred taxes is as follows:

**Movement of deferred taxes** € in millions

	2019	2018
<b>Deferred tax assets, net as at January 1</b>	<b>410</b>	<b>440</b>
Deferred tax income	355	4
Change in consolidated companies <sup>1</sup>	(2)	–
Change in deferred taxes attributable to remeasurements of defined benefit plans recorded in other comprehensive income <sup>2</sup>	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 <sup>3</sup>	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)
<b>Deferred tax assets, net as at December 31</b>	<b>813</b>	<b>410</b>

<sup>1</sup> See Note 04.

<sup>2</sup> See Note 25.

<sup>3</sup> 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
<b>Deferred tax assets</b>	<b>1,852</b>	<b>689</b>
Non-current assets	888	206
Current assets	69	49
Liabilities and provisions	82	24
<b>Deferred tax liabilities</b>	<b>1,039</b>	<b>279</b>
<b>Deferred tax assets, net</b>	<b>813</b>	<b>410</b>

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)
<b>Income tax expenses</b>	<b>640</b>	<b>669</b>

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
	<b>557</b>	<b>21.8</b>	<b>537</b>	<b>22.6</b>
Withholding tax expenses	83	3.2	132	5.6
<b>Income tax expenses</b>	<b>640</b>	<b>25.0</b>	<b>669</b>	<b>28.1</b>

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	–	–	–	–
<b>Net income attributable to shareholders (€ in millions)</b>	<b>1,917</b>	<b>1,707</b>	<b>59</b>	<b>(5)</b>	<b>1,976</b>	<b>1,702</b>
Weighted average number of shares	197,606,107	201,759,012	197,606,107	201,759,012	197,606,107	201,759,012
<b>Basic earnings per share (€)</b>	<b>9.70</b>	<b>8.46</b>	<b>0.30</b>	<b>(0.02)</b>	<b>10.00</b>	<b>8.44</b>
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
<b>Net income used to determine diluted earnings per share (€ in millions)</b>	<b>1,917</b>	<b>1,707</b>	<b>59</b>	<b>(5)</b>	<b>1,976</b>	<b>1,702</b>
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
<b>Weighted average number of shares for diluted earnings per share</b>	<b>197,612,533</b>	<b>202,044,967</b>	<b>197,612,533</b>	<b>202,044,967</b>	<b>197,612,533</b>	<b>202,044,967</b>
<b>Diluted earnings per share (€)</b>	<b>9.70</b>	<b>8.45</b>	<b>0.30</b>	<b>(0.02)</b>	<b>10.00</b>	<b>8.42</b>

## 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) <sup>1</sup>		Thereof: adidas brand <sup>1</sup>		Thereof: Reebok brand <sup>1</sup>		Segmental operating profit <sup>1</sup>		Segmental assets <sup>2</sup>		Segmental liabilities <sup>2</sup>	
	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
<b>Reportable segments</b>	<b>23,035</b>	<b>21,086</b>	<b>21,288</b>	<b>19,405</b>	<b>1,747</b>	<b>1,681</b>	<b>5,655</b>	<b>4,956</b>	<b>6,449</b>	<b>5,568</b>	<b>740</b>	<b>676</b>
Other Businesses (continuing operations)	605	829	217	446	1	6	68	163	191	280	15	18
Other Businesses (discontinued operations)	–	48	–	–	–	–	–	(4)	–	–	–	–
<b>Other Businesses</b>	<b>605</b>	<b>877</b>	<b>217</b>	<b>446</b>	<b>1</b>	<b>6</b>	<b>68</b>	<b>159</b>	<b>191</b>	<b>280</b>	<b>15</b>	<b>18</b>
<b>Total</b>	<b>23,640</b>	<b>21,963</b>	<b>21,505</b>	<b>19,851</b>	<b>1,748</b>	<b>1,687</b>	<b>5,723</b>	<b>5,114</b>	<b>6,640</b>	<b>5,848</b>	<b>755</b>	<b>693</b>

1 Year ending December 31.

2 At December 31.

## Segmental information II € in millions

	Capital expenditure <sup>1</sup>		Depreciation and amortization <sup>1</sup>		Impairment losses and reversals of impairment losses <sup>1</sup>	
	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
<b>Reportable segments</b>	<b>391</b>	<b>315</b>	<b>809</b>	<b>291</b>	<b>14</b>	<b>7</b>
Other Businesses (continuing operations)	4	5	14	7	6	8
Other Businesses (discontinued operations)	–	–	–	1	–	0
<b>Other Businesses</b>	<b>4</b>	<b>5</b>	<b>14</b>	<b>8</b>	<b>6</b>	<b>8</b>
<b>Total</b>	<b>395</b>	<b>321</b>	<b>824</b>	<b>299</b>	<b>20</b>	<b>16</b>

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)
<b>Total</b>	<b>23,640</b>	<b>21,915</b>

## 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
<b>Segmental operating profit</b>	<b>5,723</b>	<b>5,114</b>
Reclassification to discontinued operations	–	4
HQ	(1,997)	(1,755)
Central expenditure for marketing	(925)	(958)
Consolidation	(141)	(38)
<b>Operating profit</b>	<b>2,660</b>	<b>2,368</b>
Financial income	64	57
Financial expenses	(166)	(47)
<b>Income before taxes</b>	<b>2,558</b>	<b>2,378</b>

**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	-	-
<b>Total</b>	<b>711</b>	<b>794</b>

**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	-	-
<b>Total</b>	<b>1,162</b>	<b>470</b>

**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)
<b>Total</b>	<b>15</b>	<b>16</b>

**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
<b>Segmental assets</b>	<b>6,640</b>	<b>5,848</b>
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
<b>Total</b>	<b>20,680</b>	<b>15,612</b>

**Liabilities** € in millions

	Dec. 31, 2019	Dec. 31, 2018
Accounts payable of reportable segments	740	676
Accounts payable of Other Businesses	15	18
<b>Segmental liabilities</b>	<b>755</b>	<b>693</b>
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
<b>Total</b>	<b>13,622</b>	<b>9,248</b>

**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)
<b>Total</b>	<b>23,640</b>	<b>21,915</b>

**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]	-	-
<b>Total</b>	<b>23,640</b>	<b>21,915</b>	<b>7,836</b>	<b>4,615</b>

**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	-	-
<b>Net cash (used in)/generated from discontinued operations</b>	<b>[9]</b>	<b>[20]</b>

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			Dec. 31, 2019	
			IFRS 16 lease obligations	Fair value adjustments	Other		
Short-term borrowings	66	(42)	-	-	19	(1)	43
Long-term borrowings	1,609	-	-	-	(14)	-	1,595
Lease liabilities <sup>1</sup>	91	(597)	3,639	-	-	-	3,133
<b>Total</b>	<b>1,766</b>	<b>(638)</b>	<b>3,639</b>	<b>-</b>	<b>5</b>	<b>(1)</b>	<b>4,771</b>

<sup>1</sup> 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
<b>Total</b>	<b>6,808</b>	<b>5,828</b>

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
<b>Total</b>	<b>318</b>	<b>2,984</b>

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
<b>Total</b>	<b>439</b>	<b>414</b>

### 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
<b>Total</b>	<b>57,659</b>	<b>56,438</b>

#### 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 Immobilieninvest 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



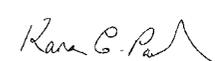
Roland Auschel



Brian Grevy



Harm Ohlmeyer



Karen Parkin



Martin Shankland